

Joint Audit Code of Practice – Consultation Document

February 2010

Of interest to local authority directors of children's services and chief financial officers, college principals, college finance directors, chairs of college audit committees, and chief executives and finance directors of other learning providers

Further information

For further information, please contact
pfm@lsc.gov.uk

Learning and Skills Council
National Office

Cheylesmore House
Quinton Road
Coventry CV1 2WT
T 0845 019 4170
F 024 7682 3675
lsc.gov.uk

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 **For consultation**

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Chief Executive of Skills Funding (CE of SF)	
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Executive summary

Background

1 Under the Apprenticeships, Skills, Children and Learning Act 2009 (ASCL Act 2009), from 1 April 2010 the Chief Executive of Skills Funding (CE of SF), Young People's Learning Agency (YPLA) and Local Authorities (the successor funding bodies) will take on the responsibility for commissioning and funding further education from the Learning and Skills Council (LSC). The YPLA will support and enable Local Authorities to commission effective learning provision for all young people, while ensuring budgetary control. Each of the successor funding bodies has clear financial accountabilities for this funding that must be discharged.

2 These accountabilities include the need to demonstrate that funds voted by Parliament for the purposes of 16–19 and adult learning have been managed in such a way as to satisfy public expectations of stewardship, and that it can be demonstrated that they have been used for the purposes intended by Parliament, and that statutory duties and other legal requirements have been properly discharged. It is therefore appropriate that the CE of SF, the YPLA and Local Authorities should account for the public money paid to them, and similarly that the learning providers who receive funding from them should likewise account for their use of public money.

3 In addition to fulfilling the requirements of accountability, assurance is also a key element of the broader quality assurance system, and makes a significant contribution to management and quality arrangements, including programmes such as the Framework for Excellence. Formal audit is only a part of the funding bodies' whole set of governance and internal control arrangements by which they obtain assurance over the learning they fund.

4 The successor funding bodies are committed to working together and sharing the assurance which each secures in respect of individual learning providers. This will avoid overlapping and duplicated assurance arrangements and minimize burdens on learning providers. This commitment is captured in the principle of "one learning provider, one funding assurer" whereby each learning provider will normally only have to deal with just one of the LSC's successor funding bodies, which will secure assurance over the learning provider's use of funding on behalf of all of the successor funding bodies. Depending on the type of learning provider, the assurance secured by the single funding body might also cover internal control (including risk management and governance), regularity and propriety, and adherence to accounting standards – in addition to their use of funds.

5 Learning providers benefit from this arrangement as they only have to provide assurance to just one funding body and need only work with one funding auditor. Funding bodies benefit in that they need to undertake less assurance work, requiring less resource for audit thereby increasing resources for learning.

Purpose of the Joint Code

6 It is a requirement on the CE of SF, YPLA and Local Authorities as funding bodies that the learning providers they fund can provide assurance that:

- Public money is expended in accordance with the requirements of regularity and propriety;
- Public money is used for the purposes that it was intended.

7 The CE of SF, YPLA and Local Authorities also have additional requirements in respect of their own financial management arrangements, established by statute, HM Treasury, their own funding agreements and by other sources. These requirements are not covered by this Joint Audit Code of Practice (the Joint Code).

8 Similarly, learning providers will also have additional requirements in respect of their own financial management arrangements, established by Companies Acts and Charity Acts legislation, and by other sources. These requirements are likewise not covered by this Joint Code.

9 The purpose of the Joint Code is to clearly document the:

- Inter-dependencies and responsibilities that exist between the different funding bodies and learning providers;
- Requirements and guidance for learning providers, particularly further education and sixth form colleges on their assurance arrangements, describing:
 - Statutory and other requirements for learning providers to have financial statements audit, regularity audit and internal audit (as appropriate);
 - Access to learning providers by the Department for Children, Schools and Families (DCSF), Department for Business, Innovation and Skills (BIS), the Audit Commission, the National Audit Office, the European Commission and others;

- Requirements, best practice and guidance for learning providers on selection and performance management of auditors they appoint and on the establishment and operation of audit committees where appropriate.

Principles

10 The principles that underpin the Joint Code are that assurance arrangements between the CE of SF, YPLA and Local Authorities are:

- Effective for the purpose of giving assurance to the relevant central government body's accounting officer, local authority chief financial officer (section 151 officer), learning provider chief executive (or equivalent), other funding bodies, and Parliament, on the regular and proper use of public funds;
- Accepted by other funding bodies to the fullest extent possible;
- Delivered in accordance with professional standards, consistent for similar types of learning providers, and proportional in approach;
- Transparent in terms of working methodology, identifying findings and conclusions, and taking subsequent action where necessary;
- Delivered with the minimum level of bureaucracy, for both the other funding bodies and the learning providers, normally resulting in "one learning provider, one funding assurer".

Structure of the Joint Code

11 The Joint Code is made up of two key parts:

- Part 1 addresses the relationships between the funding bodies, and issues such as lead arrangements and mutual acceptance;
- Part 2 covers specific requirements for learning providers. This section replaces the LSC's Audit Code of Practice issued in December 2004. [Part 2 is not included in this consultation draft].

