

 For consultation

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Leading learning and skills

Consultation on the Interim Regularity Audit Report

Target Audience: Of interest to College Principals,
Chairs of College Governing Bodies and Chairs
of Audit Committees
November 2005

Further information

For further information, please contact:

Learning and Skills Council

Cheylesmore House

Quinton Road

Coventry

CV1 2WT

www.lsc.gov.uk

For consultation

Responses to this consultation are requested by

6 January 2006 to:

Steve Passmore

Regional Audit Manager

Learning and Skills Council

Centre Point

103 New Oxford Street

WC1A 1DR

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of Audit Committees

Consultation on the Interim Regularity Audit Report

Introduction

This consultation is for the attention of college governing bodies, audit committees, college principals and other interested parties, and consults on the future of the interim regularity audit report. We would welcome responses to the consultation by **6 January 2006**.

Last December, the LSC amended its Audit Code of Practice (the Code) in respect of the 2004/05 funding year. Under the revised Code we required colleges to send the LSC an interim regularity audit report (the interim report) by 31 March each year. We introduced this change as part of our actions, in consultation with the National Audit Office as the LSC's external auditor, to deliver the HM Treasury's Faster Closure agenda for government.

We have now discussed, with the NAO and colleges, the best way in future of meeting the LSC's and their assurance needs from colleges under Faster Closure. The NAO have stressed that the basic requirement for an annual regularity audit opinion from colleges is non-negotiable. Our joint proposal for 2005/06 and future years is that the LSC and NAO do not need the interim report, as long as we are satisfied the college governing body, including the principal as accounting officer, is in a position to promptly identify significant irregularity or impropriety or non-compliance with LSC funding terms and conditions and report it to us. The NAO's advice is that the statement must cover also the college's compliance with LSC terms and conditions of funding.

Our proposal builds on a long standing requirement on colleges, through their financial memorandum with the LSC, to so notify the LSC. We see this proposal as developing self regulation.

Our proposal

Our proposal is that we will not require an interim regularity audit report for 2005/06 and later years from any college that sends the LSC, by 31 March 2006, a statement from its governing body confirming that the college has a framework of governance and control sufficient to promptly identify significant irregularity, impropriety or funding non-compliance and to report this to the LSC. We are asking colleges to send this statement to the LSC once, by 31 March 2006, and not thereafter.

Our draft wording for the statement is at Annex A to this document. Annex B provides suggested sources of evidence available to governing bodies which they might draw upon in making this statement. The sources of evidence should be readily available within the college and their presentation to the governing body should not require additional work by college auditors or management. Where a college governing body makes this one-off statement to the LSC by 31 March 2006, the governing body will not be required to submit an interim regularity audit report to the LSC in respect of the eight months to 31 March 2006 or in future years. The LSC will validate these statements over time as part of its other existing financial management and governance reviews.

Certain college governing bodies would however still be required to submit an interim regularity audit report, even if the governing body feels that it is in a position to make the statement. The proposed criteria for colleges that need not submit an interim regularity audit report are at Annex C. We will, as soon as possible, amend the model letter of engagement between the LSC, colleges and their auditors to remove the need for the auditors to give an interim opinion where colleges choose this option. Governing bodies may of course, if they wish, submit an interim regularity audit report to the LSC instead of a statement.

Consultation

Normally we consult on changes to the Audit Code of Practice through a full public exercise involving a long period for replies. We have asked college finance director representatives and AoC/Association of College Registrars and Administrators (ACRA) colleagues; their advice is that a shortened consultation to the end of this calendar year would be acceptable to colleges so that this change may be made in time for spring 2006.

Our proposal for consultation is set out in Annex D. We would welcome your comments on this proposal. Please give your governing body's responses on the pro-forma at Annex D and send them to Steve Passmore, Regional Audit Manager, Learning and Skills Council, Centre Point, 103 New Oxford Street, London WC1A 1DR. We would welcome your responses by no later than **6 January 2006**.

Annex A: Model statement by college governing bodies demonstrating to the LSC the college’s governance and control over regularity and propriety



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To Name <i>(please print)</i> :
Regional Audit Manager
(Location) Learning and Skills Council
Address:
Date:
Dear

Statement on regularity, propriety and compliance

The governing body of (name) College has considered its responsibilities to notify the LSC of material¹ irregularity, impropriety and non-compliance with LSC terms and conditions of funding, under the financial memorandum in place between the college and the LSC. As part of its consideration the governing body has had due regard to the guidance suggested by the LSC and the requirements of the Financial Memorandum.

