



Skills Funding  
Agency



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# Joint Audit Code of Practice Part 2

This Joint Audit Code of Practice Part 2 sets out the specific requirements of the Secretary of State acting through the Education Funding Agency and the Chief Executive of Skills Funding for colleges' accountability and audit arrangements and the broad framework in which they should operate.

July 2013

Of interest to principals and chief executives of colleges, finance directors at colleges, chairs of finance and audit committees, financial statements auditors, internal auditors, directors of funding bodies, and other key organisations in the further education and skills sector.

## **Introduction**

1. The Secretary of State for Education, acting through the Education Funding Agency (EFA), and the Chief Executive of Skills Funding (the 'funding bodies') have clear financial accountabilities for funding that have to be discharged. The funding bodies are committed to working together and sharing the assurance that each secures in respect of individual colleges. Therefore, they have established a Joint Audit Code of Practice (JACOP) that supersedes the Learning and Skills Council's Audit Code of Practice.

### **Part 1 of the Joint Audit Code of Practice**

2. Part 1 of the JACOP (effective from 1 April 2010) addresses the relationship between the funding bodies<sup>1</sup>, provides an overview of the assurance framework over the use of funds paid to all learning providers, and covers issues such as lead arrangements, mutual reliance and dependency. We have updated Part 1 to reflect subsequent developments in the further education (FE) sector, although we have maintained the core principle of 'one learning provider, one funding assurer'. The latest version of Part 1 is available on the funding bodies' websites and comes into effect from 1 August 2013.

### **Part 2 of the Joint Audit Code of Practice**

3. This document forms Part 2 of the JACOP and covers only the specific requirements for colleges' accountability and audit arrangements and the broad framework in which they should operate. In Part 2 of the JACOP, the term 'colleges' encompasses only FE college corporations and sixth-form college corporations. As with the revised Part 1, the provisions of Part 2 of the JACOP come into effect from 1 August 2013.
4. The funding bodies will keep Parts 1 and 2 of the JACOP under review and will update them as necessary. A formal review, carried out in conjunction with key stakeholders, will be undertaken before the 2016/17 academic year to apply to that year.

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<sup>1</sup> For the purposes of the JACOP Part 1 only, the term 'funding bodies' also encompasses local authorities.

5. The funding bodies also contract for education and training with organisations from the wider public, voluntary and commercial sectors (local authority controlled adult education centres and local authority maintained schools with sixth-forms, commercial and charitable providers, independent specialist providers, non-maintained special schools and academies). The funding bodies' audit and assurance requirements for these organisations are set out in their individual contracts and in relevant guidance (for example, the Academies Financial Handbook) and therefore we do not repeat them here.

### **Financial Memorandum**

6. The relationship between the funding bodies and colleges is one of grant-in-aid, which is given under a Financial Memorandum. The singular term Financial Memorandum is used to cover both the Chief Executive of Skills Funding's financial memorandum and the EFA's funding agreement, which themselves are consistent in terms of requirements relevant to the JACOP. The Financial Memorandum sets out in detail the requirements on, and responsibilities of, college corporations, including that any mandatory requirements under the JACOP shall be a condition of funding under the Financial Memorandum.
7. For a complete picture of the funding bodies' audit and assurance requirements for colleges, the JACOP Parts 1 and 2 should be read alongside the Financial Memorandum. Although the requirements of the EFA's funding agreement and the Chief Executive of Skills Funding's financial memorandum are consistent with respect to the provisions relating to the JACOP, the paragraph numbering is not and therefore we have not included specific cross-references here.

### **Objective of the Joint Audit Code of Practice**

8. The JACOP Part 2 outlines the audit and accountability framework within which the funding bodies must operate. It sets out the minimum requirements of the funding bodies for colleges' audit, accountability and assurance arrangements and the broad framework in which they should operate.

9. The terms 'must' and 'must not' indicate the JACOP's mandatory requirements. Many other organisations and sectors also provide guidance on good practice in relation to audit, assurance and accountability arrangements, including the operation of audit committees. Colleges may wish to consider these in determining their own arrangements. Annex B provides references for some of these sources.
10. The funding bodies also give grants for specific education and training and other initiatives to colleges. The terms and conditions of these specific grants are set out in the individual agreements with colleges. The Financial Memorandum makes clear that in the event of a breach of the conditions of funding the college shall repay all or part of the funds provided.

### **Corporate Governance in College Corporations**

11. The corporate governance arrangements of a college are the means by which it sets and monitors strategy, holds the executive to account, manages risks, discharges stewardship and trustee responsibilities, and ensures sustainability. Colleges must publish an evaluation of these arrangements for each financial period within the Statement of Corporate Governance and Internal Control in the audited accounts. The Accounts Direction, which the funding bodies update annually, includes guidance on the minimum coverage of this evaluation and the specific assurances required.

