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**Version 1**

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Of interest to colleges and providers

# Joint Audit Code of Practice

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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 organisations) took over the responsibility for commissioning and funding further education from the former Learning and Skills Council (LSC). The YPLA was to support and enable local authorities to commission effective learning provision for all young people, while ensuring budgetary control. Each of the successor organisations had clear financial accountabilities for this funding that had to be discharged. Part 1 of the Joint Audit Code of Practice (the Joint Code) came into effect from 1 April 2010 to cover these new arrangements.
- 2 On 19 July 2010, the secretary of state for education (the secretary of state) announced changes to streamline and simplify the 16-19 funding and allocations system. As part of these changes the secretary of state asked the YPLA to directly fund colleges and other providers for 16-19 provision, rather than funds being directed through local authorities, with effect from 1 August 2010.
- 3 Under these changes, the YPLA has assumed local authorities' responsibilities for the assurance of 16-19 provision, with the exception of local authorities' own provision and funding provided for maintained school sixth forms, for which the assurance responsibility remains with local authorities. The YPLA is also now responsible for the financial monitoring of sixth form colleges. Consequently, some amendments needed to be made to the published Part 1 of the Joint Code to reflect the new arrangements.
- 4 The revised Part 1 includes these necessary amendments and becomes effective from 1 August 2010.
- 5 The financial accountabilities of the YPLA and the CE of SF (the funding bodies) 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 funding bodies should account for the public money paid to them, and similarly that the local authorities and learning providers who receive funding from them should likewise account for their use of public money.
- 6 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. 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.
- 7 The successor organisations are committed to working together and sharing the assurance which each secures in respect of individual learning providers, including local authority maintained schools with sixth forms. 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 auditors from one of the successor organisations, who will secure assurance over

the learning provider's use of funding on behalf of all of the successor organisations. Depending on the type of learning provider, the assurance secured might also cover, in addition to their use of funds, internal control (including risk management and governance), regularity and propriety, and adherence to accounting standards.

- 8 Learning providers benefit from this arrangement as they only have to provide assurance to one successor organisation and need only work with one set of auditors. The successor organisations 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**

- 9 It is a requirement on the funding bodies and local authorities (for their own provision) that the learning providers they fund can provide assurance that:
- Public money is expended in accordance with the requirements of regularity and propriety; and
  - Public money is used for the purposes that it was intended.
- 10 The successor organisations 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 the Joint Code.
- 11 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.
- 12 The purpose of the Joint Code is to clearly document the:
- Inter-dependencies and responsibilities that exist between the funding bodies, local authorities and learning providers; and
  - 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 Education (DfE), Department for Business, Innovation and Skills (BIS), local authority external auditors, 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**

- 13 The principles that underpin the Joint Code are that assurance arrangements between the successor organisations are:

- Effective for the purpose of giving assurance to the relevant central government body's accounting 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; and
- Delivered with the minimum level of bureaucracy, for the successor organisations and learning providers, normally resulting in "one learning provider, one funding assurer".

### **Structure of the Joint Code**

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

- Part 1 addresses the relationships between the successor organisations and issues such as lead arrangements and mutual acceptance; and
- Part 2 will cover specific requirements for learning providers.

### **PART 1: ASSURANCE ARRANGEMENTS RELATIONSHIPS**

#### **Lead Arrangements**

15 The principle of "one learning provider, one funding assurer" requires that only one of the successor organisations is involved in assurance work for a specific learning provider, and that body takes the lead for assurance matters on behalf of the others. Lead arrangements therefore need to be established for all learning providers. For many learning providers this arrangement is clear cut.

16 The CE of SF leads for:

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

17 The YPLA leads for:

- Sixth form college corporations designated under the ASCL Act 2009;
- Independent specialist colleges - providers of learning for learners with learning difficulties and/or disabilities (LLDD);
- Academies, where YPLA acting as an agent for DfE will cover both pre-16 and 16–19 funding; and
- Some commercial and charitable learning providers.

18 Local authorities will lead for:

- Their own learning provision e.g. adult learning centres
- Maintained schools with sixth forms.

- 19 In respect of schools, the Joint Code is only concerned with the YPLA and CE of SF funding. Assurance in respect of other local authority funds paid to schools is covered by separate requirements between the local authority and the DfE.
- 20 The one significant exception to the principle of “one learning provider, one funding assurer” is for funding provided by the European Social Fund (ESF), which will continue to be assured by the CE of SF, whichever of the successor organisations is the assurance lead.
- 21 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 the YPLA. 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, normally on the basis of the relative proportions of 16-19 and adult funding which they receive.
- 22 The lead arrangements for the period from 1 August 2010 are summarised in table 1 below.