Part 1: Assurance Arrangements Relationships

12 Part 1 of the Joint Code covers:

- Lead arrangements
- Assurance Framework – Overview
- Mutual Acceptance.
- Sixth form college corporations designated under the ASCL Act 2009;
- Some commercial and charitable learning providers of 16–19 learning where the Local Authority is the agreed lead. This category is likely to include independent specialist schools providing for learners with specialist educational needs.

Lead Arrangements

13 The principle of “one learning provider, one funding assurer” requires that only one of the CE of SF, YPLA or a Local Authority is involved in assurance work for a specific learning provider, and that body takes the lead for assurance matters on behalf of all others. Lead arrangements therefore need to be established for all learning providers. For many learning providers this arrangement is clear cut:

CE of SF leads for:

- Further education corporations incorporated and designated under the Further and Higher Education Act 1992 (providing they have not been designated as a sixth form college corporation under the ASCL Act 2009);
- Most commercial and charitable learning providers and all learning providers of European Social Funding learning provision.

YPLA lead for:

- Independent specialist colleges providers of learning for learners with learning difficulties and/or disabilities (LLDD);
- Academies, where YPLA acting as an agent for DCSF will cover both pre-16 and 16–19 funding;
- By exception, some other 16–19 learning providers funded directly by the YPLA.

Local Authorities lead for:

- Local Authority learning providers, including Local Authority maintained schools with sixth forms and adult learning controlled by Local Authorities;

14 In respect of schools, the Joint Code is only concerned with YPLA and CE of SF funding (the latter funding very little learning in schools). Assurance in respect of other Local Authority funds paid to schools is covered by separate requirements between the Local Authority and the DCSF.

15 The lead for most of the larger learning providers will be determined on the basis of their legal form (for example, assurance work at a sixth form college corporation will be led by a Local Authority). Whilst most commercial and charitable learning providers will have the CE of SF as their lead funding assurer, this will be determined on a case by case basis.

16 The lead arrangements are summarised in the table below.

Table 1: Summary of Assurance Arrangements

Organisation Type:	Assurance Lead:	Oversight of Assurance Arrangements For:	Providing Funding Assurance on Behalf of:
Further education corporations	CE of SF	Internal control Regularity and propriety Accounting requirements Use of funds	CE of SF for his or her funding, and Local Authorities for their YPLA funding.
Sixth form college corporations	Local Authorities	Internal control Regularity & propriety Accounting requirements Use of funds	Local Authorities for their YPLA funding and CE of SF for his or her funding.
Academies	YPLA	Internal control Regularity & propriety Accounting requirements Use of funds	YPLA for all funding.
Adult Education Centres (Local Authority managed)	Local Authorities	Internal control Regularity & propriety Accounting requirements Use of funds	Local Authorities for their YPLA funding and CE of SF for his or her funding.
Schools with sixth forms	Local Authorities	Internal control Regularity & propriety Accounting requirements Use of funds	Local Authorities for their YPLA funding and CE of SF for any CE of SF funding he or she provides.
Independent specialist providers	YPLA	Use of funds	YPLA for their LLDD funding, CE of SF for his or her funding, and Local Authorities for their YPLA funding.
Commercial and charitable learning providers	Primarily the CE of SF, but possibly Local Authorities depending on the mix of provision	Use of funds	CE of SF for his or her funding, and Local Authorities for their YPLA funding.

17 The areas of assurance identified in the above table are explained as follows:

- Internal control; that the learning provider's systems of internal control, risk management and governance are adequate and effective for the purpose of securing the organisation's objectives and adhering to statutory, legal and other requirements. Whilst assurance in respect of internal control could be secured by delivering an internal audit service to the learning provider or directly reviewing the learning provider's system of internal control it may also be secured by receiving relevant reports from the learning provider's internal auditors, financial statement auditors, and non-executives;
- Regularity and propriety; that expenditure has been incurred in a regular and proper manner. Audit-based assurance is normally taken, where relevant, from the reports of the learning provider's financial statements auditors;
- Accounting requirements; that the annual financial reports of the learning provider are produced in accordance with accounting requirements established by the funding bodies and accounting profession;
- Use of funds; that the learning provider has earned the funding paid to it, in accordance with its funding agreement(s). Assurance in this area is sometimes derived from the work of the learning provider's financial statement auditors, but is more likely to be secured by direct funding assurance work carried out on the learning provider's funding claims.

18 Many universities and other higher education colleges (higher education institutions (HEIs)) are significant providers of 16–19 and adult learning. These HEIs are lead funded by the Higher Education Funding Council for England (HEFCE). HEFCE funds HEIs under a parallel audit code of practice that obtains similar assurances as the Joint Code. The CE of SF intends to obtain assurance through an annual exchange of letters between the chief executives and accounting officers of HEFCE and the CE of SF. The CE of SF would then transmit assurances to the YPLA on HEIs' use of local authorities' funds, just as it would for other CE of SF led learning providers who receive YPLA funding.

