The Law Regarding Universities in Saudi Arabia and England: A Comparative Study

Volume II

Appendixes

Submitted by Hussain Nasser Al-Sharif to the University of Newcastle as a thesis for the degree of Doctor of Philosophy in Law in the School of Law
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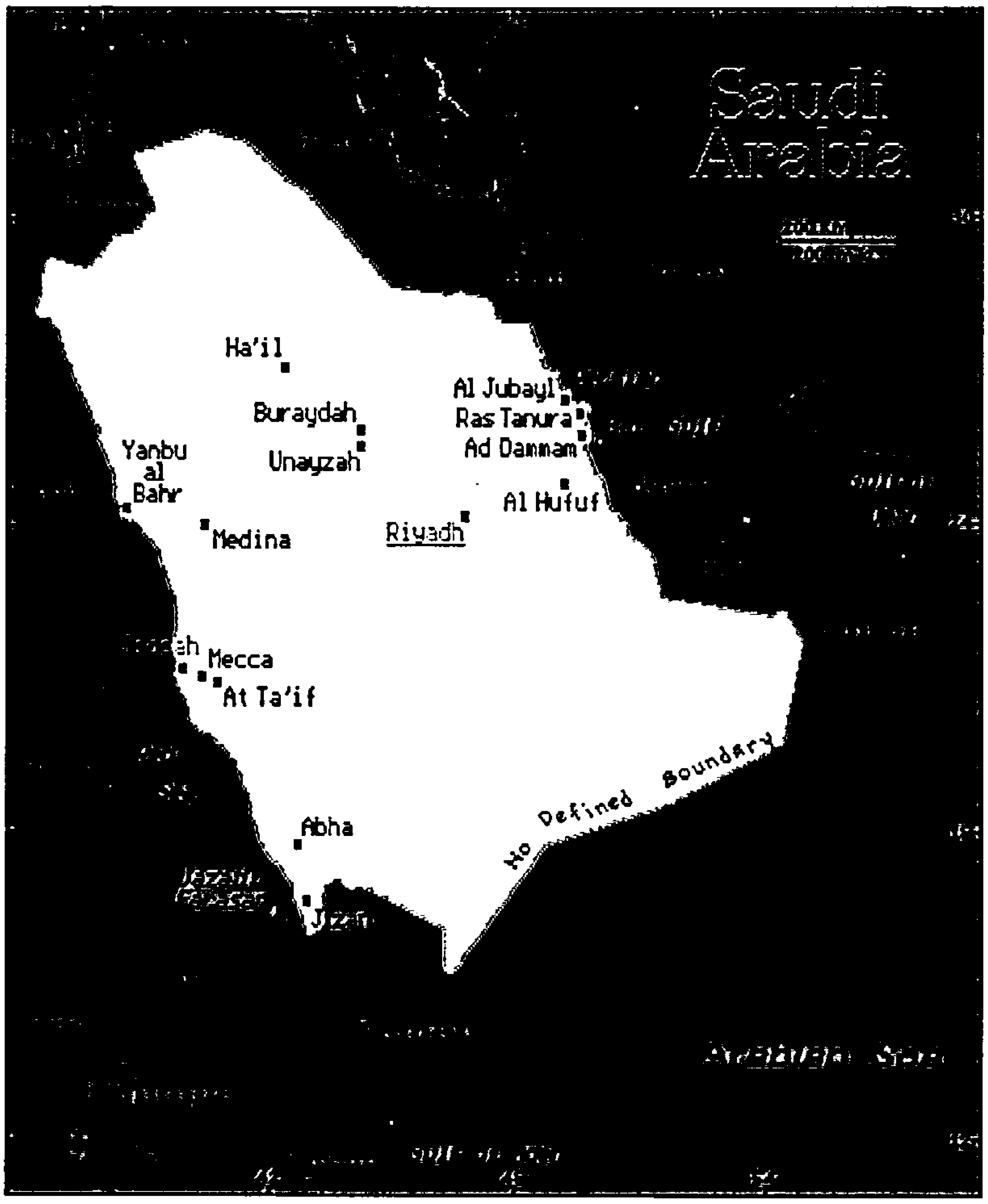

Saudi Arabia map[1]

Location

Saudi Arabia, monarchy of Southwest Asia, occupying most of the Arabian Peninsula, and bounded on the north by Jordan, Iraq, and Kuwait; on the east by the Persian Gulf and Qatar; on the Southeast by the United Arab Emirates and Oman; on the south by the Republic of Yemen and on the west by the Red Sea and the Gulf of Aden. Saudi Arabia has an area of about 2,240,350 sq. km. It forms 80% of the Arabian Peninsula.[2] Hence, Saudi Arabia has a vital strategic location, lying as it does on the crossroad of three continents, Asia, Africa and Europe.

Climate

Extreme heat and aridity are characteristic of most of Saudi Arabia. The average temperatures for the months of January and July in Riyādh are 14.4° C (58° F) and 42° C (108° F). The average temperatures in Jeddah for the same months are 22.8° C (73° F) and 30.6° C (87° F). Average annual precipitation in Riyādh and Jeddah is 100 mm (4 in) and 81 mm (3 in), respectively. Because of the general aridity, Saudi Arabia has no permanent rivers or lakes[3].

Population

According to a 1992 census gives the number of Saudi citizens as 12,304,835[4] and the number of residents who are not citizens as 4,624,459[5].

Principal Cities

There are over 6000 cities, towns and villages in the Kingdom. The major cities are the following:

Important cities, with their estimated populations in 1986 are:

- Riyādh the capital of Saudi Arabia (2,000,000);
- Jeddah (1.4 million), a port city on the Red Sea;
- Mecca (618,000), one of the great Muslim pilgrimages centres;
- Medina (500,000), a Holy City which has the cemetery of the prophet Mohammed and cultural centre of Islam;
- Ad Dammām (200,000), an oil centre on the Persian Gulf.

In the 1980s, two large new industrial centres, Al Jubayl, on the Persian Gulf, and Yanbu al-Bahr, on the Red Sea.

Economy

Agriculture and stock raising have historically been the basic economic activities of Saudi Arabia, but since the development of the oil industry, the government has sought to diversify its industrial base and improve its basic economic structure, developing roads, airports, seaports, and the power industry.

The main deterrent has been the lack of trained or skilled labour. With the tremendous increase of world oil prices beginning in 1973, however, the government set about transforming its economy at an accelerated rate almost without precedent in modern history. Saudi Arabia's gross domestic product for 1992 was $122.3 billion.

Agriculture and fishing employed 48 percent of the workforce; trade and services employed 37 percent; and manufacturing and industry employed 14 percent[6].

Development Plans

In 1975 the government of Saudi Arabia announced an ambitious five-year development plan, based on continued oil revenues, calling for expenditures of about $150 billion. Priority in the industrial sector was given to the development of a petrochemical industry, to the building of liquefied natural-gas plants and petroleum-based industries, and to steel and cement production to facilitate the large-scale construction required by the plan. A subsequent development plan, for 1980-1985, called for expenditure of some $236 billion, with emphasis on diversifying industry. The 5-year plan for 1985-1990 called for $277 billion in development spending, but continued weakness in oil prices and declines in petroleum revenues forced the government to scale down many programs[7].

Government

Saudi Arabia had no written constitution until March 1992, when a series of royal decrees established the Basic Law of Government of Saudi Arabia (Constitution law of Saudi Arabia) [8]. According to Article (5) of that Law, the system of government is that of a monarchy and the rule passes to the sons of the founding King, Abdulaziz Bin Abd al-Rahmān al-Fayṣal Al Sa'ud, and to their children's children. The most upright among them is to receive allegiance in accordance with the principles of the Holy Qur'ān and the tradition of the venerable prophet. The King chooses the Heir Apparent and relieves him of his duties by Royal order. The Heir Apparent is to devote his time to his duties as an Heir Apparent and to whatever missions the King entrusts him with. The Heir Apparent take over the powers of the King on the latter's death until the act of allegiance has been carried out.

Thus, the government is based on the *Shariy'ah*, the sacred law of Islam, which is interpreted according to the strict Hanbali rite[9].

Executive and Legislature

The Council of Ministers is an organisational body headed by the King[10], who is assisted in carrying out his duties by members of the Council of Ministers, in accordance with the provisions of laws. The Council of Ministers establishes the prerogatives of the council regarding internal and external affairs, the organisation of and coordination between government bodies. It also establishes requirements to be fulfilled by ministers, their prerogatives, the manner of their questioning and all issues concerning them[11].

In Saudi Arabia there is no separate legislature or political parties, laws are issued by the king and his ministers[12]. But In 1992 King Fahad established the Shūra Council[13], a body of 60 members[14] selected by the king as advisers from amongst scholars and men of knowledge and expertise[15]. The council, however, has no legislative powers, but will express opinions on the general policy of the state, which will be referred to it by the Council of Ministers. In particular, it can do the following[16]:

- Discuss the general plan of economic and social development.
- Study international laws, charters, treaties and agreements, and concessions and make appropriate suggestions regarding them.
- Interpret laws.
- Discuss annual reports submitted by ministries and other government bodies, and makes appropriate suggestions regarding them.

Though Saudi leaders have always practised the concept of Shūra (consultation), the new system gives it a more formalised structure to better assist in meeting the requirements of the modern state.

Administrative divisions

Saudi Arabia is divided into 13 administrative districts (*minṭaqah*; singular, *manāṭiq*): Al-Bāḥah, Al-Ḥudūd al-Shamāliyah, Al-Jawf, Al-Madīnah, Al-Qaṣīm, Riyahd (or al-Riyāḍ), Al-Sharqiyah, 'Asīr, Ḥā'il, Jizān, Mecca (or Makkah), Najrān, Tabūk.

Notes – Appendix 1

[1]Word Atlas, the software toolwork, Inc. 1993, under Saudi Arabia.

[2]Saudi Ministry of Information, Saudi Arabia Landmarks of Progress, Riyādh 1994 p. 108.

[3]Microsoft, Encarta 97, under Saudi Arabia.

[4]Ibid. note (2) p. 118.

[5]Ibid. note (3).

[6]Ibid.

[7]Ibid.

[8] Which had been established by the King order No. A\91 in 1\3\1992, and published in Um-alQurā Newspaper No. 3397 in 6\3\1992.

[9] Infra p.12

[10] Article (1) of the Saudi Council of Ministers Law, which had been established by the King order No. A\91 in 1\3\1992, and published in the Official Gazette "Um-alQurā" No. 3397 in 6\3\1992.

[11] Article 56 of the Basic Law of government in Saudi Arabia (Constitutional Law) 1992.

[12] Infra. p11.

[13] King order NO: A\91 in 1\3\1992, it published in the Official Gazette "Um-alQurā" No. 3397 in 6\3\1992.

[14] This number has been increased to be 90 in 1995.

[15] Article (3) of the Saudi Consultative Council Law, 1992.

[16] Ibid. Article (15).

Appendix 2:

Higher Education Institutions in England

in Alphabetic Order[1]

A

Anglia Polytechnic University

Aston University

B

University of Bath

Bath College of HE

University of Birmingham

Birkbeck College

Bishop Grosseteste College

Bolton Institute of HE

Bournemouth University

University of Bradford

Bretton Hall

University of Brighton

University of Bristol

Brunel University

Buckinghamshire College of HE

C

University of Cambridge

University of Central England

University of Central Lancashire

Central School of Speech and Drama

Canterbury Christ Church College

Cheltenham and Gloucester CHE

Chester College of HE

Chichester Institute of HE

City University

Coventry University

Cranfield University

Cumbria College of Art & Design

D

Dartington College of Arts

De Montfort University

University of Derby

University of Durham

E

University of East Anglia

University of East London

Edge Hill College of HE

Institute of Education

University of Essex

University of Exeter

F

Falmouth College of Arts

G

Goldsmiths College

University of Greenwich

The College of Guidance Studies

H

Harper Adams Agricultural College

University of Hertfordshire

Homerton College, Cambridge

University of Huddersfield

University of Hull

I

Imperial College

K

Keele University

University of Kent at Canterbury

Kent Institute of Art & Design

King Alfred's College, Winchester

King's College London

Kingston University

L

Lancaster University

University of Leeds

Leeds Metropolitan University

University of Leicester

University of Lincolnshire & Humberside

University of Liverpool

Liverpool Hope

Liverpool John Moores University

University of London – Senate

London Business School

London School of Economics & Political Science

London Guildhall University

London School of Hygiene & Tropical Medicine

The London Institute

Loughborough University

University of Luton

M

University of Manchester

UMIST

Manchester Metropolitan University

Middlesex University

N

Nene College

University of Newcastle upon Tyne

Newman College

University of North London

North Riding College

Northern School of Contemporary Dance

University of Northumbria at Newcastle

Norwich School of Art & Design

University of Nottingham

Nottingham Trent University

O

The Open University[2]

School of Oriental and African Studies

University of Oxford

Oxford Brookes University

P

School of Pharmacy

University of Plymouth

University of Portsmouth

Q

Queen Mary and Westfield College

R

Ravensbourne College

RCN Institute

University of Reading

College of Ripon & York St John

Roehampton Institute

Rose Bruford College

Royal Academy of Music

Royal College of Art

Royal College of Music

Royal Holloway, University of London

Royal Northern College of Music

Royal Veterinary College

S

St. George's Hospital Medical School

College of St. Mark & St. John

St. Martin's College

St. Mary's College

University of Salford

University of Sheffield

Sheffield Hallam University

University of Southampton

Southampton Institute

South Bank University

Staffordshire University

University of Sunderland

Surrey Institute of Art and Design

University of Surrey

University of Sussex

T

University of Teesside

Thames Valley University

Trinity & All Saints

Trinity College of Music

U

University College London

W

University of Warwick

Westhill College

University of Westminster

Westminster College, Oxford

University of the West of England, Bristol

Wimbledon School of Art

University of Wolverhampton

Worcester College of HE

Writtle College

Wye College, University of London

Y

University of York

[1] http://www.hefce.ac.uk

[2] The Open University also operates in Scotland, Wales, and Northern Ireland.

Appendix 3: Model Financial Memorandum Between the HEFCE and Institutions

(Revised)

Introduction

1. This Memorandum sets out the terms and conditions for the payment by the Higher Education Funding Council for England of funds to the governing body of (name of Institution) out of funds made available by the Secretary of State for Education and Employment.

Definitions

2. For the purpose of this Memorandum:

'month' means calendar month.

'accounting period' means that period covered by the Institution's audited financial statements, usually the twelve months from 1 August to 31 July.

'academic year' means the twelve months from 1 August to 31 July.

'Act' means the Further and Higher Education Act 1992.

'deficit' means the historical cost deficit as given in the Note of Historical Cost Surpluses and Deficits in the Statement of Recommended Practice: Accounting in Higher Education Institutions (SORP).

'capital expenditure' means expenditure used to create or purchase a new asset replace an existing asset refurbish or remodel an existing asset

'Secretary of State' should be taken as referring to the Secretary of State for Education and Employment.

'DfEE' means the Department for Education and Employment.

'the Council' means the Higher Education Funding Council for England.

'predecessor Councils' means the Polytechnics and Colleges Funding Council and the Universities Funding Council, including responsibilities inherited from the University Grants Committee under the Education Reform Act 1988.

'the Institution' means (name of Institution).

'Governing body' means the University Council, Board of Governors or other body ultimately responsible for the management and administration of the Institution's revenue and property, and the conduct of its affairs.

'Chief Officer of the Council' means the Chief Executive of the Higher Education Funding Council for England.

'TTA' means the Teacher Training Agency.

'FEFC' means the Further Education Funding Council for England.

'lead accountability' refers to lead accountability in all institutions designated by the DfEE as higher education institutions, except those institutions where the DfEE has assigned the lead accountability role to the TTA. These will normally be institutions which receive 55 per cent or more of their recurrent grant (i.e. the combined recurrent grant from the Council and the TTA) from the TTA.

'Exchequer funds' means Government grant or grant-in-aid including grants paid on the advice of the University Grant Committee, paid by the Council and its predecessor Councils, by the DfEE to former voluntary and direct grant colleges and by the Research Councils. It does not include funds provided by a local authority.

'Exchequer-funded assets' are assets acquired or developed, wholly or in part, with Exchequer funds in the form of specific capital funds. They do not include assets, where the ownership was transferred from a local authority to a higher education institution on or after 1 April 1989.

'licence' means any licence other than a licence of residential accommodation to a registered student.

'Providing body' means the providing body of a former voluntary college directly funded by the DfEE

'HESA' means the Higher Education Statistics Agency.

'HEQC' means the Higher Education Quality Council.

'JANET' means the Joint Academic Network; 'SuperJANET' means the enhanced Joint Academic Network.

Within this Memorandum, references to the financial position, financial statements and / or borrowing of the Institution mean references to the consolidated financial position, financial statements and / or borrowing of the Institution and its subsidiary undertakings as defined in the Companies Act 1985 and revised by the Companies Act 1989, and in accordance with Generally Accepted Accounting Principles.

Within this Memorandum, 'shall' and 'must' denote mandatory requirements, and 'should' denotes the Council's view of good practice.

Application

3. This Memorandum is in two parts. Part 1 sets out the terms and conditions which apply in common to those institutions listed in paragraphs 5 to 7. Part 2, the schedule, consists of conditions specific to the Institution, a schedule of funds available in the academic year and the educational provision the Institution has agreed to make in

return for those funds. References to this Memorandum embrace both Part 1 and Part 2.

4. Nothing in this Memorandum shall require the Institution to act in a manner which would cause it to lose its charitable status or which would be inconsistent with its charter and statutes.

Scope

5. The terms and conditions in this Memorandum shall apply to all institutions for which the Council has lead accountability.

6. Paragraphs 1-4 (Introduction), paragraph 8 (Compliance with Financial Memorandum), paragraphs 10-12 and 14-15 (Responsibilities of the Council), paragraphs 16-17 (Stewardship), paragraphs 24-27 (Provision of information), paragraphs 29-30 (Connection to JANET or SuperJANET), paragraphs 32-43 (Allocation and payment of funds), paragraphs 44-55 (Estate

Management), paragraphs 56-58 (Borrowing con), paragraph 59 (Monitoring) and paragraphs 70-73 (Other matters) shall also apply to any institution for which the TTA has lead accountability and which receives funds from the Council.

7. Paragraphs 1-4 (Introduction), paragraph 8 (Compliance with Financial Memorandum), paragraphs 10-12 and 14-15

(Responsibilities of the Council), paragraphs 16-17 (Stewardship), paragraphs 24-27 (Provision of information), and paragraphs 32-37 and 40-43 (Allocation and payment of recurrent funds) and paragraphs 70-73 (Other matters), shall also apply, via the Funding

Agreement, to any institution for which the FEFC has lead accountability and which receives funds from the Council.

Compliance with Financial Memorandum

8. The responsibility for ensuring that the Institution complies with this Memorandum and related guidance rests with the governing body of the Institution.

