
21 January 1998

**THE
FURTHER
EDUCATION
FUNDING
COUNCIL**

CIRCULAR

**AUDIT OF THE USE OF FUNDS
IN EXTERNAL INSTITUTIONS
1996-97**

Cheylesmore House
Quinton Road
Coventry CV1 2WT

To

Heads of external institutions
Chief education officers
Local authority chief finance
officers
Principals of colleges
External auditors of external
institutions (via heads of external
institutions)

Circular type

Guidance and request for audit
reports

Summary

Arrangements for the audit of the
1996-97 funding allocation from
external institutions. Audit reports
are requested by 27 March 1998

Reference number: 98/01

Enquiries:
Finance support desk
01203 863357

98/01

AUDIT OF THE USE OF FUNDS IN EXTERNAL INSTITUTIONS 1996-97

INTRODUCTION

1 This circular sets out the requirements of the Further Education Funding Council (the Council) for the audit of the use of Council funds in external institutions in the year to 31 July 1997. It aims to help external institutions brief their external auditors.

2 Each external institution has been sent two copies of this circular. Heads of external institutions are asked to pass one copy to their external auditor.

3 **External institutions which do not provide an audit certificate confirming that funds provided by the Council in 1996-97 have been used for the purpose intended, by 27 March 1998, may place themselves in a position where the Council cannot confirm an allocation for further funding for 1998-99.**

AUDIT REQUIREMENTS

4 The Council's requirements for the audit of funding claims and data from all institutions is set out in Circular 97/18, *Audit of Funding Unit Claims and of the Individualised Student Record Data 1996-97*. Each institution is required to arrange for its external auditor to provide the Council with a report on whether:

- the institution's ISR10 (December 1997; 1996-97) return is properly compiled in accordance with guidance issued by the Council
- the institution's final claim for funding units for 1996-97 is consistent with the ISR10 return and has been properly compiled in accordance with guidance issued by the Council
- the institution's arrangements for managing outward collaborative provision fully satisfy the control criteria and accord with the Council's guidance.

5 This circular sets out the Council's requirement that all external institutions which have received Council funding provide an audited statement that those funds have been used for the purposes intended. This audit requirement assists the chief

executive, as accounting officer for the Council, to discharge his responsibility to parliament for the proper use and control of public funds.

6 Each external institution is required to send to the Council and its sponsoring college the audit report, completed by the institution's external auditor, on the use of funds provided by the Council for the year to 31 July 1997. The form at the annex to this circular is for this purpose.

7 For local authority-maintained external institutions the reports should be provided by the external auditor appointed by the Audit Commission to audit the accounts of the local authority. For external institutions not maintained by a local authority, the external auditor should be the auditor or accountant already appointed to audit the institution's annual financial statements. Where there is any doubt as to who should undertake the audit, or where the institution's auditor has changed between 1995-96 and 1996-97, the institution is asked to contact the Council's finance support desk on 01203 863357.

8 The audit report should be received by the Council no later than 27 March 1998. External institutions should now arrange for the audit to take place and, to ensure that the deadline for audited data is met, provide the returns and the data to their auditors promptly and in sufficient time to meet the deadline. Any external institution or external auditor unable to meet this deadline is asked to contact the Council's finance support desk, preferably by fax on 01203 863090 or by phone on 01203 863357, as soon as any delay becomes apparent.

External institutions which do not provide the required certificate may be liable to have funding in 1997-98 withheld and will not receive a final funding allocation for 1998-99.

CHANGES TO THE USE OF FUNDS STATEMENT FOR 1996-97

9 In previous years, external institutions were required to complete the use of funds statement on the basis of the funds received from the sponsoring college. As institutions may have received funds after the end of the period under review, this treatment may have led to an incorrect statement of the balance of funds available carried forward to future years.

10 To enable the Council to identify those funds held by institutions which have not yet been applied for the purpose intended, institutions are asked to determine the balance brought forward from 1995-96 on an accruals basis.

11 The use of funds statement for 1996-97 requires external institutions to identify:

- the actual funds received from the sponsoring college in the year
- the funds that the institution is entitled to receive in respect of 1996-97 from the sponsoring college based on their actual levels of activity
- the cost of providing schedule 2 courses in the year.