**Table 1: Summary of Assurance Arrangements from 1 August 2010**

<b>Organisation Type:</b>	<b>Assurance Lead:</b>	<b>Oversight for Assurance Arrangements for:</b>	<b>Providing Funding Assurance on behalf of:</b>
Local authority controlled adult education centres and local authority maintained schools with sixth forms	Local authorities	Internal control Regularity and propriety Accounting requirements Use of funds	The YPLA for both YPLA funding and CE of SF funding. The YPLA will transmit assurance in respect of adult funding to the CE of SF.
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 YPLA for their funding
Commercial and charitable learning providers	Primarily the CE of SF. (YPLA responsible for those who receive more youth funding than adult.)	Use of funds	CE of SF for all his or her funding YPLA for their funding
Sixth form college corporations	YPLA	Internal control Regularity and propriety Accounting requirements Use of funds	YPLA for all their funding and the CE of SF for any funding he or she provides
Independent Specialist	YPLA	Use of funds	YPLA for all their funding and the CE of

<b>Organisation Type:</b>	<b>Assurance Lead:</b>	<b>Oversight for Assurance Arrangements for:</b>	<b>Providing Funding Assurance on behalf of:</b>
Colleges			SF for any funding he or she provides
Academies	YPLA	Internal control Regularity and propriety Accounting requirements Use of funds	YPLA for all funding.

23 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; and
- 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.

24 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 executive and accounting officer of HEFCE and the CE of SF. The CE of SF would then transmit assurances to the YPLA on HEIs' use of YPLA funds, just as it would for other CE of SF led learning providers who receive YPLA funding.

25 There will be sharing of assurance between the funding bodies. This sharing of information needs to address two key requirements, namely to ensure that:

- Management arrangements of the other successor organisations 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 successor organisations; and

- 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**

- 26 The framework for assurance over use of funds paid to learning providers and local authorities by the funding bodies is described below. These arrangements are complex between the successor organisations in the interests of minimizing burdens on learning providers.
- 27 The CE of SF will give assurance to BIS over funds paid to it and subsequently paid to learning providers. This assurance 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. This requires the CE of SF to notify the YPLA of the outcomes of his/her work in respect of YPLA funding; and
  - The YPLA performing assurance work on all funding (YPLA and CE of SF), received by learning providers that they lead on. This requires the YPLA to notify the CE of SF of the outcomes of their work in respect of CE of SF funding; and
  - Local authorities providing assurance to the YPLA in respect of funding provided by the CE of SF to learning providers they are responsible for. The YPLA will then transmit this assurance to the CE of SF
- 28 The YPLA will give assurance to the DfE over funds paid to it and subsequently paid to learning providers. This assurance will be given through the YPLA 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). This requires the YPLA to notify the CE of SF of the outcomes of this work;
  - 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. This requires the CE of SF to notify the YPLA of the outcomes of this work; and
  - Local authorities providing assurance to the YPLA in respect of funding provided by the YPLA received in respect of learning providers they are responsible for.
- 29 Local authorities will give assurance through their chief financial officers' annual grant return to the YPLA over funds paid to them by the Skills Funding Agency and the YPLA. In respect of the period 1 April 2010 to 31 July 2010 covered by the previously published Part 1 of the Joint Code this assurance will cover sixth form college corporations, local authority maintained schools with sixth forms, learning providers and adult learning centres. However, in respect of the period 1 August 2010 to 31 March 2011, and for future years, it will only cover maintained schools with sixth forms, and local authority controlled learning providers and adult learning centres.

- 30 The funding bodies 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.
- 31 Table 1 above highlights that for many learning providers, notably commercial and charitable learning providers, the funding bodies 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 and sixth form college 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.
- 32 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 return or both. For schools with sixth forms, the Financial Management Standard in Schools is a valuable source of assurance. Academy governing bodies are required to appoint a responsible officer to provide them with ongoing independent assurance that sound systems of internal financial control are being maintained.
- 33 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. Academy trusts are required to receive an opinion from their auditors as to whether grants made to them by the DfE have been applied for the purposes intended. 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 local authority external auditors.
- 34 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, sixth form college corporations and academies. In respect of schools with sixth forms and local authority controlled learning providers and managed adult education centres this assurance is obtained through internal management frameworks designed to secure this.

### **Mutual Acceptance of Assurance**

- 35 In order for the principle of “one learning provider, one funding assurer” to work, the successor organisations will accept the assurance work carried out by each other under signature of the CE of SF for assurance work carried out by the Skills Funding Agency and the responsible officer of the YPLA for assurance work carried out by the YPLA. The YPLA will accept the assurances received from local authorities in the signed grant returns made by their chief financial officers. The successor organisations will also accept that each other has delivered the assurance work to a standard upon which the other can rely.
- 36 The YPLA will make available details of how assurance work on youth funding streams might best be carried out by publishing practice notes on its website. The CE of SF will issue details of the Skills Funding Agency’s audit methodology including the related work programmes to the YPLA and local authorities in respect of how assurance work on his/her funding streams might best be carried out. These will be made available on the Skills Funding Agency’s website.

- 37 It is for the successor organisations to determine their own quality assurance arrangements over their assurance work and these arrangements need to be reviewed and accepted by their financial statements auditors. Peer review will be by mutual agreement and with the aim of improving the standard of assurance work across the sector.

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