9. In exercising its powers under this Memorandum, the Council will act reasonably at all times.

Responsibilities of the Council

10. Payments to the Institution by the Council are in support of activities specified in section 65(2) of the Act namely:

a. The provision of education and the undertaking of research.

b. The provision of any facilities, and the carrying on of any activities, which the governing body of the Institution considers it necessary or desirable to provide or carry on for the purpose of or in connection with education or research.

11. Payments will be subject to the provisions of the Act, the conditions set out in this Memorandum and such terms and conditions as the Council may from time to time prescribe in accordance with the Act and after the consultation required under section 66(1) of the Act. The payment of funds will, in accordance with section 65(3) of the Act, be subject to such terms and conditions as the Council may impose, including those set out in this Memorandum but, in accordance with section 65(4) of the Act, shall not relate to the application by the Institution of any sums derived otherwise than from the Council. In determining what funds to allocate to the Institution the Council will have regard to the desirability of not discouraging the Institution from maintaining and developing its funding from other sources, in accordance with section 66(2) of the Act.

12. The Chief Officer of the Council has been appointed as its Accounting Officer and as such is responsible and accountable to Parliament for ensuring that the uses to which the Council puts funds received from the Secretary of State are consistent with the purposes for which the funds were given and comply with the conditions attached to them. The Chief Officer of the Council is also responsible for promoting good value for money through grants paid to institutions and associated guidance.

13. As part of these responsibilities the Chief Officer of the Council is required to be satisfied that the governing body of the Institution has appropriate arrangements for financial management and accounting and that the uses to which the Council's funds are put are consistent with the purposes for which they were given.

14. In his role as Accounting Officer, the Chief Officer of the Council shall inform the Institution's governing body and / or its audit committee where he has serious concerns about the Institution's financial affairs.

15. In his role as Accounting Officer, the Chief Officer of the Council may suspend the payment of grant, either in whole or in part and either permanently or temporarily, if, in his opinion, it is appropriate and reasonable to do so in order to safeguard public funds.

Responsibilities of the Institution

Stewardship

16. The governing body of the Institution is responsible for ensuring that funds from the Council are used only in accordance with the Act, this Memorandum and any other conditions that the

Council may from time to time prescribe.

17. The governing body of the Institution has a wide discretion over its use of public funds, and is ultimately responsible for the proper stewardship of those funds. Therefore it must ensure that in conducting its affairs it exercises its discretion reasonably and takes into account any relevant guidance on accountability or propriety issued from time to time by the Council, the National Audit Office or the Public Accounts Committee.

Designation of Principal Officer

18. The governing body shall designate a Principal Officer of the Institution, who will normally be the executive head of the Institution, and shall notify the Council whenever it designates such an officer.

The designated officer will need to satisfy the governing body that the conditions in this Memorandum are complied with, and may be required to appear before the Public Accounts Committee alongside the Chief Officer of the Council on matters relating to grant to the Institution which arise before that Committee.

19. The designated officer of the Institution shall advise the governing body if, at any time, any action or policy under consideration by the governing body appears to the designated officer to be incompatible with the terms of this Memorandum. Should the

governing body decide nevertheless to proceed the designated officer shall inform the Chief Officer of the Council in writing forthwith.

Financial Management

20. The governing body of the Institution shall ensure that it has a sound system of internal financial management and control.

21. The governing body of the Institution shall plan and conduct its financial and academic affairs to ensure that it remains solvent and that, taking one accounting period with another, its total expenditure is not greater than its total income.

22. In meeting the requirement in paragraph 21:

a. The Institution shall not have an historical cost deficit in two consecutive accounting periods unless there are sufficient discretionary reserves (discretionary reserves comprise General Endowments and Income and Expenditure Account Reserves as defined in the Statement of Recommended Practice: 'Accounting in Higher Education Institutions') to cover the deficit. A deficit of less than 0.5 per cent of total income as defined in the audited financial statements for the year in question, or £500,000, whichever is the lower, will not be taken into consideration for these purposes.

b. Negative discretionary reserves must be cleared by the end of the third accounting period after the year in which the deficit began to accumulate. An accumulated deficit will be considered to be cleared if it is less than 0.5 per cent of total income as recorded in the Institution's financial statements for the latest accounting period, or £500,000, whichever is the lower.

The Council may, in its discretion, waive these conditions and substitute others on written application from the Institution.

Value for Money

23. The governing body of the Institution is responsible for delivering value for money from public funds. It should keep under review its arrangements for managing all the resources under its control, taking into account guidance on good practice issued from time to time by the Council, the National Audit Office or the Public Accounts Committee.

Provision of Information

24. The Institution shall provide the Council with such information as the Council may require for the exercise of its functions under the Act. This information shall be of a satisfactory quality and shall be provided at a time or times and in a format as specified by the Council. The Council will act reasonably in its

requests for information and will have regard to the costs of providing this information and where appropriate to its confidentiality.

25. The Institution shall provide the Council's agent, HESA, with information required by the Council for the exercise of its functions under the Act. The information shall be of a satisfactory quality and supplied at a time or times and in a format as specified by HESA.

26. If the Institution fails to return information required by the Council by the specified deadline, or that information is not of a satisfactory quality, the Council reserves the right to take either or both of the courses of action:

a. To carry out such investigations as the Council deems necessary to collect the data. The cost, in whole or in part, of such investigations may, where circumstances so warrant, be deducted from the recurrent grant of the Institution (this power relates to information required by the Council and returned to the Council or to HESA).

b. To use its own reasonable estimates of data which it requires for the exercise of its functions under the Act.

27. If the Institution is overpaid grant as a result of the use of Council's estimates of data, the Council reserves the right to recover any overpaid grant, plus interest on the overpaid grant, in accordance

with paragraph 43.

Subscription to HESA and HEQC

28. The Institution shall subscribe to HESA and HEQC.

Connection to JANET or SuperJANET

29. The Institution shall take appropriate measures, including signing its acceptance of the Acceptable Use Policy, to ensure that its use of JANET or SuperJANET, and networks connected to JANET or SuperJANET, conforms to acceptable practice and is in accordance with current legislation.

30. The Council reserves the right to withdraw the Institution's connection to JANET or SuperJANET if it does not take such measures as are referred to in paragraph 29.

Insurance

31. The Institution shall ensure that it has adequate insurance cover.

Allocation and Payment of Funds

32. The Council will determine the amount of funds to be allocated to the Institution in any year and may, in its allocations, distinguish between recurrent funds and capital funds. The Council may also, in its capital allocations, distinguish between formula capital funds and capital project funds.

33. The Institution shall only use funds for those activities eligible for funding as are specified in sub-sections 65(2)(a) and (b) of the Act. Unless otherwise directed by the Council, the Institution shall be free to vire between recurrent and formula capital funds.

34. The Institution shall use any funds which have been earmarked or provided for specific recurrent or capital purposes by the Council, solely for the purposes for which those funds have been earmarked or provided.

35. The Institution must report to the Council any use of funds which were earmarked or provided for specific purposes, for purposes other than those for which the funds were earmarked or provided, as soon as it becomes aware of such use.

36. The Council will normally make payments of formula funds to the Institution in monthly instalments, in accordance with a

funding profile for the whole academic year which takes account of expected need within the higher education sector as a whole and receipts of tuition fees from local education authorities.

37. The Council will also be prepared on written application from the Institution to consider making such exceptional or ad hoc payments as the Council sees fit but such payments will not be made in advance of the Institution's need to make disbursements.

38. The Council may make contributions to the costs of capital projects submitted at the request of the Council which conform to criteria set out by the Council.

39. The Council will pay its agreed contribution to the costs of capital projects in accordance with a payment profile agreed with the Institution, as set out in the Council's estate procedures (all references to the Council's estate procedures mean the existing guidance Strategic Estate Management (1/93), Funding for Backlog Maintenance Work in 1993-94 and 1994-95 (Circular 12/93), Appraising Property Options: Guidance on Techniques (November 1993), Draft Estate Procedures (Circular 44/93), Backlog Maintenance Priority II Work (Circular 22/94), The Private Finance Initiative and Council Policy (Circular letter 4/96), and subsequent guidance as issued by the Council from time to time), and on submission of a valid claim which has been accepted by the Council.

40. The Council will notify the Institution, in writing, of the allocation of formula funds as soon as possible - normally by 31 March - in advance of the academic year to which they relate.

41. The Council reserves the right to retain a proportion, not exceeding 0.1 per cent, of the Institution's total formula recurrent grant, in respect of any academic year, if the Institution fails to return specified data of a satisfactory quality to the Council by the specified deadlines. These data and deadlines will be specified in the letter referred to in paragraph 40 notifying the Institution of their allocation of recurrent funds. Where these conditions have been met, the July payment to the institution will normally include this element of grant.

42. The Council reserves the right to require repayment by the Institution, in whole or in part, of funds received from the Council if the Institution fails to comply with any conditions to which those funds were subject.

43. The Council also reserves the right to require the payment of interest, at 2 per cent over the Base Rate specified from time to time by the Bank of England, in respect of any period during which a sum due to the Council in accordance with this or any other condition remains unpaid.

Estate Management

44. The Institution shall manage and develop its estate having regard to the guidance issued from time to time by the Council on estate procedures.

45. The Institution shall keep its holdings of land and buildings under review with the objective of rationalising and disposing of those which it considers, in light of its estate strategy, to be no longer needed. Former voluntary colleges and other institutions holding land and buildings not covered by exempt charitable status shall also take into account the requirements of the Charity Commissioners.

46. The Institution shall maintain its estate in accordance with a maintenance plan, covering its long-term and routine maintenance requirements.

Disposal of any Interest in an Exchequer Funded Asset

Sale

47. The Institution may sell any land and buildings, including any interest in land and buildings, which was acquired or developed in whole or in part using Exchequer funds, provided that all the

following conditions are satisfied:

a. The Institution has taken independent professional advice on the terms and conditions of the sale.

b. The Institution decides that, having considered that advice, it is satisfied that the terms and conditions under which the sale is proposed are the best that can reasonably be obtained for the Institution at that time.

c. The Institution notifies the Council in writing of the sale within 15 working days of the exchange of contracts for that sale.

48. Where such a sale as is referred to in paragraph 47 occurs, the Institution may retain the proceeds (all references to sale proceeds shall include the accrued interest earned on the sale proceeds between the date of receipt of the proceeds and the date of the reinvestment of those proceeds) of that sale provided that all the following conditions are satisfied:

a. They are used for capital expenditure on assets, with a life of more than 12 months, that are used for activities eligible for funding as specified in sub-sections 65(2)(a) and (b) of the Act, but excluding capital expenditure on assets that are used primarily for activities listed in paragraph 60.

b. Where the expenditure is on an estates project, it conforms with the Institution's current estate strategy.

c. Where the expenditure is on an estates project, the Institution has regard to Council guidance, issued from time to time, on appraising property options (the Council's current guidance is Appraising Property Options: guidance on techniques (November 1993)).

d. The sale proceeds are reinvested in full within 3 years.

e. The institution notifies the Council in writing within 15 working days of the date the sale proceeds are first reinvested; if the reinvestment is done in stages, the institution must notify the Council in writing within 15 working days of each stage of the reinvestment.

49. Where the conditions under paragraph 48 are not satisfied, the Institution shall pay to the Council:

a. Where the Exchequer funds were provided before 1 August 1975, an amount equal to the original value of the Exchequer funds.

b. In cases where the interest in the land and buildings was acquired or developed, since 1 August 1975, wholly with the aid of Exchequer funds, all the sale proceeds (including any element in respect of intangible assets sold as part of the transaction) after deduction of the expenses of the transaction.

c. In cases where neither sub-paragraphs 49a or 49b apply, that proportion of the sale proceeds, after deduction of the expenses of the transaction, which corresponds to the value of the Exchequer funds as a percentage of the costs of acquisition or development of the land and buildings at the date of acquisition or development.

d. Where only part of the sale proceeds is reinvested in accordance with sub-paragraph 48a, but all other conditions in paragraph 48 are satisfied, the Institution shall repay that part of the sale proceeds that is not reinvested in accordance with sub-paragraph 48a, subject to sub-paragraphs 49a-c above.

e. Where the sale proceeds are only partly re-invested within three years, but all other conditions in paragraph 48 are satisfied, the Institution shall repay that part of the sale proceeds that is not reinvested within three years, subject to sub-paragraphs 49a-c above.

Leases

50. The Institution may grant a lease or licence over land and buildings acquired or developed, whether wholly or in part, with Exchequer funds, provided that all the following conditions are satisfied:

a. The Institution has taken independent professional advice on the terms and conditions of the lease or licence.

b. The Institution decides that, having considered that advice, it is satisfied that the terms and conditions under which the lease or licence is proposed are the best that can reasonably be obtained at that time.

c. The Institution notifies the Council in writing of the lease or licence within 15 working days of the execution of the lease or licence.

51. Where such a lease or licence as is referred to in paragraph

50 is granted and part or all of the consideration for the granting of the lease or licence is the payment of a premium, that premium shall be treated as sale proceeds and paragraphs 48 and 49 shall apply to its use by the Institution. If the consideration also includes periodic payments of rent during the life of the lease or licence, these shall be treated as rental income and paragraph 52 shall apply to their use by the Institution.

52. Where such a lease or licence as is referred to in paragraph 50 is granted, the Institution may retain the rental income provided that both the following conditions are satisfied:

a. The rental income is used for activities eligible for funding as specified in sub-sections 65(2)(a) and (b) of the Act, but excluding expenditure primarily on activities listed in paragraph 60.

b. The institution notifies the Council in writing within 15 working days of the date the rental income is first reinvested.

53. Where the conditions in paragraph 52 are not satisfied, the Institution shall repay to the Council the rental income, in full or in the proportion outlined in paragraph 49, after deduction of any ground rent or other charges, administration costs and any expenses borne by the Institution necessary to keep the land and buildings in a fit state to command that rent.

Transfers

54. The Institution may transfer its title to or grant any interest or licence in land and buildings, which were acquired or developed in whole or in part using Exchequer funds, provided that one of the following conditions has been satisfied:

a. The transfer or grant is in accordance with paragraph 47 or paragraph 50.

b. The transfer or grant is to a subsidiary undertaking and contains a direct covenant by the transferee with the Council that the transferee will observe and perform the conditions in paragraphs 47 to 54 of this Memorandum, and that covenant is guaranteed by the Institution; the institution must notify the Council within 15 working days of the transfer to the subsidiary.

c. The Institution has the prior written consent of the Council to the transfer or grant. The Council may attach conditions to such consent.

Application of Section 69 (4) of the Act

55. In respect of Exchequer funds provided to the Institution or to the trustees or the providing body of a former voluntary or direct grant college directly by the Department of Education, the Secretary of State has, under section 69(4) of the Act, directed the Council to be

her agent in enforcing conditions the same as those in paragraphs 47 to 54 relating to the disposal of assets and the use of such assets as security for borrowing.

Borrowing

(Borrowing includes finance leasing, as defined in SSAP 21 'Accounting for leases and hire purchase contracts' and other schemes where borrowing is the substance of the transaction, in line with FRS 5 'Reporting the substance of transactions')

56. It is the Council's responsibility to protect the public investment in institutions. In furtherance of

this responsibility, and in its role of monitoring financial health, the Council will require the Institution to satisfy all the conditions on borrowing set out below and in related guidance to be issued by the Council:

a. That the Institution will be able both to repay the sum borrowed, and to pay interest thereon without recourse to additional grant from the Council.

b. That the ability of the Institution to maintain financial and academic viability will not be impaired as a result.

c. That the Institution can demonstrate the value to be generated by the transaction, if it involves refinancing, and of any new investments to be financed by the borrowing.

d. That any new investment is in accordance with the Institution's strategic plan.

e. That the Institution notifies the Council in writing of the use of any Exchequer funded asset as security for any borrowing within 15 working days of the signing of the borrowing agreement.

Long-term Borrowing

(Long-term borrowing means amounts which are due for payment after more than 12 months, in accordance with Generally Accepted Accounting Principles)

57. The Institution shall obtain prior written Council consent before it undertakes such a level of borrowing that the annualised servicing costs of all long-term borrowing exceed a threshold of 4 per cent of total income as reported in the latest audited financial statements, or the estimated amount for the current year if that is lower. The annualised servicing costs of the borrowing consist of the costs of capital repayments and total interest costs spread evenly over the period of the borrowing (in the case of Business Expansion Schemes (BES), the annualised servicing costs are the costs of buying out the shareholders of the BES company spread evenly over the period of the BES). In assessing total long-term borrowing and total income, all inherited debt which is fully reimbursed by the Council, and all such reimbursements shall be ignored.

Short-term Borrowing

58. The institution shall obtain prior written Council consent before its negative net cash, as determined on a cash book basis and as defined in FRS 1 (revised 1996): 'Cash Flow Statements', exceeds the lower of 5 per cent of total income or £2 million, for more than seven consecutive calendar days.

Monitoring of Estate Management and Borrowing

59. The Council will monitor compliance with the requirements in paragraphs 44 to 54 and paragraphs 56 to 58.

Provision of Contractual Services

60. In determining the price to be charged for the following, research contracts residences, catering and conferences services to external customers, including consultancy, the Institution shall assess the full cost of the service to the Institution.

61. The Council expects the full cost of such activities to be recovered unless the Institution considers it appropriate to do otherwise having regard to the circumstances of the particular case.

Financial Statements

62. The Institution shall keep proper accounting records and shall prepare financial statements in respect of each accounting period. The Institution shall provide the Council with 3 copies of its audited financial statements for the accounting period by 31 December following the end of the accounting period. At least one copy of the financial statements provided to the Council shall contain the signatures required under paragraph 64 of this Memorandum and shall be signed by the Institution's external auditors. The Institution shall make reasonable arrangements to make copies of the financial statements publicly available.

63. The Institution shall ensure its financial statements comply with the Accounts Direction issued from time to time by the Council. Such a Direction will cover information to be contained in the financial statements, the manner in which they are to be presented and the methods and principles according to which they are prepared, and will be in accordance with Generally Accepted Accounting Principles.

64. The financial statements shall be signed by the designated officer and by the Chairman or one other member of the governing body as appointed by the governing body. In the case of an institution

which is a company limited by guarantee, the requirements of the Companies Act 1985 as revised by the Companies Act 1989 in respect of signatories to the financial statements shall apply.

Audit

65. The governing body of the Institution shall appoint an audit committee, and arrange to provide for internal and external audit, in accordance with the Council's Audit Code of Practice and any other directions, drawn up and published by the Council in consultation with institutions. Any requirements mandatory under the Audit Code of Practice shall be a condition of grant under this Memorandum.

66. The Council's Audit Service will, from time to time, evaluate the Institution's internal control arrangements. It may also carry out such additional investigations as it deems necessary. The cost, in whole or in part, of such additional investigations may, where circumstances so warrant, be deducted from the recurrent grant of the Institution.