AUDIT OF 1996-97 FUNDING ALLOCATIONS

12 Each external institution which received Council funds for 1996-97 is required to arrange for its external auditor to provide the Council with a report on whether the external institution's account of the use of its funding allocation for 1996-97 has been properly compiled, correctly extracted from the records of the institution and applied in accordance with the conditions under which it was paid. This requirement also applies to organisations which are no longer external institutions or which have inherited prime responsibility for the assets and liabilities of any external institution which received Council funds for 1996-97. External institutions and their auditors are reminded that the period covered by the audited statements requested by the Council ended on 31 July 1997. This period may not coincide with the financial reporting period of the institution.

13 Audit reports should be returned to the Council using the form provided at the annex to this circular.

14 To provide the report, external auditors will need to:

- confirm the level of funds the external institution received from the sponsoring college
- confirm the institution's entitlement to funds for the period (based on the final funding unit claim)
- carry out a programme testing the external institution's systems and controls, as necessary, and tests on the data to confirm that the external

institution's report of the use of funds is properly compiled and correctly extracted from its records, and that the funding has been applied in accordance with the conditions under which it was paid.

SUPPORT ARRANGEMENTS

15 External institutions, local authority chief finance officers and their external auditors may make enquiries regarding the compilation and audit of the forms at the annex by:

- sending a fax addressed to the 'finance support desk' on 01203 863090 labelled 'audit of use of funds provided by the FEFC 1996-97', or
- telephoning the finance support desk on 01203 863357.

In order to receive a prompt and full response, enquirers are asked, where possible, to fax rather than telephone.

16 The Council considers an audit report to be qualified if any one of subparagraphs (c), (d) or (e) of the audit report (part II) at the annex apply.

Auditors, other than those appointed by the Audit Commission, proposing to qualify an audit report are requested to contact Martin Stevens before doing so by telephoning the Council's finance support desk on 01203 863357. External auditors of external institutions maintained by local education authorities, should consult the audit support grants team of the Audit Commission, where they have any doubts about the qualifications to their audit report. The audit support grants team may be contacted by fax on 0117 979 0552 or by telephone on 0117 975 7861. The purpose of this request is to provide an opportunity to explore the basis of the proposed qualification more fully and to ensure a consistent approach between auditors.

EXPERIENCE GAINED FROM PREVIOUS REPORTS

17 For 1996-97, external institutions, auditors and the Council have significant experience from previous years on which to draw. Set out below are the major areas of concern that have been identified from previous years and the Council's response to them.

Eligibility of Expenditure

18 Under the sponsorship arrangements for external institutions, only that provision for 16 to 18

year-old part-time students and all students aged 19 years or over who are pursuing a programme of study falling within the definitions of schedule 2 of the *Further and Higher Education Act 1992* is eligible for Council funding. Expenditure on any other provision is ineligible for sponsorship, including provision for 16 to 18 year-old full-time students and higher education provision.

Identification of Expenditure

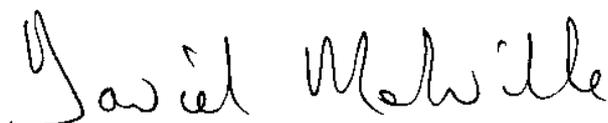
19 A number of external institutions did not account separately for funds provided through the sponsorship arrangements in 1993-94, 1994-95 and 1995-96. In certain circumstances the Council was prepared to accept a statement on the use of funds based on a reasonable basis of apportionment of expenditure in previous years. However, the Council would now expect institutions to have the necessary framework in place to maintain records of income and expenditure for the receipt and use of funds provided.

Group Returns

20 A number of local education authorities have returned a single use of funds statement where a number of external institutions, which have received separate funding allocations, are maintained. The Council requires a separate use of funds statement from each institution that has received a funding allocation in 1996-97.

Timeliness of Returns

21 A number of external institutions have still to return an audited statement on the use of funds provided by the Council for previous years. Institutions are reminded that the Council has a statutory duty to account to parliament each year on the proper use and control of public funds. Until an audit report has been received, the Council will be unable to assure parliament that its funds have been applied properly. The ability of an external institution to apply for future funding will depend upon it being able to satisfy the Council that its past funds have been properly applied and controlled.



AUDIT OF THE USE OF FUNDS PROVIDED BY THE FEFC 1996-97

(Ref. Circular 98/01)

External institutions are requested to complete part I of this form, in conjunction with the chief finance officer of the local authority for local authority-maintained institutions, and then pass it to their external auditor for certification.