I confirm, on behalf of the governing body, that the governing body is able to promptly identify any material irregular or improper use of funds by the College, or material non-compliance with LSC’s terms and conditions of funding under the college’s funding agreements with the LSC. I further confirm that any instances of material irregularity, impropriety or funding non-compliance discovered to date have been notified to the LSC, or if occurring after the date of this letter, will be notified to the LSC.

Signed on behalf of the governing body

Name <i>(please print)</i> :
Chair of the Governing Body

1. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. (International Accounting Standards Board)

Annex B: Suggested sources of evidence available to governing bodies on the college's regularity, propriety and compliance with LSC terms and conditions of funding

To assist college governors in making their statement, we suggest that governors may wish to consider the existence and adequacy of the following sources of evidence that would allow them to make their statement. The sources of evidence should be readily available within the college and should not require additional work by college auditors or management. This list is not exhaustive.

- College managers and governors have a clear understanding of their relative roles and this understanding is reflected in the college's written policies and procedures.
- The college has completed, reviewed and updated regularly self assessment documents and where relevant the results of these self assessments demonstrate the governing body's ability to be aware of material irregularity, impropriety or non-compliance.
- The governing body has appropriately received, promptly considered and monitored management action upon the reports of inspectors, auditors and other relevant agencies, and that these reports demonstrate the governing body's ability to be aware of material irregularity, impropriety or non-compliance and the actual lack of such issues.
- The governing body receives appropriate professional advice from the college's finance director and the clerk to the governing body.
- College policies and procedures to secure regularity and propriety, including adherence to standards in public life and whistle-blowing procedures, are fully documented, available and known to all staff.
- Governors consider that the college's risk management strategy and risk assessment is a live and useful document. The risk assessment should identify what risks to regularity, propriety and compliance are identified, the degree to which risks are covered, and the action taken to mitigate them.

- Management information, financial and otherwise, reported to governors includes information on exceptional events as well as routine reporting.
- Papers presented to the governing body show due regard for regularity, propriety and compliance.
- The college has made financial statements, regularity and internal audit arrangements that comply with the LSC's Audit Code of Practice.

Annex C: Colleges that need not submit an Interim Regularity Audit Report

Colleges need not submit an interim regularity audit report for 2005/06 and later years where the college:

- is in plan-led funding, and
- has received an unqualified regularity audit report for the previous academic year, and this report has been forwarded to the LSC by 31 December 2005 onwards as part of the college's annual financial statements for that year, and
- has received an unqualified internal audit annual report for the previous academic year and this report has been forwarded to the LSC by 31 December.

Failure by a college to achieve one or more of these criteria in subsequent years may result in the requirement for an interim regularity audit report being re-instated.

Annex D: Responses to Consultation

Please complete and return to:

Steve Passmore
Regional Audit Manager
Learning and Skills Council
Centre Point
103 New Oxford Street
London
WC1A 1DR



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Or email to steve.passmore@lsc.gov.uk

Responses are requested by **6 January 2006** at the latest.
We would welcome earlier responses.

Name of college (<i>please print</i>):	
Nature of college:	
Contact name for enquiries (<i>please print</i>):	
Telephone:	Fax:
Email address:	
Space has been provided for any comments you wish to make. We have provided additional space at the end of this pro-forma for any other general comments you wish to make.	

1 Do you agree that governing bodies should have the option of not commissioning an interim regularity audit report?

Yes

No

Please tick

Comments

2 Is the governing body likely to be able to send the LSC a statement in the form at Annex A by 31 March 2006?

Yes

No

Please tick

Comments

3 Do you consider that governing bodies should be able for 2005/06 to sign the statement on the basis of evidence such as that identified at Annex B?

Yes

No

Please tick

or delayed to 2006/07?

Yes

No

Comments

4 Do you agree that the criteria for removing the required interim regularity audit report given at Annex C are appropriate?