67. The Institution shall provide the Council's Audit Service with access to all books, records, information and assets. The Council's Audit Service can require any officer to give any explanation which it considers necessary to fulfil its responsibilities. The books and records of the Institution shall also be open to inspection by the

Comptroller and Auditor General.

68. The Council may carry out reviews designed to improve economy, efficiency and effectiveness in the management or operation of the Institution including value for money studies. The Comptroller and Auditor General may also carry out value for money studies of the Institution's use of resources.

69. DfEE internal auditors may accompany the Council's auditors on their visits to the Institution. On such visits the DfEE's auditors will be concerned only with the way in which the Council's auditors are carrying out tasks and will not themselves audit arrangements within the Institution.

Other Matters

Revision

70. After consultation with the Institution and such bodies representing the institutions as the Council considers appropriate, the Council may from time to time revise, revoke or add to any of the conditions in Part I of this Memorandum. The Institution may itself make proposals to the Council for revision, revocation or addition. The Council will, from time to time, review the thresholds and monetary limits in paragraphs 22, 41, 57 and 58 of this Memorandum to ensure

they remain up to date. The Council will consult institutions if it intends to amend these limits.

Interpretation

71. The rights, powers and remedies reserved to the Council in this Memorandum are in addition to any other rights, powers and remedies which it may now or at any time hereafter hold. No failure to exercise or delay in exercising on the part of the Council any of its rights, powers and remedies shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any further or other exercise of the same or any other right, power or remedy.

72. Questions arising on the interpretation of any statement in this Memorandum shall be resolved by the Council after consultation with the Institution and such bodies representing the institutions as the

Council considers appropriate.

Effective Date

73. This Memorandum shall take effect from 1 August 1997.

Signature of Designated Office Holder

74. The designated office holder of (name of Institution) should signify below their receipt of this Financial Memorandum, which sets out the terms and conditions for the payment by the Higher Education Funding Council for England of funds to the governing body of (name of Institution) out of funds made available by the Secretary of State for Education and Employment.

Appendix 4: Audit Code of Practice

To:	Heads of HEFCE-funded institutions Heads of DENI-funded universities
Of interest to those responsible for:	Senior management; finance; governance
Reference:	98/28
Publication date:	June 1998 to take effect from 1 August 1998
Enquiries to:	John Rushforth, Chief Auditor tel 0117 931 7416 and Deputy Chief Auditor or Principal Auditors

Executive Summary

Purpose

1. This document sets out the Council's requirements for institution's internal and external audit arrangements and gives the broad framework in which they should operate.

Key points

2. This Code supersedes the 1993 version with effect from 1 August 1998.

3. The Code describes our minimum audit requirements and those that we consider to be good practice or worthy of consideration.

4. Model versions of key documents are provided for institutions to use at their own discretion.

Introduction

1. The Financial Memorandum between the Council and the Department for Education and Employment (DfEE) requires the Council to issue an Audit Code of Practice (the Code). This Code is the Council's view on how effective audit coverage can be achieved. It sets out the Council's minimum requirements for external and internal audit arrangements, and the broad framework in which they should operate. The Code also provides an overview of the roles and responsibilities of the HEFCE's Audit Service (HEFCEAS). It is not intended to cover academic audit or the audit requirements of any other body.

2. There are a number of mandatory requirements which are conditions of funding under the Financial Memorandum between the Council and institutions. Within this Code 'must' and 'will' denote mandatory requirements, and 'should' denotes the Council's view of good practice. 'May' indicates ideas worthy of consideration. For ease of reference, the mandatory requirements are set out in Annex A. The Code also includes a number of 'model' documents. These are for guidance only and, together with the good practices set out, should be used with discretion. They may need adaptation to meet local circumstances. Additional guidance is available from the HEFCEAS.

3. The Council will assess compliance with these requirements, having regard for the guidance on good practice, and all of the audit arrangements that an institution has in place.

4. The Code is primarily for use by internal and external auditors, institutions' senior management, members of the governing body and audit committees. It should be read with the relevant publications of the Auditing Practices Board. More detailed advice on any aspect of the Code is available from the HEFCEAS. The Code is not intended to be a manual. Institutions should consider developing their own manuals to detail more fully their own procedures for audit-related matters.

5. From time to time the Code will be updated. The Council intends to review its operation fully in 2003, and will consult interested parties before making any significant amendments. The HEFCEAS welcomes comments on the Code and its operation at any time.

6. The Council may also supplement the Code with occasional Audit Practice Notes (APNs) and circular letters, giving guidance on good practice in specific areas, such as severance payments to senior staff (Circular Letter 7/97). They will be developed in consultation with the representative bodies in higher education, and may be incorporated into any subsequent revision of the Code.

7. The rest of this Code deals with the separate elements of audit arrangements, and sets out guidance on general principles of audit, the HEFCEAS, audit committees, internal audit and external audit.

Elements of audit

8. In accordance with their Financial Memorandum with the Council, institutions must have adequate and effective management controls. However, other public bodies also have an interest in these control

arrangements, including Parliament, the Department for Education and Employment (DfEE) and, if applicable, the Further Education Funding Council (FEFC), the Research Councils and the Teacher Training Agency (TTA).

9. Each of these bodies needs to make appropriate arrangements to safeguard its interest. Each has its own auditors but in practice there are only two groups engaged in regular audit investigation of an institution's systems and records - an institution's internal and external auditors. This is the same level of activity that is common in the private sector. Of the interested parties, the DfEE, the HEFCE, the FEFC and the TTA seek to avoid duplication by relying on the work of the other auditors whenever possible.

Parliament

10. Parliament's interest is to see that public funds are properly accounted for and used economically, effectively and efficiently by recipients. The Comptroller and Auditor General, head of the National Audit Office (NAO), is the auditor of the HEFCE. He has the right to inspect the accounts of any institution that receives HEFCE grants and the right to carry out value for money investigations. The NAO is highly selective in its use of inspection rights: most of the financial audit work can be undertaken at the HEFCE, and value for money investigations normally involve only a sample of institutions at any one time.

Department for Education and Employment

11. Public funds are channelled through the DfEE, and the DfEE

Accounting Officer is responsible and accountable to Parliament. The Accounting Officer must be satisfied that proper arrangements are being made to safeguard public funds. This is achieved by requiring the HEFCE to have an audit service and appropriate accounting systems. The work of the HEFCE and its audit service is examined by the DfEE audit service. The DfEE may observe the HEFCE audit service at work in institutions but it does not audit institutions itself.

HEFCE

12. The HEFCE's Chief Executive is Accounting Officer for the funds received from the DfEE and is accountable to Parliament for them. The Accounting Officer must therefore be satisfied that institutions are making proper arrangements to ensure that public funds are being used for the purposes for which they were given, and are adequately safeguarded. To obtain that assurance, the HEFCEAS will periodically assess compliance with this Code and assess the internal management controls of institutions, relying on the work of internal and external audit where appropriate. Additional information on serious weaknesses, significant frauds and any major accounting breakdowns is also required to help satisfy the Accounting Officer's responsibilities.

13. The governing body of the institution is responsible for ensuring the proper use of public funds. Under the Financial Memorandum, the governing body is required to designate a Principal Officer, known as the designated officer (The holder of the Principal Office of the Institution, as defined in the Financial Memorandum between the HEFCE and the institution). He

or she should satisfy the governing body in respect of the use of public funds and may be required to appear before the Committee of Public Accounts of the House of Commons, alongside the Chief Executive of the Council, on matters relating to the use of funds provided by the HEFCE. The designated officer is usually the institution's Vice-Chancellor, Principal or equivalent.

14. The designated officer must inform, without delay, the chairman of the institution's audit committee, the chairman of the institution's governing body and the HEFCE Accounting Officer of any serious weakness, significant fraud or major accounting breakdown. If a matter requiring report is discovered by external or internal auditors in the normal course of their work and the designated officer refuses to make a report, then the auditors must report directly to the chairman of the institution's audit committee, the chairman of the institution's governing body and the HEFCE Accounting Officer. This is to ensure that the institution has taken appropriate action. In addition, the HEFCEAS is able to provide advice to institutions on dealing with fraud and irregularity, particularly when notified at an early stage. Information obtained, suitably anonymised, may be disseminated throughout the sector by HEFCEAS, thereby enabling institutions to protect their interests. This process should also reduce the need for visits to institutions by the HEFCEAS.

15. In this Code a serious weakness includes one that has resulted in an attempted, suspected or actual significant fraud or irregularity. Significant fraud is usually where one or more of the following apply:

a. The sums of money involved are, or potentially are, in excess of £10,000.

b. The particulars of the fraud are novel, unusual or complex.

c. There is likely to be public interest because of the nature of the fraud or the people involved.

There may be circumstances that do not fit this definition. In these cases or any others, institutions can seek advice or clarification from the Council's Chief Auditor. In view of the public interest, institutions should normally notify the police of all suspected or actual fraud. Where the police are not notified, management should advise the audit committee of the reason. Institutions are also referred to the guidance on fraud issued by HEFCEAS in 1998.

FEFC / TTA

16. Some institutions receive funds from the FEFC or the TTA, who therefore also have an interest in their management and accountability. To avoid unnecessary duplication, the FEFC and TTA will rely on the audit framework set out in the Code. They will not be directly involved in the auditing of higher education institutions, except they may occasionally request specific audit work to be undertaken in accordance with their own funding conditions.

General principles for internal and external auditors

Duties

17. These general principles for auditors are intended to supplement, not replace, those issued by the recognised professional bodies. This is necessary because the audit of public funds is different from those in

the commercial sector, since auditors are also concerned with the HEFCE's requirements.

Independence

18. Auditors should avoid the following:

a. Official, professional and personal relationships which might cause the auditor to limit the extent or character of the audit.

b. Any responsibility for the executive management of the institution.

c. Any interest, financial or non-financial, direct or indirect, in the institution (other than the normal employee or contractor relationship, or the funding of any prize, scholarship or academic appointment).

Due professional care

19. In exercising due professional care auditors should:

a. Take reasonable steps to obtain information relevant to the audit. Auditors should take into account information from the institution, the Council, any changes in legislation, and the results of previous audit work.

b. Keep up to date with developments in professional matters.

c. Look out for and take into account any unusual circumstances.

d. Consider audit objectives and plan work to adhere to them.

e. Document the conclusions arising from the planning process, and detail a budget for staff and time.

f. Discuss the main features of the audit with the institution.

g. Ensure that audits are staffed with suitably qualified and experienced personnel, and that work is properly controlled and reviewed.

h. Co-ordinate the work of specialist staff.

i. Ensuthat conclusions are adequately supported by reliable evidence. This evidence should be sufficient for an experienced auditor with no previous connection with the audit to ascertain what work was done and how the conclusions were reached.

j. Control costs of audit, and weigh costs and likely benefits.

k. Maintain objectivity at all times.

l. Preserve confidentiality where appropriate.

Audit arrangements for the Higher Education Funding Council for England

HEFCE

20. The HEFCE 's Chief Executive is Accounting Officer for the funds received from the DfEE and is accountable to Parliament for them. The Accounting Officer must therefore be satisfied that institutions are making proper arrangements to safeguard such funds and use them effectively. The Council itself also has a responsibility; to help it discharge this, it has established an Audit Committee, whose terms of reference are based on the model terms set out in Annex B.

HEFCE Audit Service

21. The Financial Memorandum between the DfEE and the Council requires the establishment of an internal audit function. This function will be discharged by the HEFCE Audit Service. The HEFCEAS will be externally tested in accordance with the guidance in Annex C.

Role

22. The HEFCEAS is responsible for evaluating all control arrangements, financial and otherwise, of the Council and of

institutions funded by the Council, and for giving assurance to the Council and the Accounting Officer on those control arrangements.

23. The HEFCEAS has no executive role nor does it have any responsibility for the development, implementation or operation of systems. It may, however, provide advice on control and related matters subject to the need to maintain objectivity.

Scope

24. All the Council's activities are within the remit of the HEFCEAS. It will consider whether the system of controls is adequate to secure propriety, efficiency, economy and effectiveness in all areas. It will seek to confirm that management has taken the necessary steps to achieve these objectives.

25. All institutions receiving funding from the Council fall within the scope of HEFCEAS review. Rights of access to undertake examination of internal financial and management controls are provided in the Financial Memorandum between the Council and each institution.

Responsibilities

26. The HEFCEAS will undertake a programme of work, over a cycle to be agreed with the Council and the Accounting Officer, to achieve the following objectives:

a. To appraise the soundness, adequacy and application of financial and other controls.

b. To ascertain the extent of compliance with established policies and procedures.

c. To ascertain the extent to which assets and interests of funds provided to or by the Council are properly controlled and safeguarded from losses of all kinds.

d. To ascertain that accounting and other information is reliable as a basis for the production of accounts and other returns.

e. To identify, and test where appropriate, the controls established to ensure the integrity and reliability of information used.

f. To ascertain that the systems of control are laid down correctly and operate to promote the most effective, efficient and economic use of resources.

Access

27. The Chief Auditor has a direct right of access to the HEFCE Accounting Officer and the Chairman of the HEFCE Audit Committee and, if necessary, the Chairman of the Council.

28. The HEFCEAS has access to all HEFCE records, information and assets, and can require any officer to give any explanation which it considers necessary to fulfil its responsibilities. It has the same rights in respect of each institution funded by the Council.

Reporting

29. For day to day administrative purposes only, the Chief Auditor reports to the Director of Finance and Corporate Resources. The Chief Auditor will, when appropriate, draw the attention of the Accounting Officer and the HEFCE Audit Committee to serious weaknesses, significant frauds and any major accounting breakdowns.

30. The Chief Auditor will submit an annual report to the Council's Audit Committee and the Accounting Officer. This report will include

the Chief Auditor's assessment of the adequacy and effectiveness of the internal control system, a report on coverage achieved and a set of internal audit performance measures.

31. The HEFCEAS will normally produce a draft report within one month of completing each audit, giving an opinion on the area reviewed and making recommendations where appropriate. Audit reports will be discussed and the facts agreed. Each report will include an agreed action plan for improvement. Fundamental and significant recommendations will be followed up in accordance with the action plan. All final versions of audit reports will be copied to the Council's Chief Executive.

Standards

32. The HEFCEAS will conform to the standards for internal audit laid down in the Auditing Guideline 'Guidance for Internal Auditors', issued by the Auditing Practices Committee in June 1990. Due regard will also be given to the advice in the Government Internal Audit Manual issued by HM Treasury, and to guidance from professional auditing and accountancy bodies. The Chief Auditor will monitor compliance with these standards and report as appropriate to the HEFCE's Audit Committee. In addition, the Audit Committee will consider a range of performance measures and receive any assessments of HEFCEAS by the DfEE Internal Audit Service.

Liaison

33. The HEFCEAS will liaise, whenever appropriate, with the NAO, the institutions' internal and external auditors, the DfEE, the TTA, the

Scottish Higher Education Funding Council, the Higher Education Funding Council for Wales, and any other appropriate HEFCE officer or relevant organisation.

Approach

34. In achieving its objectives the HEFCEAS will do the following for the Council:

a. Identify all elements of the internal control system on which the Council intends to rely, assess audit needs and establish a review cycle.

b. Evaluate those systems, identify inappropriate or inadequate controls and recommend improvements in procedures and practices.

c. Undertake examinations to ensure that those systems of control are laid down and operate to promote the most effective, efficient and economic use of resources.

35. The HEFCEAS will also do the following for institutions:

a. Establish whether all elements of the internal control system on which each institution intends to rely have been identified; that audit needs have been assessed adequately and review cycles established; and that audit arrangements are consistent with the Code.

b. Consider institutions' internal control arrangements - primarily through a cycle of visits - with a view to relying on them, and where appropriate recommend improvements. Each cyclical visit to an institution will seek to gain an overview of the adequacy and effectiveness of the internal control arrangements in place. To minimise duplication, the HEFCEAS will rely on the work carried out by the institution's internal and external auditors where appropriate.

36. HE institutions are required to furnish the HEFCE with data which inform its allocation of funding generally, and in response to specific initiatives. These data may be supplied directly or through the Higher Education Statistics Agency. The HEFCE has procedures for validating and verifying data received, and may undertake audit work to satisfy itself that the information supplied is reliable. As a consequence, the HEFCEAS undertakes programmes of data audit. The scope and conduct of such reviews varies, but normally involves visits to institutions to evaluate the systems which generate data and to verify data on a sample basis.

Value for money

37. The HEFCEAS will be responsible for value for money studies across the higher education sector to ensure that systems of control are laid down and that those systems operate to promote the most effective, efficient and economic use of resources. These will be for the benefit of institutions and will be performed after appropriate consultation. The emphasis of such national studies will be to disseminate good practice and to support institutions conducting their own reviews at a local level. The national studies will be followed up to determine the extent to which good practice is being adopted in the sector. In addition, the HEFCEAS cyclical visits will examine the approach to value for money adopted by institutions. The HEFCEAS will maintain information and guidance on value for money, including a model strategy, which is available to institutions on request.

38. The HEFCEAS will also consider conducting any special reviews requested by the Accounting Officer of the Council. This includes work necessary to fulfil the HEFCE's contractual obligations with the Department of Education for Northern Ireland.

Audit committees

39. The governing body of an institution must ensure that it is fulfilling its responsibilities for proper financial management, for the effectiveness of the internal control and management systems, and for the economy, efficiency and effectiveness of the institution's activities. Accordingly, institutions are required by their Financial Memorandum with the Council to appoint an audit committee. The duties of the audit committee will have to be determined in the light of the institution's needs but should normally include those described in the model terms of reference at Annex B. Reference should also be made to the CIPFA 'Handbook for Audit Committee Members in Further and Higher Education', published in 1996, and the ICAEW Audit Faculty guidance 'Audit Committees: A framework for assessment' issued in 1997. These documents provide additional information on the role of audit committees.

40. The audit committee should be properly constituted, appointed and given sufficient authority and resources by the governing body. It should have the right to obtain all the information it considers necessary and to consult directly with the internal and external auditors. The committee should be advisory and should report (or

have the right to report) directly to the governing body. It should consist of at least three members of the governing body and should be able to co-opt non-governing body members with particular expertise or interests.

41. Co-opted members of the audit committee should not normally be appointed as its chairman, since the chairman has to be able to attend, as of right, all meetings of the governing body. Where this is unavoidable, arrangements should be made to ensure the chairman has full access to the governing body for reporting purposes. Subject to this, co-opted members should be treated as having equivalent status on the audit committee as full governing body members. The committee should have the right, whenever it is satisfied it is appropriate, to go into confidential session and exclude any, or all, participants and observers.