19 The sharing of assurance between the CE of SF and the Local Authorities will be facilitated by the YPLA. This sharing of information needs to address two key requirements, namely to ensure that:

- Management arrangements of other funding bodies are effective. This requires adverse findings from assurance work relating to individual learning providers and areas of learning delivery to be shared promptly between the funding bodies concerned;

- Formal annual reporting arrangements are established, to the satisfaction of the Audit Commission, the NAO and Parliament. The following section describes these arrangements in greater detail.

Assurance Framework - Overview

20 The framework for assurance over use of funds paid to learning providers by CE of SF, YPLA and Local Authorities is described below. These arrangements are complex between the funding bodies in the interests of minimizing burdens on learning providers.

21 The CE of SF will give assurance to BIS over funds paid to it and subsequently paid to learning providers. This assurance will be given by the Chief Executive of the Skills Funding Agency, and will be based on:

- The CE of SF performing assurance work on all funding (YPLA and CE of SF), received by learning providers that the CE of SF leads on;
- The YPLA and Local Authorities performing assurance work on all funding (YPLA and CE of SF), received by learning providers that they lead on. This requires the Local Authorities to notify the YPLA of the outcomes of their work and the YPLA to notify the CE of SF of the outcomes of the Local Authorities' and YPLA's work in respect of CE of SF funding.

22 The YPLA will give assurance to the DCSF over funds paid to it and subsequently paid to learning providers. This assurance will be given through the YPLA's Accounting Officer's annual statement of internal control. This assurance will be based on:

- The YPLA performing assurance work on all funding (YPLA and CE of SF), received by academies and learning providers that the YPLA lead on (including pre-16 funding in respect of Academies);
- The Local Authorities and CE of SF performing assurance work on all funding (YPLA and CE of SF), received by learning providers that they lead on. This requires the Local Authorities and CE of SF to notify the YPLA of the outcomes of their work.

23 Local Authorities give assurance to the YPLA over funds paid to them by the YPLA and subsequently paid by Local Authorities to learning providers. Local Authorities will give this assurance through their chief financial officers' annual grant returns to the YPLA. This assurance will be based on:

- Local Authorities performing assurance work on all funding (YPLA and CE of SF), received by learning providers that the Local Authorities lead on;

- The CE of SF performing assurance work on all funding (YPLA and CE of SF), received by learning providers that the CE of SF lead on. This requires the CE of SF to notify the YPLA of the outcomes of the CE of SF's work in respect of YPLA funding and the YPLA relaying this assurance to Local Authorities.

24 YPLA and CE of SF will give assurance, through an exchange of responsible officer letters, to each other on all relevant funding received by learning providers for which they lead. In respect of the YPLA this assurance will also include the assurance secured by Local Authorities and submitted to the YPLA under the terms of the funding agreement between Local Authorities and the YPLA.

25 Table 1 above highlights that for many learning providers, notably commercial and charitable learning providers, the CE of SF, YPLA and Local Authorities will only be concerned about the "use of funds" being appropriate, that is, whether the learning provider has legitimately earned those funds by delivering learning. For other types of learning provider, for example, further education corporations, the public interest in these learning providers is such that the extent of assurance needs to cover more than just "has the funding been legitimately earned?" It needs to cover the learning provider's system of internal control, whether expenditure has been regular and proper, and whether accounting requirements have been adhered to. This reflects the learner provider's status as either being in the public sector (for example, an academy), or the funding body being the regulator for that class of learning provider (for example, a further education corporation or sixth form college corporation).

26 Assurance over a learning provider's system of internal control is usually obtained from the learning provider's internal audit annual report where required or financial management and control evaluation (FMCE) return or both. For schools with sixth forms, the Financial Management Standard in Schools (FMSiS) is a valuable source of assurance.

27 Assurance over a learning provider's regularity and propriety is obtained from the regularity audit opinions in respect of further education corporations and sixth form college corporations. In respect of schools with sixth forms and Local Authority managed adult education centres this assurance is obtained through internal management frameworks designed to secure this, including financial regulations and standing orders, internal audit coverage and oversight from the Audit Commission.

28 Assurance over a learning provider's accounting treatment of public funds is obtained from the financial statements and financial statement management letters in respect of further education corporations and sixth form college corporations. In respect of schools with sixth forms and Local Authority managed adult education centres this assurance is obtained through internal management frameworks designed to secure this.

Mutual Acceptance of Assurance

29 In order for the principle of "one learning provider, one funding assurer" to work, each funding body will accept the assurance work carried out by others under signature of their responsible officers. Each funding body will also accept that others have delivered the assurance work to a standard upon which others can rely.

30 Both the YPLA and CE of SF will issue Practice Notes to each other and to Local Authorities in respect of how assurance work on their funding streams might best be carried out.

31 It is for each funding body to determine its own quality assurance arrangements over their assurance work, reviewed and accepted by their financial statements auditors. Peer review will be by mutual agreement and with the aim of improving the standard of funding audit work across the sector.

Learning and Skills Council
National Office

Cheylesmore House
Quinton Road
Coventry CV1 2WT
T 0845 019 4170
F 024 7682 3675
lsc.gov.uk

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