Please tick

	Yes	No
	<input type="checkbox"/>	<input type="checkbox"/>

Comments

5 Should the option to not submit an interim regularity audit report be open to colleges for the 2005/06 funding year,

Please tick

	Yes	No
	<input type="checkbox"/>	<input type="checkbox"/>

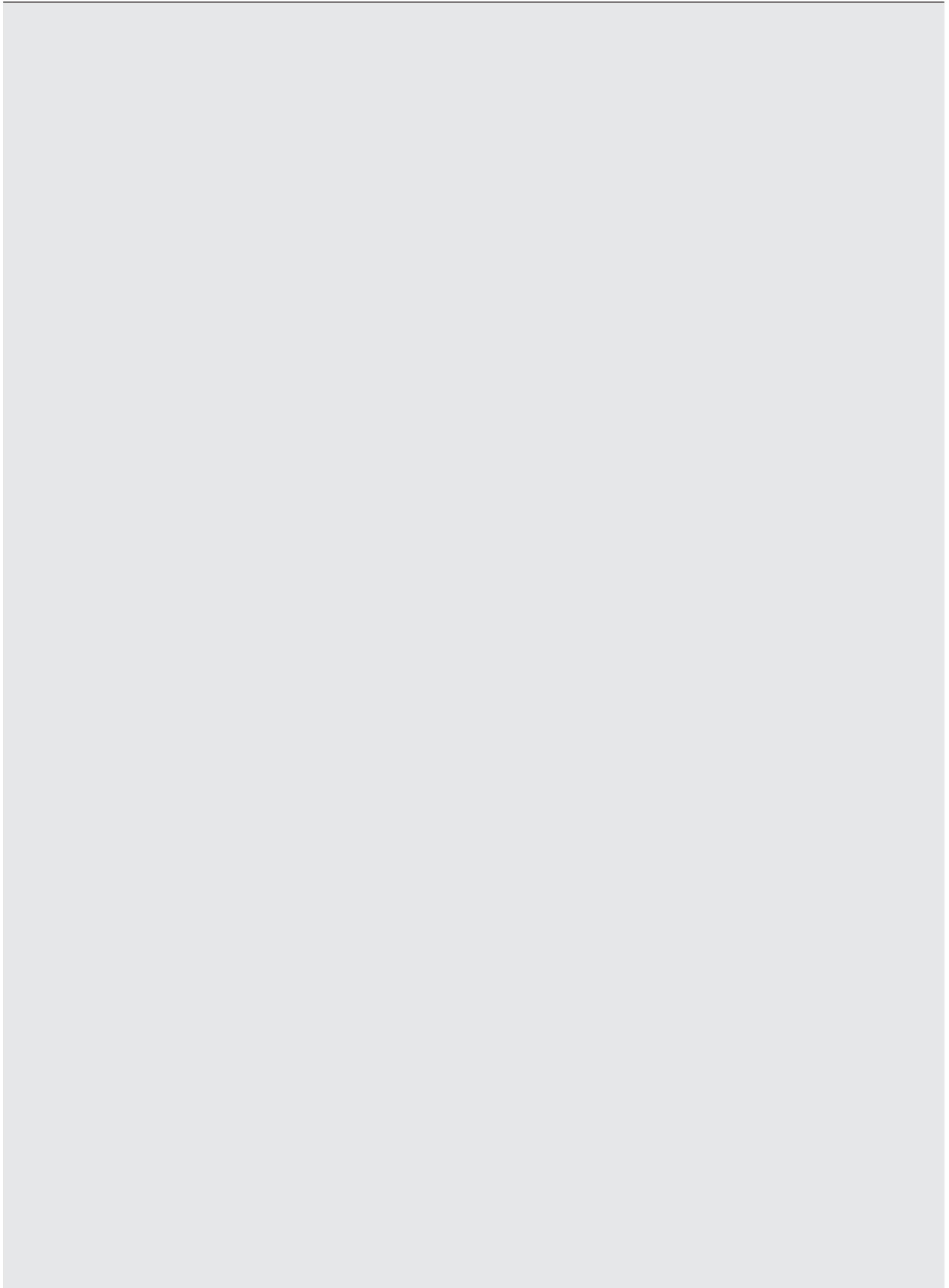
or delayed to 2006/07?

	Yes	No
	<input type="checkbox"/>	<input type="checkbox"/>

Comments

General Comments

Continued...



Signature:

Title:

Notes

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National Office

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