42. At least one audit committee member should have a background in finance, accounting or auditing. To ensure independence and objectivity, members must not have executive authority or be members of a finance committee or its equivalent, unless the institution can satisfy the Council that this is unavoidable for statutory or practical reasons. If members with executive authority or membership of a finance committee are appointed, they should be in the minority and should not hold the chair. There should also be some mechanism for them to declare an interest in any matter that impinges on their other responsibilities; they may then be excluded from consideration of such items. The chairman of the governing body

should not normally be a member of the audit committee. Care should be taken in the appointment of governors with a significant interest in the institution (including staff governors) to ensure that the independence and objectivity of the committee is preserved.

43. The audit committee should consider whether members, or prospective members, require any training on internal control, finance, audit or other related matters. Visits to the finance department could contribute to this process. Committee members should normally be provided with a copy of the guidance on audit committees issued by CIPFA and the ICAEW. Further advice on any aspect of audit committee membership is available from the HEFCEAS.

44. The audit committee should be given maximum discretion to determine its proceedings, within the terms of reference set for it by the governing body. The committee should usually meet at least twice in each financial year. Most institutions find three or four meetings more appropriate. The timing and content of the meetings should follow, as far as possible, the planning and reporting cycles of external and internal audit. Senior and other staff, not just the head of finance (or equivalent), should be invited to attend audit committee meetings, particularly where their area of responsibility is under examination. The internal auditor should normally attend all meetings. The external auditors should normally attend meetings where business relevant to them is to be discussed. Both the internal and external auditors should have the right of access to the chairman of the committee, and

the right to ask the chairman to convene a meeting if necessary.

45. The clerk to the governing body or some other independent person should normally be the clerk to the audit committee. Where the clerk has significant financial or other responsibilities at senior management level within the institution, the governing body should consider whether the role of clerk to the committee should be transferred to another individual to maintain independence, or whether sufficient safeguards are built into the existing arrangements.

46. The audit committee should also identify and approve appropriate performance measures for internal and external audit and monitor their performance annually. The HEFCEAS can provide guidance on suitable performance measures.

47. The audit committee should consider significant individual audit findings or recommendations, but need not be concerned with more detailed findings, unless the committee considers it valuable to do so. The committee should concentrate on gaining assurance that the institution's system of internal control is adequate and effective, for example through the internal auditors' opinions of the activities and systems they have reviewed, through external audit and other audit related work. For this purpose, the audit committee should ensure there is an adequate system in place to monitor the implementation of agreed audit recommendations. The governing body, advised by the audit committee, should ultimately be responsible for ensuring that management take prompt and effective action on those audit reports which call for it, or for recognising and accepting the risks of

management not taking action.

48. The audit committee, advised by management and its internal audit service, must satisfy itself that satisfactory arrangements are in place to promote economy, efficiency and effectiveness. For this purpose, audit committees should consider institutional value for money strategies, and receive reports monitoring compliance with the strategy.

49. The audit committee will be concerned with both internal financial control and the wider aspects of internal control. In this context financial control covers areas such as the maintenance of proper accounting records, reliability of financial information, the safeguarding of assets and the proper use of public funds. The wider aspects of internal control cover business risk, non-financial controls, compliance with laws and regulations, and economy, efficiency and effectiveness. This interest also extends to good corporate governance as it forms part of the system of internal control.

50. Audit committees may review the draft annual financial statements, although care should be taken to avoid work that properly belongs to the finance committee. Where the financial statements are reviewed, the audit committee should consider the external audit opinion, the statement of members' responsibilities and any relevant issue raised in the external auditor's management letter. The committee should, where appropriate, confirm with the internal and external auditors that the effectiveness of the internal control system has been reviewed, and comment on this in its annual report to the

governing body. In addition, the committee should review the corporate governance statement where one is provided. The second edition of the 'Guide for members of governing bodies of universities and colleges in England, Wales and Northern Ireland', issued by the Committee of University Chairmen is available from the HEFCE. This recommends the inclusion of a corporate governance statement in the annual report as good practice, and offers model statements accordingly. The audit committee should review, and provide assurance in its annual report to the governing body on, any such corporate governance statement in the annual financial statements. This assurance should be consistent with the committee's knowledge of the governing body structure and arrangements, and will be informed by any specific work on governance matters the committee has had access to.

51. The committee must produce an annual report for the governing body and the designated officer. When they have considered the report, it must be sent without delay to the Chief Auditor of the Council. The audit committee annual report should normally be submitted to the governing body before the members' responsibility statement in the annual financial statements is signed.

52. The audit committee annual report should include the committee's opinion on the extent to which the governing body may rely on the institution's internal control system, and the arrangements for promoting economy, efficiency and effectiveness, in the discharge of its responsibilities. (This opinion should be based upon the

information presented to the committee.) Such a report should also record the work of the committee, and consider the following:

the external auditors' management letter

the internal auditors' annual report

any value for money work

any HEFCEAS or other relevant evaluation.

It might also identify any key issues for the institution arising out of its activity over the year. Further guidance on the content of the audit committee annual report is given in Annex H.

Internal audit arrangements in higher education institutions

53. Each institution is required by its Financial Memorandum with the Council to have an internal audit function. The prime responsibility of the internal audit service is to provide the governing body, the designated officer and the other managers of the institution with assurance on the adequacy and effectiveness of the internal control system. Responsibility for internal control remains fully with management, who should recognise that internal audit can only provide 'reasonable assurance' and cannot provide any certainty against material errors, loss or fraud. Internal audit also play a valuable role in helping management improve systems of internal control and so reduce the potential effects of any significant risks faced by institutions.

Role, scope and terms of reference

54. An institution must ensure that it has sound systems of control. These help to ensure:

a. The institution's objectives are achieved as far as possible.

b. The economical, efficient and effective use of resources is promoted.

c. Adherence to management's policies, directives and established procedures, and compliance with any relevant laws or regulations.

d. The institution's assets and interests are safeguarded - particularly from losses arising from fraud, irregularity or corruption.

e. As far as reasonably practicable, the integrity and reliability of accounting records and other

information.

55. Accordingly, the internal audit service must embrace the whole internal control system of the institution, including all its operations, resources, staff, services and responsibilities for other bodies. It should cover all activities associated with the institution, including those not funded by the HEFCE. For example, it should review controls that protect the institution in its dealings with any subsidiary or associated company or student union or any other activity in which the institution has an interest.

56. While it is the responsibility of management to promote value for money, internal auditors can specifically assist with this process as they have a responsibility to consider value for money in their routine audit work. This will include, among other things, considering:

a. Systems for planning, budgeting and controlling capital and revenue income and expenditure.

b. Personnel, estates and information systems management.

c. Arrangements for managing the assets of the institution.

d. Proper codification of responsibilities, authority and accountability.

e. Monitoring results against predetermined objectives.

Apart from any reporting arising as part of routine audit work, the internal auditor should advise the audit committee and the designated officer in the internal audit annual report whether proper arrangements are in place to promote economy, efficiency and effectiveness.

57. In view of their independence and professional expertise in review, analysis and investigative work, internal auditors are often regarded as particularly suitable for conducting or assisting with value for money studies. The internal audit service's terms of reference should therefore identify separately any responsibility it may have in initiating, conducting or participating in such studies. Specialists may also be engaged to work under the direction of, alongside, or as an alternative to internal auditors. The emphasis of such work should be to help management meet its responsibility for securing the economic, efficient and effective use of resources.

58. Auditors should not question policy objectives, but should consider the effects of policy, the arrangements by which policy objectives have been determined and the means for delivering those objectives.

59. Internal auditors should not perform academic audit. However, they may review whether an institution has adequate arrangements in place to deliver effective academic audit. The audit committee may wish to consider including such work in audit plans or to consider its

own terms of reference in this regard.

60. Internal auditors should also assess the adequacy of the arrangements in place to prevent and detect irregularities, fraud and corruption. However, the primary responsibility for preventing and detecting corruption, fraud and irregularities rests with management, who should institute adequate systems of internal control, including clear objectives, segregation of duties and authorisation procedures.

61. The internal audit service should have formal terms of reference, agreed by the governing body on the recommendation of the audit committee. Model terms are set out in Annex D; however, local circumstances may vary and institutions may have to modify these. The terms of reference should form part of any contract for the provision of internal audit services by external providers. This should be made clear when seeking proposals for the provision of internal audit services.

Independence and status

62. Independence is fundamental to the effectiveness of internal audit. Therefore, while the auditor should consult with senior management on audit plans, these plans should be submitted to, and be approved by, the governing body on the recommendation of the audit committee or directly by the audit committee under delegated authority. Internal auditors may carry out additional work at the request of management, including investigations, provided such work does not compromise the objectivity and independence of the audit service or the achievement of the audit plan. Accordingly, each institution's audit committee

should satisfy itself that the independence of the internal audit service has not been affected by the extent and nature of other work carried out.

63. Internal audit services should not have any management responsibilities other than for internal audit. For day-to-administrative purposes, the internal audit service may be responsible to a senior officer within the institution, such as the clerk or secretary. The reporting arrangements should take account of the nature of audit work undertaken.

64. Internal audit should be seen to have sufficient status, respect and support within the institution. To be effective, the head of internal audit, or equivalent where the service is provided on a contract basis, must have direct access to the institution's designated officer and to the governing body (normally through the chairman of the audit committee), and, if necessary, to the chairman of the governing body. Internal auditors must also have unrestricted access to all records, assets, personnel and premises, and be authorised to obtain whatever information and explanations are considered necessary by the head of the internal audit service.

Approach

65. The internal audit service should normally adopt the systems-based approach.

66. A system is a set of related activities designed to operate together to achieve a planned objective. The internal audit service should therefore identify the objectives of systems. Where stated management

objectives are inadequate to characterise systems, the internal audit service should clarify appropriate objectives with management.

67. The prime objective in a systems audit should be to evaluate the extent to which the controls in the system are adequate and may be relied upon to ensure the objectives of the system are met. To achieve this the internal audit service should:

a. Identify and record objectives, activities and controls.

b. Evaluate the adequacy and effectiveness of controls, having regard for their economy and efficiency, and the operational risk in the system.

c. Test that the controls are satisfactorily operated.

d. Arrive at conclusions supported by relevant, reliable and sufficient evidence; and report them, with recommendations to strengthen controls and compliance where necessary.

68. This approach enables the internal audit service to reach the conclusions necessary to form an opinion on individual systems and the whole framework of internal control. Such opinions should be clearly reported in assignment reports and the internal audit annual report.

69. It is the auditor's responsibility to alert the designated officer and the audit committee to the extent to which the institution and its governing body could be exposed by any shortcomings in the system under review. The degree of control should be related to the risks involved, but it is management's role to exercise judgement in establishing the balance between risk and control.

Planning

70. The work of the internal audit service should be planned at each level of operation.

71. The internal auditor should start each audit cycle with an analysis of the institution's systems to assess the audit need. This enables the internal audit service to see systems in terms of their relative risk and significance, and the relationships between them. The auditor should provide details of all systems identified even though they may not be recommended for review in the audit plans, so that the audit committee has more information on which to base its judgement of the needs assessment.

72. After consultation with senior management, the internal audit service should prepare long-term and short-term plans to carry out its responsibilities, for approval by the governing body on the advice of the audit committee. Governing bodies may delegate the approval of the audit plan to the audit committee.

73. Where existing resources are inadequate to meet the need identified, the head of the internal audit service should draw this fact to the attention of the designated officer and the governing body through the audit committee. The governing body should decide, on the advice of the audit committee, what level of resources should then be provided.

74. Further guidance on audit planning is provided at Annex E.

Reporting

75. The internal audit reporting arrangements should be determined

by institutions after consideration by their audit committee. It is important that the reporting arrangements do not compromise the independence or objectivity of the internal audit service.

76. At the end of each audit assignment, the internal audit service should provide a written report which sets out the findings, conclusions and recommendations arising. At least for all systems based audits, it should also give an opinion on the adequacy and effectiveness of the system.

77. The internal audit service must produce an annual report of its activities. This should be addressed to the governing body and the designated officer, and should be considered by the audit committee. The audit committee may forward the report to the governing body with their own report. The report should be for the institution's accounting period and be submitted to the designated officer when it is available, and to the audit committee at least for the first meeting of the following financial year. As a minimum it should include the internal auditor's opinion of the adequacy and effectiveness of the internal control system and the extent to which the governing body can rely on it. This opinion should be placed into its proper context: that is, the work undertaken has been based on the audit needs assessment and on the systems reviewed in the year, as well as incorporating knowledge of systems audited in previous years (including from a previous auditor). The report should also provide an opinion on the arrangements for securing value for money. Internal audit performance measures should be provided, including stating

achieved coverage against the original audit plan. It should also draw attention to any significant audit recommendations which the internal audit service considers have not received adequate management attention.

Provision of service

78. There are a variety of ways to acquire an internal audit service. One possibility is to appoint a head of internal audit and staff as necessary. An 'in-house' team may also be supplemented from time to time with external consultants or contractors, under the direction of the head of internal audit, to meet any peaks in workload or provide specialist skills.

79. Another option is to form a consortium with one or more other institutions, on a geographical or common interest basis. A consortium may be organised in-house, be provided externally or as a mixture of the two. A number of institutions have set up such consortium arrangements.

80. A third option is to contract directly with an external provider, such as another institution, an accountancy firm, health authority or local authority. The same firm should not normally be appointed as both internal and external auditors as this can lead to a loss of objectivity and independence. Where use of the same firm for both services is considered to be appropriate to the institution's circumstances, reference should be made to <u>Annex C</u>, paragraph 7. It is important to note that internal and external auditors have different roles and responsibilities. In particular, external audit may need to be

satisfied that the internal audit function is operating effectively.

81. Each institution, advised by its audit committee, should establish which is the most suitable and cost-effective way of obtaining internal audit services. However, at least every seven years, they should consider market testing internal audit services, since this provides a powerful incentive to maintain both quality and cost effectiveness. This external testing should take into account the guidance set out in Annex C.

Standards

82. The operation and conduct of the internal audit service should conform to the standards laid down in the Auditing Guideline 'Guidance for Internal Auditors', issued by the Auditing Practices Committee in June 1990. Internal auditors should also have regard to the H M Treasury Standards, the Government Internal Audit Manual, advice provided by professional auditing and accountancy bodies, and any guidance produced by the HEFCE.

83.The head of internal audit should implement measures to monitor the effectiveness of the service and compliance with standards. The audit committee should consider and approve these performance measures. The committee should also consider asking the external auditor to provide an independent assessment of internal audit's effectiveness. This information should be used to contribute towards the committee's annual assessment of the performance of the internal audit service. A list of suitable performance measures is available on request from the HEFCEAS.

Change of internal audit service

84. Internal audit working papers are the property of the institution. This should be made clear in the auditors' terms of engagement. If institutions change their internal auditors, they should make arrangements for relevant audit documentation to be passed to the incoming auditor. This will ease transition and avoid costly repetition of work. Incoming auditors can then seek to rely on the work of the previous auditor in preparing the audit needs assessment, audit plans and annual report. Institutions should also consider making arrangements for the incoming and outgoing auditors to meet. Where internal audit services are provided on a contractual basis, such arrangements should be included in the formal contract or terms of engagement.

85. Where internal audit is provided on a contract basis, the institution should agree a fixed term of office based on financial years, and consider market testing before the contract expiry date. Provision should be made for outgoing auditors to complete their work and submit an annual report after expiry of the contract term. Attendance by the auditors at the appropriate audit committee should also be considered. In the event of a change in auditor, institutions should ensure that the new contract immediately follows the end of the old contract or other arrangements.

Removal or resignation of auditors

86. Subject to normal staffing arrangements (for 'in-house' auditors) and any contractual arrangements in place, only the governing body

(or the audit committee where delegated authority exists) may pass a resolution to remove the internal auditors before the end of their term of office if serious shortcomings are identified.

87. Where internal auditors cease to hold office for any reason, they should provide the governing body with either a statement of any circumstances connected with their removal which they consider should be brought to the governing body's attention, or a statement that there are no such circumstances. The internal auditors may also request an extraordinary general meeting of the governing body to consider the statement. Any such statements should also be sent to the HEFCEAS by the institution or, if it fails to do so, by the outgoing internal auditors.

88. The governing body must inform the Council's Chief Auditor without delay of the removal or resignation of the internal auditors.

Restriction of auditor's liability

89. Where the internal audit service is provided through a contractual arrangement with an external provider, the provider may ask the institution to agree to a restriction in the auditor's liability arising from any default by the auditors. Normally such liability should be without limit. However, institutions may negotiate a restriction in liability so long as the decision is made on an informed basis. The governing body, through the audit committee, should be specifically notified of any such request for a liability restriction. Further information on liability restriction is provided in paragraph 6 of Annex C.

Fraud and corruption

90. Each institution's management is responsible for the prevention, detection and investigation of irregularities, including fraud and corruption. To discharge this responsibility, management should ensure that an adequate system of internal control is operated. It is not a primary function of internal audit to detect fraud. However, the work of the internal audit service, in reviewing the adequacy and effectiveness of the internal control system, should help management to prevent and detect fraud. The internal audit service should ensure that it has the right to review, appraise and report on the extent to which assets and interests are safeguarded from fraud. When internal auditors suspect fraud, or are carrying out a fraud investigation, it is important to safeguard evidence. They should assess the extent of complicity to minimise the risk of information being provided to those involved, and the risk of misleading information being obtained from them.

91. Internal auditors should report serious weaknesses, significant fraud or major accounting breakdowns to the designated officer without delay. The designated officer must then inform the chairman of the audit committee, the chairman of the governing body and the HEFCE Accounting Officer of such matters without delay. If he or she refuses to do so, then the internal auditor must report to them directly.

92. The institution should ensure that the internal auditor is informed, as soon as possible, of all attempted, suspected or actual

fraud or irregularity. The internal auditor should consider any implications in relation to the internal control system, and make recommendations to management, as appropriate, to strengthen the systems and controls. See also paragraphs 14 and 15 of this Code for further information.

Relationship with other auditors

93. There should be regular liaison between internal auditors, the institution's external auditors and the HEFCEAS to enhance the level of service provided to the institution. External auditors should be given access to the internal audit service's working papers and plans so that their work programmes can be adjusted accordingly, and so that the extent of their reliance on the work of the internal audit service can be determined.

94. Copies of the internal audit service's reports should be available to the external auditors. The internal audit service should also receive copies of the external auditor's plans and management letters, and any other relevant reports produced for the institution by other agencies.

95. The HEFCEAS must be allowed access to any work of the internal auditor, or correspondence between the internal and external auditors.

Value for money

96. Internal audit has a specific role to play in supporting the governing body and management with their responsibilities for obtaining value for money from the funds provided. This may include,

for example, being a member of a value for money steering group. All internal audit work should be conducted with value for money in mind. Any value for money opportunities should be identified during audit planning and routine audit work, and be reported accordingly. Internal audit may carry out or participate in value for money studies undertaken at the institution, providing such work does not affect the ability of the auditor to complete the audit work necessary for the assurance provided in the annual report. Internal audit should also provide the designated officer and governing body, in the internal audit annual report, with its view on whether proper arrangements are in place to promote economy, efficiency and effectiveness.