### **Parliament**

12. Parliament's interest is to see that recipients of public funds apply and account for those funds properly and that they use them economically, efficiently and effectively. The Comptroller and Auditor General, as Head of the National Audit Office, is the external auditor of the funding bodies. The Comptroller and Auditor General has the right to inspect the accounts of any college that receives funding, and the right to carry out value-for-money (VFM) investigations. The Comptroller and Auditor General is selective in the use of inspection rights but, where it is appropriate, will seek to rely on the work of the funding bodies' own assurance processes.

## **The Audit and Accountability Framework**

### **Funding Body Responsibilities**

#### **The Chief Executive of Skills Funding / Skills Funding Agency**

13. The Chief Executive of Skills Funding is a statutory office established as a corporation sole by the Apprenticeships, Skills, Children and Learning Act 2009. This means that it has a legal existence separate to that of the individual in post. The Skills Funding Agency is the term commonly used to refer to the Chief Executive of Skills Funding and the staff to whom functions are delegated.
14. In agreement with their sponsor Department, the Department for Business, Innovation and Skills, the Chief Executive of Skills Funding must ensure that:
  - there are effective systems in place within the Chief Executive of Skills Funding to manage and monitor the funds granted
  - those organisations that the Chief Executive of Skills Funding funds also operate in an appropriately controlled environment.
15. The Chief Executive of Skills Funding fulfils the above responsibilities through actions / processes such as:
  - Funding Assurance Audit: the selection of college corporations identified for a review of funding data, using statistical sampling techniques as determined by the Chief Executive of Skills Funding's prevailing funding methodology and assurance strategy.
  - Responsive Assurance Audit: the Chief Executive of Skills Funding uses a risk-assessment framework to determine which colleges should be subject to a responsive audit.
  - European Social Fund (ESF) audit: audit work to enable the Chief Executive of Skills Funding to discharge its responsibilities as a co-financing organisation.

- Indirect assurance work: where available and possible to do so, the Chief Executive of Skills Funding will seek to take assurance from the work of other auditors or control frameworks, for example the external and regularity audit opinions from colleges' financial statements' auditors, the Statement of Corporate Governance and Internal Control in the annual accounts, and the annual reports of colleges' audit committees.
  - Financial health assessment: the Provider Finance Team undertakes assessments on the financial viability of colleges based on the financial plans and other returns submitted to the Chief Executive of Skills Funding.
  - The arrangements for mutual reliance and the transmission of assurances between the Chief Executive of Skills Funding, the EFA and local authorities, as outlined in Part 1 of the JACOP.
16. Within the JACOP Part 2 there are requirements placed on colleges and their auditors to consult with, and provide documents to, the Chief Executive of Skills Funding. For contact details for these submissions, please refer to the following website: <http://skillsfundingagency.bis.gov.uk/aboutus/contactus>.

### **The Education Funding Agency**

17. The EFA was established on 1 April 2012 as an Executive Agency of the Department for Education. The framework document between the two organisations states that the EFA must ensure it:
- secures the best value for taxpayers' money, satisfying Ministers and Parliament that money is well spent
  - has appropriate financial and accounting systems to allow it to make payments efficiently and on time, and secure proportionate assurance about the regularity and propriety of its programme spend.
18. The EFA fulfils the above responsibilities primarily through the work of its External Assurance Team, and through actions / processes such as:

- Funding Assurance Audit (undertaken as part of the Chief Executive of Skills Funding's work in this area): selection of colleges for a review of funding data using statistical sampling techniques, as determined by the prevailing funding methodology and assurance strategy.
  - Responsive assurance work: selective assurance work to address specific known and/or perceived risks.
  - Indirect assurance work: where available and possible to do so, the EFA will seek to take assurance from the work of other auditors or control frameworks, for example the external and regularity audit opinions from colleges' financial statements' auditors, the Statement of Corporate Governance and Internal Control in the annual accounts, and the annual reports of colleges' audit committees.
  - Financial health assessment: the External Assurance Team undertakes assessments on the financial viability of sixth-form college corporations based on the financial plans and other returns submitted to the EFA.
  - The arrangements for mutual reliance and the transmission of assurances between the Chief Executive of Skills Funding, the EFA and local authorities, as outlined in Part 1 of the JACOP.
19. Throughout the JACOP Part 2 there are requirements placed on colleges and their auditors to consult with the EFA and provide documents to them. For contact details for these submissions, please refer to the EFA's website at [www.education.gov.uk](http://www.education.gov.uk) or email [externalassurance.EFA@gsi.gov.uk](mailto:externalassurance.EFA@gsi.gov.uk).