Once certified, this form should be returned to Dawn Baker at the Council's Coventry office by 27 March 1998. Copies should be provided simultaneously to the external institution and its sponsoring college.

THE FURTHER EDUCATION FUNDING COUNCIL

Cheylesmore House
Quinton Road
Coventry CV1 2WT

Telephone 01203 863000
Fax 01203 863100

Name of Council-funded external institution 1996-97

FEFC reference of external institution in 1996-97

Name of sponsoring college in 1996-97

FEFC code of sponsoring college in 1996-97

PART I

£

This must be completed before passing to the external auditor. The notes at part III should be followed when completing the form.

- | | |
|---|-------|
| 1 Funding allocation, for the audited period | _____ |
| 2 Net funds received from sponsoring college in 1996-97 | _____ |
| 3 Funds receivable from sponsoring college in respect of 1996-97 | _____ |
| 4 Balance brought forward from previous period | _____ |
| 5 Cost of providing schedule 2 courses in the audited period (net of fee income) | _____ |
| 6 Excess (+)/shortfall (-) of funds available to meet schedule 2 costs | _____ |
| 7 Balance carried forward to next year | _____ |

Declaration to be Completed by the Head of Institution

I certify that, to the best of my knowledge and belief, the information above has been correctly extracted from the institution's accounts and records, and that the amount of funding receivable in respect of 1996-97 has been applied in accordance with the conditions under which it was received from the Further Education Funding Council.

Signature

Name (please print)

Position

Date

Declaration to be Completed by the Chief Finance Officer of the Local Authority (for Local Authority-maintained Institutions Only)

I certify that, to the best of my knowledge and belief, the information above has been correctly extracted from the institution's accounts and records, and that the amount of funding receivable in respect of 1996-97 has been applied in accordance with the conditions under which it was received from the Further Education Funding Council.

Signature

Name (*please print*)

Position

Local authority

Date

PART II

Audit Report

This must be completed by the auditor.

We have examined the entries in the above statement from the above institution, together with the supporting accounts and the records for it and have carried out the tests which we consider necessary. In addition, we have also obtained such information and explanations as we consider necessary to form the basis of our opinion.

Delete all but one of subparagraphs (a) to (e):

- a. We have no comments on the audit, and ...
- b. Subject to the amendments shown in red, ...
- c. Subject to the comments in the attached report dated ___/___/___, ...
- d. Subject to the comments in the attached report dated ___/___/___, and the amendments shown in red, ...
- e. Subject to the comments in the attached report dated ___/___/___, we cannot confirm that ...

... in our opinion the entries on the above statement are fairly stated and have been properly compiled and properly extracted from the records of the institution.

Signature

Name (*please print*)

Auditor

Date

Address

Please ensure that any amendments to Part I, where made by the auditor, are written by hand in red ink.

PART III
Notes to part I.

- 1** Enter at 1 the institution's funding allocation for 1996-97. This was set out in box 1 of the final allocation letter from the director of finance for the period 1 August 1996 to 31 July 1997. The institution's monthly profiled payment was based on these figures, before adjustments were made for under- or over-achievement against funded levels of student activity.
- 2** Enter at 2 the actual funds received from the sponsoring college during the audit period, net of funds recovered from the institution. Recovery may have been achieved by either a reduction in funding made available or by repayments to either the sponsoring college or the Council. The line 2 entry may differ from that shown at line 1 due to recoveries and/or to:

 - timing differences
 - in-year adjustments for over- or under-achievement of student activity.
- 3** Enter at 3 the funds that the institution is entitled to receive, based on its level of activity, from the sponsoring college in respect of 1996-97.
- 4** Enter at 4 funds receivable from the sponsoring college which remain unspent at the end of the last period. This may mean that the institution has to restate the balance carried forward if an accruals basis of accounting has not been used previously.
- 5** Enter at 5 the net identified cost of providing schedule 2 courses eligible for Council funding and for which Council funding is claimed, after deducting any fee income earned from the courses.
- 6** Enter at 6 the excess (+)/shortfall (-) of funds available to meet schedule 2 costs. This should be equal to the amounts shown at $3 + 4 - 5$.
- 7** Enter at 7 'nil' if there is a shortfall of funds. The balance carried forward represents the excess of funds made available.

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