Control self-assessment (CSA)

97. Control self-assessment - also known as control and risk self-assessment (CRSA) - is a relatively new management technique which some organisations in the public and private sector use to assess the risks in their organisation and identify the controls needed to manage those risks. This can increase understanding of risk and control within an organisation, and so improve the efficiency and effectiveness of controls. The internal auditor, or an alternative facilitator, may help management conduct a 'self-assessment'. There are a number of approaches to self-assessment including questionnaire-based and workshop-based methods.

98. The advantages of self-assessment include the following:

i. It strengthens management understanding both of risk, and of their responsibility for establishing and maintaining the internal control system needed to manage risk.

ii. It provides additional evidence for the external auditors, internal auditors, the designated officer and the audit committee in assessing the state of the internal control system.

iii. It can provide greater coverage of the control system than is normally feasible by the internal auditors alone, and could allow the internal audit service to reduce its routine work, so allowing greater focus on higher risk areas.

iv. It can enhance the relationship between management and the internal audit service.

Although internal auditors can help management to establish, facilitate and review a self-assessment process, owning and operating it is still the responsibility of management.

99. CSA and the more traditional approach to internal audit are not mutually exclusive. While it is for institutions to decide whether or not to use CSA, the HEFCEAS encourages the use of self-assessment techniques to supplement, but not replace, internal audit work. The institution's audit committee should be specifically advised of the use of CSA. Where appropriate, the use of CSA should inform both the internal audit and audit committee annual reports.

External audit arrangements in higher education institutions

Role of external auditors

100. The primary role of external auditors is to report on the financial statements of institutions, and to carry out whatever examination of

the statements and underlying records and control systems is necessary to reach their opinion on the statements. Their report should also state whether recurrent and specific grants and income from the HEFCE (and other bodies and restricted funds where appropriate) have been properly applied for the purposes provided, and in accordance with the institution's Financial Memorandum with the Council.

Qualification of external auditors

101. The qualifications required for external auditors of higher education corporations are as set out in paragraph 5(b) of Schedule 8 of the Further and Higher Education Act 1992. For other institutions, the requirements are the same as under the Companies Act 1985. Auditors should be registered with one of the appropriate professional bodies.

Selection criteria and procedures

102. The governing body is usually responsible for appointing external auditors, although it may delegate this to the audit committee. Before receiving proposals, the institution should determine selection criteria, procedures, and the frequency of external testing, taking into account the guidance given at Annex C. Particular attention should be given to such issues as:

a. Quality of service, including experience.

b. Audit fees, including a clear commitment on future fee increases.

Letter of engagement

103. The duties of institutions and external auditors should be clearly

presented in the agreed terms of reference. The external auditors' letter of engagement should not depart in any material way from the guidance set out in the model at Annex F. Where significant differences from the model are under consideration, a copy of the proposed letter should be sent to the HEFCE's Chief Auditor without delay.

Additional services

104. Institutions may ask external auditors to provide services beyond the scope of the audit of the financial statements, including special investigation work, taxation compliance and advice, consultancy and value for money reviews. Generally, it is a matter for institutions and auditors to agree precise requirements, and the audit committee should be informed of any work undertaken. However, any additional work should not impair the independence of the audit function and so should normally be the responsibility of different staff within the firm of auditors.

105. The audit committee has a key role to play where the auditors supply a substantial amount of non-audit services. The committee should keep the nature and extent of such services under review, seeking to balance independence and objectivity with the institution's needs. (See also paragraph 118 in connection with audit liability.) The same firm should not normally be appointed as both internal and external auditors as this can lead to a loss of objectivity and independence. Where using the same firm for both services is considered appropriate to the institution's circumstances, reference

should be made to Annex C, paragraph 7. It is important to note that internal and external auditors have different roles and responsibilities. In particular, external audit may need to be satisfied that the internal audit function is operating effectively.

106. In order to help judge the relationship between the institution and its external auditors, the institution must disclose separately, by way of a note to its financial statements, the fees paid to its external auditors for other services. Each institution's audit committee should review the level of fees and satisfy itself that the extent and nature of other work have not affected the independence of the external audit.

Reporting arrangements

107. External audit should report to the institution by way of a management letter which highlights any significant accounting and control issues arising from the audit. The letter, with management responses, should be made available (in draft if necessary) to the institution's audit committee in time to inform the committee's annual report, and in any event no later than two months after issuing an opinion on the financial statements. Institutions must send two copies of the final management letter incorporating management responses to the HEFCE Chief Auditor by 28 February in the following year, by which time it should have been seen by the audit committee and/or governing body. External auditors should also, whenever appropriate, attend audit committee meetings.

Audit report

108. The external auditors shall report whether:

a. The financial statements give a true and fair view of the state of the institution's affairs and of its income and expenditure, recognised gains and losses and statement of cash flow for the year. They should take into account relevant statutory and other mandatory disclosure and accounting requirements, and HEFCE requirements.

b. Funds from whatever source administered by the institution for specific purposes have been properly applied to those purposes and, if relevant, managed in accordance with relevant legislation.

c. Funds provided by the HEFCE have been applied in accordance with the Financial Memorandum (dated .....) and any other terms and conditions attached to them. In particular, auditors should have regard to the specific requirements of the Financial Memorandum, such as compliance with the short-term and long-term borrowing conditions, and the offering of security over Exchequer-funded assets.

d. The financial statements comply with the Companies Act 1985 (where the institution is incorporated under the Companies Act) and, where appropriate, the Statement of Recommended Practice on Accounting in Higher Education Institutions (SORP) or other legislative or regulatory requirements.

109. Institutions may ask external auditors, usually through a separate letter of engagement, to review statements of corporate governance included within the annual financial statements. Where the institution reviews the effectiveness of its internal control system, the external auditor may be invited to examine this review. External auditors may report privately to the governing body (through the audit

committee) on the results of their work or may make reference to this review in the financial statements, either in their audit opinion report or through a separate report.

110. A model external audit report for an institution's annual financial statements is given at Annex G.

Reappointment of external auditors

111. Institutions should reappoint auditors formally each year. The audit committee should assess the auditors' work each year to ensure that it is of a sufficiently high standard and at a reasonable price. The committee should then make a recommendation to the governing body regarding the re-appointment of the auditors. Performance measures could be used as part of the assessment process. Provided that the auditors' performance is satisfactory, it will not be necessary to repeat the full selection process each year. However, market testing should be considered at least every seven years. One partner in the firm is normally responsible for the institution's audit; he or she should not hold this position for more than seven continuous years. See also Annex C paragraph 2.

Removal or resignation of auditors

112. The governing body may pass a resolution to remove the auditors before the end of their term of office if serious shortcomings are identified.

113. External auditors who have resigned or been removed from office for whatever reason should be entitled to attend, and make representations to, the general meeting of the governing body at which

their term of office would have expired, or at which it is proposed to fill the vacancy caused by the resignation or removal. They are entitled to receive notices of, or other communications relating to, that meeting, and to be heard on any part of the business which concerns them as former auditors of the institution.

114. Where auditors cease to hold office for any reason, they should provide the governing body with either a statement of any circumstances connected with their removal which they consider should be brought to the governing body's attention, or a statement that there are no such circumstances. The auditors may also request an extraordinary general meeting of the governing body to consider the statement. These provisions are analogous to those in the Companies Acts. Any such statements should also be sent to the HEFCEAS without delay, by the institution or, if it fails to do so, by the outgoing auditors.

115. The governing body must inform the Council's Chief Auditor without delay of the removal or resignation of the auditors.

116. In deciding whether or not to accept the appointment, anyone proposing to take up the office of external auditor should obtain the institution's permission to communicate with the outgoing auditors. Outgoing auditors should also obtain permission from the institution to discuss its affairs freely with the proposed auditors, and should disclose all information required by the proposed auditors which is relevant to the appointment. These provisions are analogous to those in the Guide to Professional Ethics of the Institute of Chartered

Accountants in England and Wales.

Restriction of auditors' liability

117. Institutions must not agree to any restriction in liability in respect of the audit of their annual financial statements. This principle matches that of Section 310 of the Companies Act 1985, which prohibits any capping of the auditors' liability in respect of audit opinions given under the Act.

118. For other types of work performed by the external auditor, the provider may ask the institution to agree to a restriction in the auditors' liability arising from any default by the auditor. Normally, such liability should be without limit. However, institutions may negotiate a restriction in liability so long as the decision is made on an informed basis. The governing body, through the audit committee, should be notified of any liability restriction agreed. Further information on liability restriction is provided in paragraph 6 of Annex C to this Code.

HEFCE access to external auditors

119. On occasion the HEFCEAS may wish to meet with institutions' external auditors, particularly in connection with a visit to the institution by the HEFCEAS. The institution should not limit access in any way. Formal discussion should normally be arranged through the institution's designated officer or representative. The HEFCEAS will exchange letters where necessary with both parties which deal with confidentiality and the terms under which access is given.

Annex A

Mandatory requirements

1. The following are mandatory requirements of this Code of Practice:

a. The governing body of each institution must take reasonable steps to ensure that there is a sound system of internal control within the institution.

b. Each institution must have an effective audit committee, which produces an annual report for the governing body and the designated officer.

c. Members of the audit committee must not have executive authority or be members of a finance committee, unless the institution can satisfy the Council that this is unavoidable for practical or statutory reasons.

d. The audit committee of each institution, advised where appropriate by its internal audit service, must satisfy itself that satisfactory arrangements are in place to promote economy, efficiency and effectiveness.

e. Each institution must have an effective internal audit function, which reports at least annually to the governing body and the designated officer.

f. The work of the internal audit service must cover the whole of the internal control system of the institution.

g. The head of the internal audit service must have direct access to the institution's designated officer, the chairman of the audit committee and, if necessary, the chairman of the governing body.

Internal, as well as external, auditors must also have unrestricted access to all records, assets, personnel and premises, and be authorised to obtain whatever information and explanations the head of the internal audit service or the external auditor considers necessary.

h. Fees paid to external auditors for other services must be disclosed separately in a note in the financial statements.

i. The Council's audit service, HEFCEAS, must have access to all records, information and assets, and can require any officer to give any explanation which it considers necessary to fulfil its responsibilities. This includes access to any work of the internal auditor, or correspondence between internal and external auditors, and access to the work of the external auditor. For access to external audit work, the HEFCEAS will exchange letters where necessary with both parties which deal with confidentiality and the terms under which access is given.

j. The governing body must not accept any restriction of liability in respect of the external audit of the institution's financial statements.

k. The following information must be provided:

i. The governing body must send a copy of the audit committee's annual report to the HEFCE Chief Auditor.

ii. The governing body must send to the HEFCE Chief Auditor, by 28 February in the following year, two copies of the external auditor's management letter and any management response.

iii. The designated officer must report any serious weaknesses, significant frauds or major accounting breakdowns without delay to the chairman of the audit committee, the chairman of the governing body, the head of internal audit and the HEFCE Accounting Officer. If the designated officer refuses to make an appropriate report, then the internal and external auditors must report to them directly.

iv. The governing body must inform the HEFCE Chief Auditor without delay of the removal or resignation of the external or internal auditors.

2. The Council will assess compliance with these requirements, having regard for the guidance on good practice and all of the audit arrangements that an institution has in place.

Annex B

Audit committees

Introduction

The Council has certain mandatory requirements which must be included in the audit committee's terms of reference. However, the other elements of the model terms of reference will often have to be modified to suit local circumstances. The key question for audit committees is whether the arrangements within the institution meet the intentions behind these guidelines. These are: that the audit committee is independent; has sufficient authority and resources to form an opinion and report on the internal control system and financial reporting arrangements of the institution; and can satisfy itself that the institution has adequate arrangements for ensuring economy, efficiency and effectiveness. The terms of reference should be formally approved by the governing body.

Model terms of reference

Constitution

1. The governing body has establish a committee of the governing body known as the audit committee.

Membership

2. The committee and its chairman shall be appointed by the governing body, from among its own members, and must consist of members with no executive responsibility for the management of the institution. There shall be no fewer than three members; a quorum shall be two members. The chairman of the governing body will not normally be a member of the committee. The chairman of the committee will normally be a member of the governing body. Members should not normally have significant interests in the institution.

3. At least one member should have a background in finance, accounting or auditing. The committee may, if it considers it necessary or desirable, co-opt members with particular expertise. No member of the committee may also be a member of the finance committee (or equivalent), unless specifically authorised by the Higher Education Funding Council for England (HEFCE).

Attendance at meetings

4. The head of finance (or equivalent), the head of internal audit, and

a representative of the external auditors shall normally attend meetings where business relevant to them is to be discussed. However, at least once a year the committee may meet with the external auditors without any officers present.

Frequency of meetings

5. Meetings shall normally be held at least twice each financial year. The external auditors or head of internal audit may request a meeting if they consider it necessary.

Authority

6. The committee is authorised by the governing body to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee, and all employees are directed to co-operate with any request made by the committee.

7. The committee is authorised by the governing body to obtain outside legal or other independent professional advice and to secure the attendance of non-members with relevant experience and expertise if it considers this necessary, normally in consultation with the designated officer and/or chairman of the governing body. However, it may not incur direct expenditure in this respect in excess of £x, without the prior approval of the governing body.

8. The audit committee may review the draft annual financial statements. Where reviewed, the committee should consider the external audit opinion, the statement of members' responsibilities, the corporate governance statement and any relevant issue raised in the external auditor's management letter. The committee should, where

appropriate, confirm with the internal and external auditors that the effectiveness of the internal control system has been reviewed, and comment on this in its annual report to the governing body.

Duties

8. The duties of the committee

9. shall be:

a. To advise the governing body on the appointment of the external auditors, the audit fee, the provision of any non-audit services by the external auditors and any questions of resignation or dismissal of the external auditors.

b. To discuss if necessary with the external auditors, before the audit begins, the nature and scope of the audit.

c. To discuss with the external auditors problems and reservations arising from the interim and final audits, including a review of the management letter incorporating management responses, and any other matters the external auditors may wish to discuss (in the absence of management where necessary).

d. To consider and advise the governing body on the appointment and terms of engagement of the internal audit service (and the head of internal audit, if applicable), the audit fee, the provision of any non-audit services by the internal auditors and any questions of resignation or dismissal of the internal auditors.

e. To review the internal auditors' audit needs assessment and the audit plan; to consider major findings of internal audit investigations and management's response; and promote co-ordination between the internal and external auditors. The committee will ensure that the resources made available for internal audit are sufficient to meet the institution's needs (or make a recommendation to the governing body as appropriate).

f. To keep under review the effectiveness of internal control systems, and in particular to review the external auditors' management letter, the internal auditors' annual report, and management responses.

g. To monitor the implementation of agreed audit-based recommendations, from whatever source.

h. To ensure that all significant losses have been properly investigated and that the internal and external auditors, and where appropriate the HEFCE Accounting Officer, have been informed.

i. To oversee the institution's policy on fraud and irregularity, including being notified of any action taken under that policy.

j. To satisfy itself that satisfactory arrangements are in place to promote economy, efficiency and effectiveness.

k. To receive any relevant reports from the National Audit Office, the HEFCE and other organisations.

l. To monitor annually the performance and effectiveness of external and internal auditors, and to make recommendations to the governing body concerning their re-appointment, where appropriate.

m. To consider elements of the annual financial statements in the presence of the external auditor, including the auditor's formal opinion, the statement of members' responsibilities and any corporate governance statement.

Reporting procedures

10. The minutes (or a report) of meetings of the committee will be circulated to all members of the governing body.

11. The committee will prepare an annual report for the institution's financial year. The report will be addressed to the governing body and designated officer, summarising the activity for the year. It will give the committee's opinion on the extent to which the governing body may rely on the internal control system and the arrangements for securing economy, efficiency and effectiveness. (This opinion should be based upon the information presented to the committee). The audit committee annual report should normally be submitted to the governing body before the members' responsibility statement in the annual financial statements is signed.

Clerking arrangements

12. The clerk to the audit committee will be the clerk to the governing body (or other appropriate independent individual).

Annex C

Guidance on procedures for external testing of external and internal audit

Introduction

1. External testing can be conducted in a number of ways. The most common method is a full tendering exercise. This should be considered for the provision of all external audit services, although it may depend on the institution's financial regulations. Guidance on

how such an exercise could be conducted is set out below. However, institutions may find it appropriate to develop alternative models, for example comparison of current costs and coverage with that provided to a number of similar institutions. Whatever alternative is adopted it should be fair, reasonable and well documented. The frequency of such testing is a matter for individual institutions, but it should normally take place at least every seven years. Institutions may contact HEFCEAS for advice on all aspects of external testing.

2. However external testing is undertaken and whatever the result, no partner in a firm of auditors should be responsible for an institution's external audit for more than seven continuous years. After that period, the partner concerned should not resume responsibility for the external audit of the institution for five years.

3. External testing should be conducted in accordance with an institution's own purchasing procedures. European Community procurement requirements should be taken into account where the likely audit and related fees over the proposed contract period exceed the relevant threshold. External testing should take place as far in advance of the start date of the contract as possible, to provide continuity of service and so that the new auditors have enough time to prepare properly.

Tendering procedures

4. The audit committee should establish an evaluation committee which could consist of members of the governing body, management and representatives of the audit committee. This committee should

agree on its selection criteria and the scope of the audit work required, and identify suitable providers. This should normally include the institution's present auditor. Information should be sought on each provider's track record and relevant experience. Factors such as the size, location and nature of the audit should be taken into account when the audit committee decides which providers to invite. The tender documentation could include or refer to the proposed terms of reference the institution will find acceptable. For external audit this will normally be based on the model letter of engagement shown at Annex F. For internal audit this will normally be based on the model terms of reference shown at Annex D. Providers should be asked to indicate what material changes to the model terms they would like the evaluation committee to consider.

5. The evaluation committee should then seek detailed proposals from at least four providers, with possibly one reserve. The proposals should be evaluated using pre-determined assessment criteria. The evaluation committee should draw up a short-list of at least three candidates and invite each of them to make an oral presentation. The institution may send a copy of their written proposals to the HEFCE Chief Auditor for comments at least two weeks before the interviews. Following the interviews, a recommendation on which provider to accept should be made to the governing body, or the audit committee where it has been given delegated authority in this respect.

6. The provider should be required to:

a. Operate in accordance with published audit standards.

b. Meet certain quality standards in completing its work.

c. Comply with terms of reference approved by the governing body.

d. Provide suitably qualified and experienced staff.

e. Endeavour to promote continuity of staffing.

f. Ensure that the staff employed will receive appropriate training.

g. Provide the HEFCEAS with access to relevant working papers and correspondence in accordance with this Audit Code of Practice.

h. Set out proposals for liaison with other auditors.

i. In respect of internal audit, set out the firm's position on the restriction of liability. Where a restriction is sought, the level should be stated, together with the firm's explanation of why liability should be restricted and why the level proposed is both reasonable and appropriate. When comparing different proposals, the institution's evaluation committee should take any differences in liability restriction into account. In particular, this evaluation should consider the risks and likely consequences of any loss suffered as a result of negligence, the level of professional indemnity held, and the wider interest of the institution's responsibility for public funds, as described in the Financial Memorandum with the HEFCE. See also paragraph 89 of this Code.

j. For non-statutory audit work conducted by the external auditor, the same principles in sub-paragraph i above should be applied by management and, where an agreement to restrict liability is reached, the governing body should be notified, through the audit committee.