## College Corporations' Responsibilities

### Instrument and Articles of Government

20. The 'standard'<sup>2</sup> Instrument and Articles of Government set out the regulatory framework within which college corporations operate. Where unmodified, the Instrument and Articles of Government<sup>3</sup> require the corporation to:
- Have responsibility for the effective and efficient use of resources, the solvency of the institution, and the safeguarding of their assets<sup>4</sup>.
  - Establish an audit committee to advise on matters relating to the college's audit arrangements and systems of internal control. This committee has to operate in accordance with the requirements specified by the funding bodies.
  - Co-operate with any person who has been authorised by the funding bodies to audit any returns of numbers of students or claims for financial assistance, and give any such person access to any documents or records held by the corporation, including computer records.
  - Examine and evaluate, at such times as it considers appropriate, its systems of internal financial and other control to ensure that they contribute to the proper, economic, efficient and effective use of the corporation's resources.
  - Keep proper accounting records and prepare a statement of accounts for each financial year which gives a true and fair account of the state of the corporation's affairs at the end of the financial year, and of its income and expenditure over the financial year, and complies with any directions given by the funding bodies as to the information to be contained in it.

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<sup>2</sup> That is, the original, unmodified, version as set out in Schedule 4 to the Further and Higher Education Act 1992

<sup>3</sup> Specific references have not been provided given the variations possible in individual college's Instrument and Articles of Government, particularly between general FE and sixth-form college corporations.

<sup>4</sup> This responsibility of the corporation is stipulated under Part 2 of Schedule 4 of the Further and Higher Education Act 1992 (as amended by the Education Act 2011) and cannot be altered under the general powers that corporations have to amend their Instrument and Articles of Government.

- Appoint external auditors to audit the accounts in respect of each financial year. The auditors must conduct their audit work in accordance with the requirements of the funding bodies.
21. Under the Education Act 2011, individual colleges may make changes to their Instrument and Articles, though any such changes are subject to the limitations set out in the Education Act 2011 and provisions elsewhere within the JACOP.
  22. Under the Articles of Government and the Financial Memorandum, the 'directions' given by the funding bodies in terms of the content of the audited financial statements are set out in the annual Accounts Direction<sup>5</sup>. In preparing their annual accounts, colleges must comply with any mandatory provisions set out in the Accounts Direction.

### **Audit Committee**

23. Notwithstanding colleges' ability to modify their Instrument and Articles of Government, it is a condition of funding, through the Financial Memorandum, that college corporations must establish an audit committee.
24. The role of the audit committee includes advising the corporation on the adequacy and effectiveness of the college's assurance framework. In addition the audit committee advises and supports the corporation in explaining in its annual report and accounts the measures it has taken to ensure it has fulfilled its statutory and regulatory responsibilities. The annual Accounts Direction sets out the funding bodies' specific requirements for that year that must be included in the Statement of Corporate Governance and Internal Control.
25. To establish the role of the audit committee, the corporation must set terms of reference. The terms of reference should reflect accepted good practice for audit committees of publicly funded organisations, for which there is much guidance from across a number of sectors. We do not replicate here all guidance available, but as a minimum corporations must provide for the following operational matters in the terms of reference:

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<sup>5</sup> Detailed guidance on compliance with the Accounts Direction is provided in the Accounts Direction Handbook issued by the Association of Colleges.

- The audit committee must have the authority to investigate any activity within its terms of reference.
- The audit committee must have the right of access to obtain all the information and explanations it considers necessary, from whatever source, to fulfil its remit.
- The audit committee must comprise at least three members, a majority of whom must be governors, but must not include the chair of the corporation or the principal. The audit committee must ensure that it maintains its independence when considering the appointment of members.
- The audit committee should include individuals with an appropriate mix of skills and experience to allow it to discharge its duties effectively. Collectively, members of the committee should have recent, relevant experience in risk management, finance and audit and assurance.
- The audit committee must not adopt an executive role.

26. In addition to the above, and again as a minimum, the duties of the audit committee must be to:

- assess and provide the corporation with an opinion on the adequacy and effectiveness of the college's audit arrangements, framework of governance, risk management<sup>6</sup> and control, and processes for the effective and efficient use of resources, the solvency of the institution and the safeguarding of its assets.
- advise the corporation on the appointment, reappointment, dismissal and remuneration of the financial statements and regularity auditors and other assurance providers, including internal auditors, and establish that all such assurance providers adhere to relevant professional standards.
- inform the corporation of any additional services provided by the financial statements, regularity and other audit and assurance providers and explain how independence and objectivity were safeguarded.