7. The same firm should not normally be appointed as both internal

and external auditors as this can lead to a loss of objectivity and independence. Appropriately qualified firms are not, however, disqualified from providing both external and internal audit services. Where adopted, the rationale for such arrangements should be clear, for example when an institution or the contract value is so small that separation of the roles is impracticable. Where an accountancy firm provides both these services, institutions and their audit committees should ensure that:

a. The separate roles of internal and external audit are clearly specified.

b. A clear working relationship is established between the two sets of auditors.

c. Provision of the services is the responsibility of different staff, particularly the partner and manager.

d. Internal audit files remain the property of the institution.

e. Internal audit files will be passed on if there is a change in auditors.

Qualifications of external providers

8. The provider should ideally be able to demonstrate a record in providing audit services which goes wider than HEFCE sector institutions. It should not be assumed that audit firms are qualified to provide internal audit services simply because they undertake external audit, or vice-versa. Auditors should normally be registered by an appropriate professional body.

Change of external provider

9. When any appointment is agreed by the governing body,

institutions should inform the HEFCE Chief Auditor of their selection and provide a statement outlining the procedure adopted in making appointments.

Annex D

Model terms of reference for an internal audit service

1. The internal audit service is responsible for conducting an independent appraisal of all the institution's activities, financial and otherwise. It should provide a service to the whole organisation, including the governing body and all levels of management. It is not an extension of, nor a substitute for, good management. The internal audit service is responsible for giving assurance to the institution's governing body and designated officer on all control arrangements. It also assists management by evaluating and reporting to them the effectiveness of the controls for which they are responsible. It remains the duty of management, not the internal auditor, to operate an adequate system of internal control. It is for management to determine whether or not to accept audit recommendations and to recognise and accept the risks of not taking action.

Scope

2. All the institution's activities, funded from whatever source, fall within the remit of the internal audit service. The internal audit service will consider the adequacy of controls necessary to secure propriety, economy, efficiency and effectiveness in all areas. It will seek to confirm that management have taken the necessary steps to

achieve these objectives. The scope of internal audit work should cover all operational and management controls and should not be restricted to the audit of systems and controls necessary to form an opinion on the financial statements. This does not imply that all systems will be subject to review, but that all will be included in the audit needs assessment and hence considered for review following the assessment of risk.

3. It is not within the remit of the internal audit service to question the appropriateness of policy decisions. However, the internal audit service is required to examine the arrangements by which such decisions are made, monitored and reviewed.

4. The internal audit service may also conduct any special reviews requested by the governing body, audit committee or designated officer, provided such reviews do not compromise its objectivity, independence or achievement of the approved audit plan.

Responsibilities

5. The head of the internal audit service is required to give an annual opinion to the governing body and designated officer, through the audit committee, on the adequacy and effectiveness of the whole internal control system within the institution, and the extent to which the governing body can rely on it. He or she should also comment on other activities for which the governing body is responsible, and to which the internal audit service has access. The head of the internal audit service should give an opinion on whether the control arrangements, including those for economy, efficiency and

effectiveness, are adequate and properly applied.

6. To provide the required assurance the internal audit service will undertake a programme of work over a cycle authorised by the governing body on the advice of the audit committee. The programme will have the following objectives:

a. To appraise the soundness, adequacy and application of the whole internal control system.

b. To ascertain the extent to which the system of internal control ensures compliance with established policies and procedures.

c. To ascertain the extent to which the assets and interests entrusted to or funded by the institution are properly controlled and safeguarded from losses arising from fraud, irregularity or corruption.

d. To ascertain that accounting and other information is reliable as a basis for producing accounts, and financial, statistical and other returns.

e. To ascertain the integrity and reliability of financial and other information provided to management, including that used in decision making.

f. To ascertain that systems of control are laid down and operate to promote the economic, efficient and effective use of resources.

Standards and approach

7. The internal audit service's work will be performed with due professional care, in accordance with appropriate professional auditing practice. It will have regard for the Government Internal Audit Manual, and will comply with the HEFCE Audit Code of

Practice.

8. In achieving its objectives the internal audit service should:

a. Identify all elements of control systems on which it is proposed to rely, and establish a review cycle.

b. Evaluate those systems, identify inappropriate or inadequate controls, and recommend improvements in procedures or practices.

c. Ascertain that those systems of control are laid down and operate to promote the most economic, efficient and effective use of resources.

d. Draw attention to any apparently uneconomical or otherwise unsatisfactory result flowing from decisions, practices or policies.

e. Liaise with external auditors, and with the HEFCE Audit Service.

Independence

9. The internal audit service has no executive role, nor does it have any responsibility for the development, implementation or operation of systems. However, it may provide advice on implementation, control and related matters, subject to resource constraints and the need to maintain objectivity. For day-to-day administrative purposes only, the head of internal audit should report to a senior officer within the institution, such as the institution's clerk or secretary. (The reporting arrangements should take account of the nature of audit work undertaken.) The head of internal audit shall have right of access to the designated officer.

10. Within the institution, responsibility for internal control rests fully with management, who should ensure that appropriate and adequate arrangements exist without reliance on the institution's internal audit

service. To preserve the objectivity and impartiality of the internal auditors' professional judgement, responsibility for implementing audit recommendations rests with management.

Access

11. The internal audit service has rights of access to all of the institution's records, information and assets which it considers necessary to fulfil its responsibilities. Rights of access to other bodies funded by the institution should be set out in the conditions of funding. The head of internal audit has a right of direct access to the chairman of the governing body, the chairman of the audit committee and the designated officer. In turn, the internal audit service agrees to comply with any requests from the external auditors and the HEFCE Audit Service for access to any information, files or working papers obtained or prepared during audit work that they need to discharge their responsibilities.

Reporting

12. The head of the internal audit service must submit an annual report to the governing body and designated officer through the audit committee, based on the institution's financial year. This should give an opinion on the whole framework of internal control at the institution, and on the arrangements for securing economy, efficiency and effectiveness. The auditor should also prepare, before the beginning of the year, a long-term strategy document supported by an audit needs assessment, and an annual audit plan. These should be submitted to the governing body for approval following consultation

with relevant managers and the designated officer, and after consideration by the audit committee.

13. The head of the internal audit service is accountable to the designated officer and the governing body through the audit committee for the performance of the service. He or she should also report audit findings to relevant managers (including the designated officer) and draw the attention of the audit committee to key issues and recommendations. This may be done by providing the committee with copies of all reports, or by reporting on an exception basis or by providing a summary of key issues.

14. The internal audit service should usually produce its reports, in writing, within one month of completion of each audit, giving an opinion on the system reviewed and making recommendations to improve systems where appropriate. Such reports should be copied to the designated officer and may be copied to the audit committee. Managers will be required to respond to each audit report, usually within one month of issue, stating their proposed action with a timetable for implementing agreed recommendations. Material recommendations will usually be followed up some six to twelve months later. In addition the audit committee will monitor the implementation of audit recommendations.

15. The head of the internal audit service should report to the designated officer any serious weaknesses, significant fraud or major accounting breakdown discovered during the normal course of audit work. If the designated officer refuses to report the matter to the

HEFCE Accounting Officer, the chairman of the audit committee and the chairman of the governing body, then the auditor must report to them directly.

Standards

16. The operation and conduct of the internal audit service should conform to the standards in the Auditing Guideline 'Guidance for Internal Auditors', issued by the Auditing Practices Committee in June 1990. Internal auditors should also have regard to the H M Treasury Standards, the Government Internal Audit Manual, advice provided by professional auditing and accountancy bodies, and any guidance produced by the HEFCE.

17. The head of internal audit should implement measures to monitor the effectiveness of the service and compliance with standards. In addition, the audit committee should consider and approve the performance measures used by internal audit, and should also consider asking the external auditor to provide an independent assessment of internal audit's effectiveness.

Liaison

18. The internal audit service will liaise with the external auditors and the HEFCE Audit Service to enhance the level of service it provides to the institution.

Annex E

The internal audit planning process

1. The work of the internal audit service should be planned at each

level of operation. The head of internal audit should prepare plans to carry out the responsibilities of the internal audit unit, for approval by the governing body on the advice of the audit committee.

Principles

2. Systematic planning helps an internal audit unit to achieve its objectives, and helps those with responsibility for reviewing the plans. Plans should be based on the terms of reference for the internal audit service approved by the governing body on the advice of the audit committee. Plans should cover all systems and should:

a. Establish a schedule of systems assessed as requiring review and a period within which it is desirable that each of these systems should be examined.

b. Define the tasks to be performed.

c. Assist in the direction and control of work, identifying critical areas, setting target dates and allocating resources.

3. In order to plan adequately the head of internal audit should:

a. Define audit needs based on the internal audit service's terms of reference.

b. Identify the staff and other resources needed and reconcile these with available resources.

c. Agree the time period of audit plans.

d. Record all plans in writing.

e. Monitor work against the plans and revise them accordingly.

4. The emphasis of audit plans will change from time to time. This may result from, for example, changes in the services provided or in

institutional priorities. Plans should be sufficiently flexible and adequate provision for contingencies to allow prompt response to unscheduled work.

5. Audit plans should be based upon a comprehensive understanding of the institution and the way it operates. High risk operations and any known problem areas should be clearly identified, and the emphasis of the audit plan directed accordingly.

Assessment of audit need

6. An assessment of audit need will help the audit committee and governing body to judge the effect of any decision they may make regarding audit scope or resources. The audit needs of an institution should be determined without regard to constraints such as the time and resources which may be available. The assessment should be carried out on all auditable risks which impinge on the ability of the institution to achieve its strategic objectives.

7. The needs assessment process should involve:

a. Identifying all areas of work by system and sub-system. The auditor should provide details of all systems identified even though they may not be recommended for review in the audit plans, so that the audit committee has more information on which to base its judgement of the needs assessment.

b. Determining how systems will be grouped for audit purposes.

c. Seeking senior management's views on which areas or particular factors are considered high risk.

d. Assessing the vulnerability of each area of work.

e. Determining the period over which all systems should be audited and the frequency of review.

f. Estimating the resources required to meet audit need.

8. The audit needs assessment should be updated at least annually and should be completely reassessed towards the end of one full cycle of coverage.

9. In identifying the areas of work, if it becomes apparent that a system is missing, the head of internal audit should draw it to the attention of management and the audit committee.

10. Where existing resources are inadequate to meet the assessed need, the head of internal audit should refer to the governing body, through the audit committee, and the designated officer. They should then decide, on the advice of the audit committee, whether:

a. Additional resources should be provided.

b. Audit scope or time-scales, and hence assurance, should be modified.

11. Audit results should be continually assessed. Critical areas which warrant considerable attention or early audit examination may not have been recognised in the initial assessment of audit need. Similarly, some areas may be found to warrant less attention.

Plans

12. All plans should be achievable and promote the efficient use of resources. They should be based on the priorities indicated in the audit needs assessment and the actual resources available. Their precise nature will depend upon the complexity and size of the

institution, but they should reflect the need for long-term, short-term and individual work plans.

Long-term audit plan

13. The long-term audit plan should be a strategic plan for the review cycle. It will normally cover a period of three to five years, during which each system assessed as requiring review should be reviewed at least once. It should set out the areas to be covered and their review frequencies, allow for easy extraction of annual plans, and be reconciled with available resources. The long-term audit plan should be capable of operating on a roll-forward basis, but should be reviewed at least annually. On each occasion it should be approved by the governing body on the advice of the audit committee.

Short-term audit plan

14. The short-term plan should translate the long-term plan into audits to be carried out in the coming year or shorter period. It should define the scope and purpose of individual audits and allocate resources. The short-term audit plan should be approved by the governing body on the advice of the audit committee. Performance should be regularly monitored against the plan so that it can be revised if necessary.

Audit work plans

15. Work plans should be prepared in advance for every audit and should include objectives, resources, locations, timetables, methods, procedures, supervision, reporting and other relevant factors.

Annex F

Model version of terms of engagement for the appointment of external auditors

The HEFCEAS should be notified of any material difference between this model letter and the auditor's letter.

To the members of the governing body of

....

Appointment and qualification

1. As appointed auditors of .... we agree to the following basis on which we shall perform our duties.

2. We understand that the governing body - (This will require modification where the governing body does not appoint the auditor.) will assess the auditors' work in each year and undertake a detailed review of the appointment at least every seven years. Remuneration will be fixed by the governing body on the advice of the audit committee.

3. We confirm that we are qualified as auditors in accordance with the meaning of the Companies Act 1985.

Responsibilities of the institution

4. We recognise that the governing body is responsible on behalf of the institution for:

a. Establishing and maintaining a system of controls, financial and otherwise, in order to carry on the operation of the institution in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure, as far as possible, the completeness and accuracy of the records.

b. Preparing financial statements that:

i. Comply with the institution's charter and statutes, all statutory requirements relating to the institution's financial affairs, the Financial Memorandum (dated ....) with the Higher Education Funding Council for England (HEFCE), any requirements of the Further Education Funding Council or the Teacher Training Agency (*If appropriate*), and other regulations relating to the constitution and activities of the institution and which are relevant to its financial affairs.

ii. Show a true and fair view of the state of the institution's affairs at 31 July and of the cash flows and income and expenditure for the year then ended, taking into account where relevant and appropriate all required statutory and other disclosure requirements and the Statement of Recommended Practice (SORP) on Accounting in Higher Education Institutions.

c. Preparing the Finance Record (or its successor) in accordance with instructions from the Higher Education Statistics Agency (HESA).

Standards of audit

5. We will undertake the audit of the institution's financial statements and such other matters as the governing body requires in accordance with auditing standards, having regard to relevant Auditing Guidelines and Auditing Standards issued by the Auditing Standards Board.

Reporting

6. We as auditors:

a. Are responsible for making a report to the governing body on the financial statements which are to be laid before the governing body during our tenure of office.

b. May be required to provide an audit report on the HESA Finance Record (or its successor) which should be consistent with our audit report on the institution's financial statements.

7. Our report will state whether in our opinion the financial statements show a true and fair view of the institution's affairs at 31 July, and of the cash flow and income and expenditure for the year then ended.

8. In arriving at our opinion we are required to consider the following matters and to report on any aspect where we are not satisfied, namely whether:

a. Proper records are being kept by the institution.

b. The financial statements agree with the accounting records.

c. We have obtained all the information and explanations we think are necessary for the purpose of our audit.

d. The financial statements comply with the Companies Act 1985 (where the institution is incorporated under the Companies Act), and, where appropriate, with the Statement of Recommended Practice on Accounting in Higher Education Institutions (SORP) or other legislative or regulatory requirements.

9. We will also report to the governing body whether, in all material respects, monies expended of all non-recurrent grants and other funds from whatever source, administered by the institution for

specific purposes, have been properly applied to those purposes and, if appropriate, managed in compliance with any relevant legislation such as the Trustees Investment Act 1961.

10. We have agreed with the institution the wording of an unqualified audit report at the time of our appointment. Any subsequent modifications or qualifications will then be based on our professional judgement, but comply with the APB Auditing Standard: Audit Reports on Financial Statements (May 1993).

11. We undertake to report to the governing body (by way of a management letter by 28 February the following year), any significant matters arising from the audit which might lead to material errors or have impact on future audits. This could include areas where economies could be made or resources could be used more effectively, with advice for improvement. The management letter could include:

a. Weaknesses in the structure of accounting systems and internal control.

b. Deficiencies in the operation of accounting systems and internal control, including internal audit.

c. Inappropriate accounting practices and regulations.

d. Non-compliance with legislation, accounting standards, Funding Council requirements or other regulations.

Irregularities including fraud

12. The governing body is responsible for ensuring the establishment and maintenance of an adequate system of internal control. It is also responsible for ensuring compliance with statutory, taxation and other

regulations, and for the prevention and detection of irregularities, including fraud. We are not required to search specifically for such matters and our audit should not therefore be relied on to disclose them. However, we shall plan and conduct our audit so that we have a reasonable expectation of detecting material mis-statements in the accounts resulting from irregularities, including fraud, or breach of regulations.

13. We will report in writing any serious weaknesses, fraud, irregularities or accounting break-downs we come across in the normal course of our duties to the designated officer, and, where the designated officer refuses to make a report, to the governing body and to the HEFCE's Accounting Officer without delay.

Other work

14. We may be asked from time to time to provide additional services beyond the scope of the audit described above. This could involve investigation work and value for money reviews. Precise requirements will be agreed between the governing body and ourselves in a separate engagement letter before any work is undertaken. Any systems development or consultancy work will be the responsibility of separate staff.

Access

15. We shall have rights of access at all times to the books, accounts and vouchers of the

institution and to such information and explanations as we think necessary to perform our duties. We also expect to have access to internal audit files and working papers. We, in turn, agree to comply with any requests from the internal auditors and the HEFCE Audit Service for access to any information, files or working papers obtained or prepared during our audit that they need to discharge their responsibilities. The HEFCEAS will exchange letters where necessary with both parties which deal with confidentiality and the terms under which access is given.

16. We shall have the right of access to the chairman of the audit committee, the right to ask the chairman to convene a meeting of the audit committee if necessary, and the right to attend audit committee meetings where relevant business is to be discussed.

Annual meetings

17. We will be entitled to attend the meeting of the governing body to which the institution's annual reports and financial statements of account are presented. We will also be entitled to receive all notices of and other communications relating to that meeting which any member of the governing body is entitled to receive, and to be heard at any such meeting, on any part of the business which concerns us as auditors.

Termination of appointment

18. We understand that if there are serious shortcomings on our part the governing body may pass a resolution to remove us before the expiry of our term of office, notwithstanding any agreement between us and the institution.

Fees

19. [A paragraph setting out the auditor's terms for charging and collecting fees should be included.]

Other terms

20. [Auditors may include certain additional paragraphs for internal purposes, for example, on confidentiality, conflicts of interest, quality of service, complaints procedure and legal jurisdiction.]

Agreement of terms

21. If the contents of this letter are not in accordance with your understanding of the arrangements made, we shall be pleased to receive your observations and to give you any further information you require. Otherwise we shall be grateful if you would confirm in writing your agreement to the terms of this letter by signing the enclosed copy and returning it to us. Once agreed, this letter will remain effective from one audit appointment to another until it is replaced.

Yours sincerely

On behalf of the governing body of ...., I confirm that the above terms are satisfactory.

Signed

Position

Date

Annex G

Audit report by institution's external auditors: suggested wording

The suggested form of the wording of the unqualified report (If appropriate) should be:

'REPORT OF THE AUDITORS TO GOVERNING BODY OF ....

We have audited the financial statements on pages ...... to ...... which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out on pages .... to ....

Respective responsibilities of the governing body and auditors

As described on page ...., the governing body is responsible for preparing the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board and the Audit Code of Practice issued by the HEFCE. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the governing body in the preparation of the financial statements, and of whether the accounting policies are appropriate to the institution's [group's[4]] circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

i. The financial statements give a true and fair view of the state of affairs of the institution [and the group (If appropriate)] at 31 July 19.., and of the surplus of income over expenditure, recognised gains and losses and cash flows of the institution [and the group (Include where the institution is incorporated under the Companies Act.)] for the year then ended and have been properly prepared in accordance with [the Companies Act group (Include where the institution is incorporated under the Companies Act.) and] the Statement of Recommended Practice on Accounting in Higher Education Institutions.

ii. Income from the Higher Education Funding Council for England, [the Further Education Funding Council and the Teacher Training Agency (If appropriate) ,] grants and income for specific purposes and from other restricted funds administered by the institution have been applied only for the purposes for which they were received.

iii. Income has been applied in accordance with the institution's statute(Or equivalent) and where appropriate with the Financial Memorandum (dated .....) with the Higher Education Funding Council for England.'

Definitions given in the Statement of Recommended Practice are to be used in defining other restricted funds. Any necessary qualifications would then be based on the auditors' professional judgement, but comply with the APB Auditing Standard: Audit Reports on Financial Statements (May 1993).

Annex H

Model format for an audit committee annual report

The Audit Code of Practice requires each institution's audit committee to prepare an annual report for submission to its own governing body (the internal audit annual report may be attached). The annual report should be prepared as early as possible in each year with the aim of it being available by the time the annual financial statements are signed. The report should be signed and dated by the chairman of the committee. Paragraph 51 of this Code gives the core information suitable for the report. This model, used with discretion, suggests that a comprehensive report could contain (as appropriate) the following:

Title	Full name of institution, Audit Committee Annual Report, year *(eg 1998-99)*. Address to governing body and designated officer.
Introduction	Period covered; this should specifically relate to the audit committee's work on the *1998-99* financial year, whenever the work was carried out. However, any additional information should be given where appropriate, for example where the previous year's annual report could not include something due to timing or something has occurred which requires special treatment.
Membership	Names; details of changes and dates thereof; terms of office; identify chairman; also separately give details of the clerk to the committee.
Meetings	Dates of meetings and who attended if useful or appropriate.
Terms of reference	If applicable, details of changes and their effect on the work of the committee.
Internal audit	▪ Name of provider; details of any changes made or due; fee basis; audit committee's assessment of performance for year (including the use of performance measures and obtaining the views of the external auditor). ▪ Review of appointment; when is market testing due for consideration. ▪ Review of the internal audit annual report (which may be attached to the audit committee annual report); achievement of planned work; consider and comment on overall internal auditor's opinion on internal control system as necessary. ▪ Review of audit needs assessment, strategic plan and annual plan as appropriate. Number of audit days last year/next year (compare); inclusion of value for money studies.

	Details of any restrictions placed on the work of the internal auditor. ▪ Review of (planned) audit reports; title and brief details of coverage if applicable; audit committee's view of management responses to the findings and recommendations; details of any significant recommendations outstanding. ▪ Review of unplanned or special reports; title and brief details of coverage if applicable; audit committee's view of management responses to the findings and recommendations; details of any significant recommendations outstanding. ▪ Review of value for money studies; summary of important findings and recommendations.
External audit	▪ Name of provider; details of any changes made or due; fee basis; audit committee's assessment of performance for year (e.g., audit planning, timetable set and met), confirmation to governing body of recommendation of annual re-appointment (or defer this to next meeting); when is market testing due for consideration. ▪ Review of the external auditor's management letter (draft and final versions where appropriate); significant points arising; audit committee's view of management responses to the findings and recommendations.
Other work done	Where undertaken, review of specific parts of the annual accounts (preferably between finance committee and the board/council) including members' responsibility and corporate governance statements, any relevant issue raised in the management letter and the external auditor's formal annual opinion.

	Other work, for example, Funding Council reports, letters and other requirements (eg, HEFCE Audit Service report, student number audit if undertaken, VFM studies; Audit Code of Practice review /changes); special reports or investigations arising not dealt with elsewhere (eg, fraud or irregularity); review of relevant NAO and other reports; other formal certificates or returns seen; review of Financial Regulations including amendments, communication or recommendations made; issues arising on trusts, joint ventures, subsidiary or associated companies; other VFM work, eg review of VFM strategy. Recommendations made not dealt with elsewhere.
Other	Issues not relevant to the reporting year, eg forthcoming events, issues relating to prior years.
Opinion	The audit committee's opinion on the extent to which reliance can be placed on the internal control systems at the institution and an opinion on the arrangements for securing economy, efficiency and effectiveness. (These opinions should be based upon the information presented to the committee.) The committee should consider whether those governing body's responsibilities, which are described in the members' responsibility statement in the annual accounts, have been satisfactorily discharged. Consider separate corporate governance statement where one is provided, including any statement on the effectiveness of the internal control system and any audit report on that statement.
Circulation	Copy to HEFCE Audit Service once approved by the governing body.

Appendix 5: Guidelines on Appointment of Academic-Related Research Staff

1. These guidelines apply to all appointments made on the Academic Related Research & Analagous Staffs Salary Scales and include both Clinical and Non-Clinical staff.

Principal Investigators should ensure that sufficient funding is available to support the appointment at the point and grade requested and that the request does not conflict with any restrictions that may be imposed in the grant/contract by the funding body. As a matter of policy, the Personnel Section will obtain confirmation from the Research Services Unit that funding is available.

Principal Investigators will also need to supply a supporting statement with any request for an appointment that is more than two points out of line with the guidelines set out below.

Candidates for appointment to posts up to and including Grade 2 level should be interviewed by a Departmental Selection Committee, consisting of two members from the Department(s) concerned and one other from another department. The recommendation to appoint must be agreed by the Head(s) of Department(s), before being submitted to the Personnel Section, together with appropriate supporting documentation. Offers of appointment should not be made except by the Personnel Section.

Candidates from overseas are subject to the Departmental Selection Committee procedure described above, except where the Chairman of CORF agrees to a variation in that procedure in view of special circumstances.

These guidelines are based upon the 1974 Research & Analagous Agreement; as updated following the 23rd Report of Committee A; and agreed nationally by Committees A & B. A copy is attached as APPENDIX I.

NON-CLINICAL

2. GRADE IB - JUNIOR RESEARCH ASSOCIATE

Appointments to this grade will not hold a Ph.D but will normally be holders of a first degree. Non-graduates will be expected to have other equivalent qualifications or relevant experience. If a Ph.D is awarded, promotion to Grade IA will be with effect from the date of notification of award.

This grade is mainly intended as a training grade and as the appropriate grade for newly appointed staff taking up their first research appointment. Duties and responsibilities will be limited but may often involve interpretation of results, etc. as well as active involvement in actually carrying out the research on a day-to-day basis.

Initial placement within the scale will take account of the candidate's and qualifications. A newly qualified graduate with little work experience would normally be appointed on the first point. Candidates aged 27 or over must be appointed on scale point 4 on the scale or above.

Appointment to this grade is to be recommended by a Departmental Selection Committee.

3. GRADE IA - RESEARCH ASSOCIATE

Staff at this level will normally be undertaking work likely to produce independent, original contributions to the subject area.

The level of responsibility and range of duties attached to posts in this grade will be analogous to the research activities which would be allocated to a Lecturer. The experience and qualifications of the appointee would be comparable to those expected of a Lecturer. Responsibilities may also include the supervision of staff on Grade IB or of non-academic staff.

Appointments to this grade will generally hold a Ph.D or equivalent degree. Exceptionally, relevant experience, evidence of appropriate publications, or other higher qualifications may also be taken into account. Prior approval must be obtained from the Chairman of CORF for the appointment of a candidate without a Ph.D or equivalent qualification by submitting a supporting statement via the Personnel Section. This may be done before the final recruitment selection is made.

A person appointed to Grade IA who is aged 27 years or over must be placed on scale point 6 or above. This guideline should be taken into account in appointing candidates aged under 27 years to avoid a discontinuity in the incremental progression in the future. Appointments may be made beneath the points so indicated where there are particular reasons to justify this, such as lack of experience.

In other respects, the points at which the appointment is made should reflect the candidates experience, qualifications and ability. It may also be appropriate to take account of market forces in some disciplines or subject areas. As a general guide, candidates who have recently obtained a Ph.D and who have little relevant work experience would be appointed on the bottom or next point.

Years of relevant work experience can be equated broadly to incremental points on the scale, taking account of the degree of relevance and the ability of the candidate. An estimate of the candidate's ability will be formed at interview; indicators may include achievements, research output, publications record and, indirectly, current salary. Age of itself is not a particularly relevant factor.

Appointment to this grade is to be recommended by a Departmental Selection Committee.

4. GRADE 2 - SENIOR RESEARCH ASSOCIATES

Posts at this level will normally have a level of responsibility and a range of duties appropriate to a person who has obtained substantial research experience at the level of Grade IA. The expectation will be that the post holds greater responsibilities - which might include supervising staff on Grade IA - and that the post holder will have an established and substantial track record in research. A supporting statement must be submitted to the Personnel Section, for consideration by the Pro-Vice- Chancellor (11(1)), Chairman of CORF, for the appointment of a candidate who has not acquired a Ph.D. or equivalent.

As an indication, appointments to this Grade will be expected to have 6 to 7 years relevant work experience for appointment to scale point 11 on the scale, with a broad equivalence between experience and progression up the incremental scale. The candidate's ability and qualifications will be relevant; market forces may also be taken into account.

Appointment to this grade is to be recommended by a Departmental Selection Committee.

5. GRADES 3 & 4 - PRINCIPAL RESEARCH ASSOCIATES

Appointments to these senior grades will be made at the University's discretion. Appointments at this level will be expected to carry considerable responsibility in excess of that appropriate for Grade 2. Individuals appointed to these grades will need to have a considerable reputation, based on high level qualifications and substantial achievement of significant research output, normally equivalent to at least three years at Grade 2 level.

Appointments to this grade are made by the Central University Selection Committee Procedure, with external assessors being used for appointment to Grade 4.

CLINICAL

6. CLINICAL RESEARCH ASSOCIATE

This is the most widely used grade for Clinical Research staff. It is broadly commensurate with the Clinical Lecturer scale and the NHS Registrar and Senior Registrar scales.

Appointees to this grade will be clinically qualified and will be expected to undertake duties and responsibilities broadly equivalent to the research activities that are be expected from a Clinical Lecturer or Demonstrator.

The point on the scale at which the appointment is made will normally be influenced by the appointee's previous position on the NHS scales, although other factors such as the candidate's ability, qualifications and experience may also be taken in account. Account should be taken both of the appointee's status within the NHS career/training structure and also of the incremental date on the NHS scale as compared with the incremental date for clinical research associates, which is the anniversary date of their appointment. A proposal for a significant variation from this approach, of more than one point, would need to be submitted to the Personnel Section, with a supporting case, for consideration by the Dean of Medicine.

Appointment to this grade is to be recommended by a Departmental Selection Committee.

7. PRINCIPAL CLINICAL RESEARCH ASSOCIATE

This scale equates to the Clinical Senior Lecturer scale except where staff are holding Honorary Consultant Status in which case it equates to the Clinical Professorial scale. The duties and responsibilities that will be expected of posts on this scale, whilst being different in substance, will compare in their level of responsibility and of academic achievement to those of a Clinical Senior Lecturer or Clinical Professor. The point on the scale will, again, be very much determined by the appointee's previous salary and status within the NHS system.

Appointment to this grade is by the Central University Selection Committee Procedure.

RJCB/JMD

FEBRUARY, 1993 Approved by Council Min. 109 15.2.93 Senate Min. 127 2.2.93

Appendix 6: Absence from Work

(Academic and Academic-Related Staff)

Members of staff are entitled to sick leave in accordance with their terms and conditions of service. The following sets out the procedure to be followed in the event of absence from work.

1. The Head of Department concerned must be notified as soon as possible of absence from work for any reason and giving an estimate of its likely duration.
2. A member of staff who is absent from work due to sickness must:

a. For absence of 4-7 days inclusive, submit the University's Self-Certification of Sickness Form, preferably within 4 days of the first day of sickness, or as soon as possible thereafter. (Note: no certificate is required for the first 3 days of absence due to sickness).

b. For absence of more than 7 days, submit medical certificates to cover the period of absence, and ultimately a certificate of fitness to return to work and to resume full duties.

Note: Two periods of incapacity for work due to sickness will be considered as one for these purposes if they are separated by 14 days or less.

3. A member of staff who becomes ill during a period of annual leave and who submits appropriate certificates, will have the period recorded as sick leave and not as annual leave.

Note: In the event of entitlement to Statutory Sick Pay being exhausted, staff may be able to claim DSS Sickness Benefit (normally after payment of 28 weeks SSP in any tax year). * A member of staff will be informed by the Finance Office when to start claiming benefit. A copy of the DSS award should be sent to the Finance Office to enable the correct deduction to be made from salary.

*(operative with effect from 6th April 1986).

Appendix 7: Appraisal of Academic Staff

UNIVERSITY OF NEWCASTLE UPON TYNE

STAFF APPRAISAL PROCEDUR

Information for Academic Staff

The University is committed to excellence in research and teaching and believes that excellence in teaching can best be achieved in an active research environment. It seeks to enable staff to develop their potential both in research and teaching but recognises that the balance of strengths in teaching, research and administration may differ between individual members of staff and at different stages in an individual's career. As indicated by the criteria for promotion, excellence in each of these areas is valued by the University. It is in the interest both of members of staff and of their departments that individual strengths and potential should be recognised and developed so that departmental duties and responsibilities can be allocated selectively to reflect them . Overall, the University is committed to retaining its position as a "research-led" University and it is vital that departments are able to ensure that the most effective use is made of staff time in the pursuance of high quality research.

Appraisal

Appraisal is an ongoing process whereby the personal and career development of staff are kept under review. The process is marked by regular meetings between individual members of staff and appraisers. Whilst personal development is of fundamental importance, appraisal must be related to the needs of the department and the wider objectives of the University. Thus specific issues which may usefully be explored at the appraisal meeting include performance and its maintenance and improvement, motivation and job satisfaction, personal development and training, plans for career development and development of potential for promotion. Appraisal meetings also provide an opportunity to identify organisational factors that tend to inhibit personal performance and thus reduce job satisfaction. In particular meetings allow the work of members of staff to be considered in the context of the policies of the University and the work of the department and thus provide an opportunity to clarify the duties and responsibilities of staff and their Departments.

Frequency and Timing

Following consultation in their Departments, Heads of Department will determine the frequency of the appraisal cycle. The University's requirement is that appraisal meetings take place at least every two years except for probationary staff, for whom the appraisal cycle should coincide with the requirements of Probation Committee for confidential reports at 12 and 27 months of service. Heads of

Department should inform their Dean of their Department's intentions in respect of the frequency and timing of appraisal meetings.

Appraisers

Following consultation in their Departments, Heads of Department may formulate their own models for the appointment and allocation of appraisers for academic staff. Such models may allow an element of choice of appraiser on the part of appraisers. Given the great variety of professional relationships to be found across departments the University envisages some diversity. However it expects that each Head of Department will be an appraiser and will appoint additional appraisers who will be able to comment knowledgeably upon their appraises' research, teaching and other contributions and will be sufficiently aware of departmental academic planning to allow realistic development plans to be agreed. Those staff appointed as appraisers should enjoy the academic and professional confidence of those they are to appraise. Members of staff who feel unable to place their confidence in those appointed to appraise them should discuss the matter with their Head of Department. Heads may allocate the appraise to a different appraiser. In the event of a member of staff and Head of Department being unable to reach agreement on this matter then the Head of Department will refer the matter to the Dean. Deans may choose to appoint another appraiser, normally from within the Department. Deans' decisions in these matters shall be binding on all concerned.

Preparation for Appraisal Meetings

Appraisers are expected to schedule and make the practical arrangements for appraisal meetings to take place. They should give appraisees at least four weeks notice of a meeting and ensure that appraisees are provided with the appropriate documentation.

Appraisees are expected to prepare for their appraisal meeting by reflecting on their performance, where necessary collecting “evidence” about it (including, for example, student feedback on taught courses), providing a curriculum vitae (or an update in cases where a complete c.v. was included in the previous appraisal papers), and completing a Staff Appraisal Form. The Appraisal Form may be used to frame the agenda for the appraisal meeting and can be modified to reflect particular features of the post. Further information is provided on the form itself which is available in different versions for academic staff, research staff, library staff, computer staff, administrative staff and other academic-related staff.

Communication and Confidentiality

The University recognises that many of its staff are concerned that the appraisal procedure should be treated in confidence. In turn the University is concerned to ensure that appraisal takes place, that the process is fair to appraisees and that the outcomes of the process inform the allocation of departmental duties and responsibilities and the provision of staff development activity throughout the University. The following procedures are designed to strike a balance between these concerns

(i) Following the appraisal meeting the Dean will have sight of the completed appraisal document and will sign to agree that the appraisal has been completed and that any disagreements have been resolved. If in any doubt about matters of fact the Dean will refer back the document to the appraiser for appropriate action. In the event that there has been a substantial failure to agree, the Dean will attempt to resolve identified problems. In cases of continuing difficulty the Dean will act as final arbiter..

(ii) Following signature by the Dean the original report will be returned to the appraiser who will send a copy to the appraisee for personal information. Once attention has been paid by the Head of Department to instigating any necessary activity arising from the development plan the original copy will be retained in the member of staff's personal departmental file. The original copy will be retained for five years.

Staff Development and Training Needs

One of the outcomes of appraisal should be the identification of any action which the individual needs to take in respect of personal development. Such action may be undertaken personally by the member of staff concerned or be assisted and arranged by the Department or the University via the Staff Development Unit. The Staff Development Unit's contribution to training and development will be more relevant to need, and more cost-effective, if appropriate information is provided to it. The back page of the appraisal document makes provision for such information to be fed back.

Individual members of staff and Departments are reminded that internal and external audit and assessment processes pay particular attention to the use made of opportunities for staff development. This aspect of staff appraisal should not therefore be underplayed.

Training of Appraisers and Appraisees

All staff appointed as appraisers are obliged to complete a training course before undertaking the role. Heads of Department should advise the Staff Development Unit of their needs in this respect. Information on training courses for both appraisers and appraisees will be published each semester in Staff Development News.

Completion of the Appraisal Form

The form is divided into sections which allow each major aspect of activities to be separately considered. Changes to the layout or to the list of topics covered may be made where appropriate but the overall plan should be followed as far as is practicable. The final page is used to confirm that the appraisal has been carried out, that any disagreements have been resolved and to advise the Staff Development Unit of development needs. The Form is available electronically and may be modified as appropriate.

Procedure

The form should be completed and delivered to the appraiser at least two weeks before the date of the scheduled meeting. The appraiser will complete the Appraiser Comments blocks and return the form to the Appraisee at least two days before the meeting. A record should be kept of the Development Plan agreed at the meeting and written up in the Form either at the meeting or immediately afterwards. Appraisers are advised to schedule up to two hours for the meeting.

Appendix

Appraisers of senior staff

Appraisee	Appraiser
Vice-Chancellor	Chairman of Council
Pro-Vice-Chancellors	Vice-Chancellor
Dean of Medicine	Vice-Chancellor
Registrar	Vice-Chancellor
Bursar	Vice-Chancellor
Deans (other than the Dean of Medicine)	Pro-Vice-Chancellor
Director of the Audio Visual Centre	Chairman of Academic Services Spending Authority
Director of the Careers Advisory Service	Pro-Vice-Chancellor
Director of the Comparative Biology Centre	Chairman of Academic Services Spending Authority
Director of Computing Services	Chairman of Academic Services Spending Authority
Director of Continuing Education	Chairman of Academic Services Spending Authority
Director of the Language Centre	Chairman of Academic Services Spending Authority
The Librarian	Chairman of Academic Services Spending Authority
Director of Physical Recreation and Sport	Chairman of Academic Services Spending Authority
Heads of Department	Dean

Footnote

This set of appraisal documents may be used in modified form for those senior members of research staff for whom the set designed for the majority of researchers would be inappropriate.

M94ACrev/Revised January 1995/ev

Academic Staff

Confidential

UNIVERSITY OF NEWCASTLE UPON TYNE

STAFF APPRAISAL

RECORD OF MEETING

This form should be completed and delivered to the appraiser at least two weeks before the meeting together with a current Curriculum Vitae.

Appraisee's name

....

Post

....

Department

....

Date of appointment

....

If part-time please indicate percentage of full-time contract or hours worked per week

....

Appraiser's name

....

Date of meeting

....

Documents attached (*Curriculum Vitae,* teaching assessment, etc, please list)

....

....

....

Delivered to appraiser

.... (date)

Returned to appraisee

.... (date)

Appraisal Topic - Research

Plans from previous appraisal

Progress made with these plans

Contribution and achievements during the appraisal period (to include all publications, conference presentations, details of all grants awarded, contributions to national and international bodies, prizes, honours and other indicators of recognition and esteem; scholarship; work in progress: on-going collaboration and research management load.)

Organisational and personal factors affecting performance

Proposals for next period

Appraiser's comments

Agreed plans for next appraisal period

Staff development and training needs

Appraisal Topic - Research Supervision

(including all Masters courses with a research component)

Plans from previous appraisal

Progress made with these plans

Contribution and achievements during the appraisal period (to include number of research students; progress, completion and success rates; time spent in supervision as a proportion of total workload; student feedback etc.)

Organisational and personal factors affecting performance

Proposals for next period

Appraiser's comments

Agreed plans for next appraisal period

Staff development and training needs

Appraisal Topic - Teaching

Plans from previous appraisal

Progress made with these plans

Contributions, innovations and achievements in teaching during the appraisal period (include all undergraduate teaching, specifying numbers of lectures, seminars , tutorials, practicals, supervisions and assessments, responsibilities for course and module design, pastoral duties etc. Give results of student assessments of your teaching. Give a separate listing of postgraduate teaching specifying contributions to taught courses. Identify and quantify your involvement in technology transfer and continuing professional development activities delivered via Continuing Education or otherwise. Specify your total timetabled teaching load and the average for your Department.)

Organisational and personal factors affecting performance

Proposals for next period

Appraiser's comments

Agreed development plans for next appraisal period

Staff development and training needs

Appraisal Topic - Administration

Plans from previous appraisal

Progress made with these plans

Contribution and achievements during the appraisal period (specify contributions to teaching administration- as module leader or course director, role in Boards of Studies and Examiners, Departmental administration, University administration, other University contributions, external professional duties etc.)

Organisational and personal factors affecting performance

Plans for next period

Appraiser's comments

Agreed development plans for next appraisal period

Staff development and training needs

General Issues

Development Plans from previous appraisal

Progress made with these plans

Appraisee's additional comments, including an assessment of the appraisee's balance of interests and contributions to the work of the Department and University indicating where possible the division of time.

Appraiser's additional comments, including an assessment of the appraisee's balance of strengths and contributions to work of the Department and University

Agreed development plans for next appraisal period

Staff development and training needs

Confidential

Appraisee

....

....

Post

....

....

Department

....

....

We confirm that we carried out an appraisal meeting on .... (date) and that the Staff Development Unit will be advised of all training and development needs that have been identified, other than those to be provided within the Department.

A matter of disagreement was referred to the Dean for resolution/no disagreements were identified (delete as appropriate)

Agreed training needs to be notified to Staff Development Unit (see footnote)

Signed .... (Appraisee)
.... (date)

Signed .... (Appraiser)
.... (date)

I confirm that I have read this document and confirm that any disagreements have been resolved.

Signed .... (Dean)
.... (date)

On completion, Heads of Department should send a copy of this page to the Staff Development Unit, Porter Building, St Thomas Street.

Footnote

If the appraisee feels that an issue of confidentiality is concerned the section on development needs may be omitted. However alternative means of communication should be used.

Appendix 8:

Procedures for Making a Disclosure

Procedures for Making a Disclosure

1.1 Initial Step

The individual should make the disclosure to the Registrar, as Secretary to Council, who will inform the Vice-Chancellor and the Chairman of Council unless:

1. requested not to do so by the discloser, or
2. if the Chairman of Council is likely to be involved at any subsequent appeal.

In cases involving financial malpractice or impropriety, the Registrar will act in close consultation with the Vice-Chancellor, as the Accounting Officer for the University's public funding. If the disclosure is about the Registrar then the disclosure should be made to the Vice-Chancellor.

If the individual does not wish to raise the matter with either the Registrar or the Vice-Chancellor, then he or she may raise it with the Chairman of the Audit Committee, if the issue falls within the purview of that Committee, or with the Chairman of Council.

Process

1.2 The Registrar* will acknowledge receipt of the disclosure and will consider the information contained within the disclosure. He will determine whether prima facie the disclosure properly falls for consideration within the terms of this policy and procedure or whether the matter should more appropriately be considered through other approved procedures. If the Registrar determines that the disclosure is a matter for consideration within this policy and procedure, he will decide on the form of investigation to be undertaken. This may be:

- to investigate the matter internally
- to refer the matter to the police
- to call for an independent inquiry

In some cases, a matter disclosed might be dealt with by agreed action without the need for further investigation.

In determining the above the Registrar shall take such advice or undertake such consultation as may be necessary.

1.3 The Registrar will, as soon as is reasonably practicable, inform the person making the disclosure what action, if any, is to be taken and the envisaged timescale for consideration of the case. The procedure will be implemented as expeditiously as is reasonably practicable.

1.4 Where the matter is to be the subject of an internal inquiry, the Registrar will consider who should undertake the investigation and its terms of reference. Internal audit will normally be instructed to investigate disclosures relating to financial malpractice or impropriety.

In other cases, the investigation will be carried out by a senior member of staff independent of the area in which malpractice or impropriety is alleged to have occurred. In all cases no one having any part to play in reaching a decision on any matter raised through disclosure will take any part in investigating matters contained in the disclosure. Investigations will be conducted as sensitively and speedily as possible.

1.5 If a disclosure is to be referred to the police, the University will co-operate fully with the police in the course of police enquiries, but will take no action itself pending completion of police enquiries and possible action.

1.6 If a disclosure is to be referred for independent enquiry, internal investigation, other than that undertaken as part of such enquiry, will normally be suspended, pending completion of such independent enquiry.

*** If the disclosure has been made to one of the other persons mentioned in paragraph 1.1, then that person will perform the Registrar's functions described in paragraph 1.2 onwards.**

Appendix 9-1: Grievance Procedures for Clerical and Related Staff

INTRODUCTION

This procedure aims to deal with situations in which an individual or individuals believes that occurrences in connection with their employment by the University have created a grievance. It is not used to resolve matters normally considered through other recognised procedures.

STAGE 1

It is in the interests of all parties to reach a solution as quickly as possible and preferably at local level. A member of staff who feels that he or she has a grievance should discuss the matter first with his or her Head of Department. Both parties should aim to resolve the problem at this level.

STAGE 2

If the issue is not resolved at Stage 1 the individual should contact the Personnel Officer, Registrar's Office who will investigate and instigate appropriate action, which will include a meeting with the individual. Further action might include:

- Meetings with the Head of Department and the individual to facilitate resolution at local level.

- Referral of the issue to senior central University management for resolution.

After Stage 1 the individual may be accompanied by another member of staff or a trade union representative.

FINAL STAGE

If, after the preceding stages, the parties are unable to reach a satisfactory solution, the grievance will be brought to the attention of the Vice-Chancellor for final decision. The Vice-Chancellor will consider the available information and may appoint a panel of persons not previously involved in the matter, to investigate further. The Vice-Chancellor will then give a final decision.

The individual will be notified in writing of any decision reached as a result of Stage 2 or of the Final Stage. It is expected that only in an exceptional case will the Final Stage be necessary.

Council 6.4.87

Appendix 9-2:

Grievance Procedures for Technical Staff

1. Preamble

This procedure is intended to provide a means for the effective and timely consideration of grievances. To that end, grievances should be raised and dealt with as close as possible to their point of origin. It is essential that all concerned adopt a reasonable and constructive attitude in attempting to resolve matters raised under this procedure.

2. Scope

For the purpose of this procedure, a grievance is any issue arising from and concerning an individual's employment (this can include any issue which the University at whatever level necessary can address or effect). However this procedure shall not apply to issues for which there are separate procedures. Neither does it apply to matters that are negotiated nationally.

3. Time Limits

The time limits set out in the procedure are intended to ensure that grievances are dealt with in a timely manner. References to days are to working days. In the event that either party is unable to adhere to the time limits, they can be extended by mutual agreement.

4. Guidelines for Handling Grievances

Grievances coming within the scope of this procedure shall be dealt with in accordance with the steps set out below. At each stage the Supervisor, Senior Technician, Head of Department or other management representative (as appropriate) shall:

a) Ensure that he/she has received sufficient information concerning the grievance from the technician concerned to enable investigation and consideration of the grievance and the circumstances surrounding it. This may necessitate further meetings with the technician concerned and/or with the other relevant parties;

b) Provide an answer to the technicians concerned (in writing where appropriate);

c) Indicate the next stage of the procedure if the individual is not satisfied with the answer;

PROCEDURE

STAGE 1

The member of staff shall discuss the issue personally with the immediate Supervisor on an informal basis. The Supervisor shall give a verbal response within two days of the discussion and shall provide the member of staff with brief, written confirmation of the response.

STAGE 2

If the member of staff is not satisfied and wishes to pursue the matter, he/she must raise the issue formally with the Senior Technician in the Department within 5 days of receiving the verbal response from the Supervisor. In so doing, the member of staff may be accompanied by a colleague or trade union representative. The Senior Technician shall give a formal, written response within 5 days of the meeting with the member of staff.

Note: If there is no Senior Technician in the Department or where the immediate Supervisor referred to in Stage 1 is the Senior Technician, the member of staff shall proceed directly to Stage 3 below.

STAGE 3

In order to pursue the grievance, if not satisfied with the previous outcome, the member of staff must set out the substance of the issue raised, in writing, on the Grievance Report Form and submit it to the Head of Department/Nominee within 5 days of receipt of the response from Stage 2 or Stage 1 where appropriate. The Head of Department/Nominee shall arrange a meeting with the member of staff within 5 days of receipt of the Grievance Report Form at which he/she may be accompanied by a colleague or trade union representative. A member of staff from the Personnel Section will attend this meeting in a secretarial capacity. The Head of Department/Nominee shall produce a written response within 5 days of the meeting which shall be given to the member of staff. This will be accompanied by a brief, written summary of the content of the meeting prepared by the Head of Department/Nominee.

STAGE 4

A member of staff wishing to take the matter further must submit the Grievance Report Form to the Director of Personnel within 5 days of receipt of the response from Stage 3. It would be helpful if the reason why that response is not accepted could be given on the Report Form, however, this information is provided at the option of the member of staff. The Director of Personnel shall arrange for the grievance to be considered by a panel of three members of Academic or Academic Related Staff appointed by Staff Committee and three members of staff nominated by MSF. The member of staff raising the grievance will have the right to object, in advance, to one member of the panel. A member of staff from the Personnel Section shall act as Secretary to the panel. No member of the panel shall be directly connected to the subject of the grievance or be from the same department as the member of staff raising the grievance. The panel shall interview the member of staff, who may be accompanied by a colleague or trade union representative as well as the Head of Department and other relevant parties and carry out such other investigations as it sees fit. The decision of the panel shall be given in writing within 5 days of the interview and shall be final. Only the decision of the panel shall be recorded. There is no further appeal within the University's Grievance Procedure.

5. Group Grievances

In the event of an issue arising concerning a group of 2 or more staff in the same department, the following procedure shall apply.

STAGE 1

The matter shall be raised informally with the Senior Technician who shall respond verbally within 5 days of the matter being raised.

STAGE 2

If the group is not satisfied, they must raise it formally, in writing, with the Head of Department. The procedure to be followed is that set out in Stage 3 of the individual grievance procedure set out in Section 4 above.

Note: In some smaller departments it may be necessary for Stages 1 and 2 to be combined, in which case the issue should be raised formally with the Head of Department who will respond formally in accordance with Stage 3 of the individual grievance procedure.

Subsequent stages are as those described in Stage 4 of the individual grievance procedure set out above. Where the submission of written particulars or other documents is required, each member of the group shall sign the documents.

6. Grievance Report Form

A copy of the Grievance Report Form should be attached to this document. Further copies may be obtained from the Personnel Section.

Council 16.11.92.

Appendix 9-3: Grievance Procedures for Administrative, Library, Computing, and Other Related Staff

1. INTRODUCTION

The aim of this procedure is to settle or redress individual grievances promptly, fairly and as far as possible within the Faculty or Department/Section, by methods acceptable to all parties.

The grievances to which this procedure applies are ones by members of staff concerning their employment where those grievances relate:

a) To matters affecting themselves as individuals; or

b) To matters affecting their personal dealings or relationships with other staff of the University, not being matters for which express provision is made elsewhere.

2. PRINCIPLES

This procedure rests on the following principles:

a) Grievances raised will be dealt with as close to their point of origin as possible;

b) Grievances will be dealt with promptly and as far as possible within the time limits set out below;

c) Grievances raised will be fully investigated and the determination will be confirmed in writing;

d) Where a grievance is directed against another member of staff, the latter will have the same rights as the aggrieved at all stages of the procedure including the right to be represented.

3. DEFINITIONS

In this procedure:

The term "Head of Department/Section" means any Council appointed Head of an Academic, Academic Services or Administrative Department.

The term "Member of Staff" means a member of the University's Administrative, Library, Computing and Other Related Staff.

4. PROCEDURE

Grievances coming within the scope of this procedure shall be dealt with in accordance with the steps set out below:

Stage 1 - Informal Resolution

Where a member of staff has a grievance he/she should initially seek to resolve it informally by discussing it with his/her immediate Line Manager. The Line Manager should quickly investigate and respond to the grievance orally within 5 working days of the meeting and provide a brief written confirmation of the response. Every effort should be made by both parties to resolve the grievance at this stage. Where there is no intermediate Line Manager, the grievance should be raised informally with the Head of Department/Section.

Stage 2 - Formal Procedure involving Heads of Department/Section

If the grievance cannot be resolved informally, or if the grievance is against the immediate Line Manager, or if there is no intermediate Line Manager, the member of staff should raise the matter formally with the Head of Department/Section. The member of staff must set out the substance of the grievance in writing and submit it to the Head of Department/Section within 5 working days of receiving the verbal response of the Line Manager or Head of Department/Section as appropriate. The Head of Department/Section will arrange a meeting with the member of staff to hear the grievance within 5 working days of receiving the written details. The member of staff has the right to be accompanied at this meeting by a work colleague or trade union representative; a member of staff from the Personnel Section may attend the meeting in an advisory and secretarial capacity. The Head of Department/Section will then consider the grievance, making such investigations as he/she thinks fit, and will give the member of staff a written response within 5 working days of the meeting.

Stage 3 - Formal Procedure involving Deans or Equivalent Officers

If the grievance is not resolved at stage 2, or if the grievance is against the Head of Department/Section, the member of staff may pursue it by submitting a copy of the written details of the grievance to the Dean of the Faculty or in the case of Administrative Departments, to the Registrar or Bursar as appropriate, or for Service Departments the Chairman of the Management Committee or equivalent, within 5 working days of receipt of the response from stage 2. The member of staff must also submit the reasons why the outcome of stage 2 is not acceptable. The Dean/Registrar/Bursar/Chairman of Management Committee will arrange a meeting with the member of staff within 10 working days of receipt of the written grievance. The member of staff has the right to be accompanied by a work colleague or trade union representative. A member of from the Personnel Section should be present in an advisory and secretarial capacity. The

Dean/Registrar/Bursar/Chairman of Management Committee will conduct such investigations as they think appropriate and will thereafter produce a written response to the member of staff within 5 working days of the meeting.

Stage 4 - Final Resolution by Pro-Vice Chancellor

Where a member of staff is dissatisfied with the outcome of stage 3, or where the grievance is against the Dean/Registrar/Bursar/Chairman of Management Committee, he/she may take the grievance further by submitting a copy of the written details of the grievance to the Director of Personnel together with a statement of the reasons why the outcome of stage 3 is not acceptable within 5 working days of receipt of the response from stage 3. The Director of Personnel or his/her nominee will arrange for the grievance to be considered, normally by the Pro-Vice-Chancellor who chairs Staff Committee. The Pro-Vice Chancellor may deal with the grievance as seems most appropriate. This may include a summary dismissal of the grievance, in which case the member of staff will be informed accordingly. If the Pro-Vice Chancellor does not summarily dismiss the grievance, he/she will arrange to consider it as soon as possible and usually no later than 15 working days after receipt of the written grievance. A member of staff from the Personnel Section will attend the meeting in an advisory and secretarial capacity. The Pro-Vice-Chancellor will interview the member of staff, who has the right to be accompanied by a work colleague or trade union representative. The Head of Department and any other relevant parties will also be interviewed. The Pro-Vice-Chancellor will then carry out or arrange to have carried out such other investigations as appear necessary to enable him/her to make a determination. The Pro-Vice-Chancellor will give the determination in writing normally within 10 working days of the interview. This determination will be final.

5. GROUP GRIEVANCES

In the case of group grievances the procedure set out above will be used but the group must nominate one of its members to act as spokesperson to attend the stages outlined above.