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<sup>6</sup> The requirement to have effective risk management arrangements in place is a requirement of the Financial Memorandum.

- monitor, within agreed timescales, the implementation of recommendations arising from the management letters and reports of the financial statements and regularity auditor, and of any reports submitted by other providers of audit and assurance services to the college.
- oversee the college's policies on fraud and irregularity and whistleblowing, and ensure the proper, proportionate and independent investigation of all allegations and instances of fraud and irregularity; that investigation outcomes are reported to the audit committee; that the external auditors (and internal auditors where appointed) have been informed, and that appropriate follow-up action has been planned / actioned, and that all significant<sup>7</sup> cases of fraud or suspected fraud or irregularity are reported to the chief executive of the appropriate funding body.
- produce an annual report for the corporation. The annual report must summarise the committee's activities relating to the financial year under review, including any significant issues arising up to the date of preparation of the report, and any significant matters of internal control included in the management letters and reports from auditors or other assurance providers. It must include the committee's view of its own effectiveness and how it has fulfilled its terms of reference. The report must include the audit committee's opinion on the adequacy and effectiveness of the college's audit arrangements, its framework of governance, risk management and control, and its processes for securing economy, efficiency and effectiveness. The annual report must be submitted to the corporation before the Statement of Corporate Governance and Internal Control in the accounts is signed. A copy of the audit committee's annual report must be submitted to the relevant funding body with the annual accounts.

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<sup>7</sup> See paragraph 51 for a definition of 'significant'.

## Financial Statements Audit

### Eligibility

27. It is a condition of funding, through the Financial Memorandum, that college corporations must appoint external auditors to audit the accounts in respect of each financial year. The funding bodies have determined that the criteria for eligibility as financial statements' auditor must be the same as set out in Part 42 of the Companies Act 2006: in essence, a firm or individual holding membership of a relevant supervisory body<sup>8</sup> and allowed to carry out audits under the rules of that body. The corporation must be the appointing authority for the financial statements auditor.

### Role

28. The responsibility of a college's financial statements auditor is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) ('ISAs'). In doing so, the financial statements auditor must provide an opinion on whether the financial statements, in all material respects, give a true and fair view, and have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education and the relevant year's Accounts Direction.
29. The relevant funding body will confirm each year the amount of grant-in-aid funding to be included as income within a college's financial statements. The financial statements auditor is expected to rely on that confirmation and is not required to audit the underlying funding claims when forming their opinion on the financial statements. Responsibility for the accuracy of the funding claims remains with management and the corporation.

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<sup>8</sup> The Consultative Committee of Accounting Bodies (CCAB) member organisations, including the Institute of Chartered Accountants in England and Wales (ICAEW) and the Chartered Institute of Public Finance and Accountancy (CIPFA).

## **Reporting**

30. The deadline for colleges to submit audited financial statements and the associated external audit opinion to the relevant funding body is the 31 December immediately following the financial year end.
31. Each year, the wording of the external audit opinion will be suggested in the annual Accounts Direction and/or Accounts Direction Handbook. Specifically, the financial statements auditor must in their audit report, under ISA 700 (revised), report by exception whether in their opinion the college has kept adequate accounting records, the financial statements are in agreement with the accounting records and if they have received all the information and explanations required for their audit.
32. Where financial statements auditors are unable to provide an unqualified audit opinion on a college's financial statements, or where they wish to use an alternative form of wording to that suggested, they must communicate this to the principal, the chair of the corporation, the chair of the audit committee, and the designated representative of the relevant funding body, as soon as practically possible.
33. Colleges must send a copy of the final audit management letter of the financial statements auditor, including where applicable those arising from interim audits, and including the college's responses, to the designated representative of the relevant funding body by the 31 December immediately following the financial year end.

## **Operating and Financial Review**

34. Financial statements auditors have a professional duty to consider the Operating and Financial Review within the annual accounts, including the Statement of Corporate Governance and Internal Control. They are required to take 'appropriate action' under auditing standards if the statements made in the Operating and Financial Review or the Statement of Corporate Governance and Internal Control are materially inconsistent with their knowledge of the college, but they are not required to provide a formal audit opinion on them.

## Regularity Audit

35. The funding bodies fund colleges under grant-in-aid, a specific form of funding agreement that the government uses. Grant-in-aid funding comes with the explicit requirement that recipients use these funds with 'regularity' and 'propriety'.
36. 'Regularity' is defined by HM Treasury as "*the requirement for all items of expenditure and receipts to be dealt with in accordance with the legislation authorising them, and any applicable delegated authority and the rules of Government Accounting.*" This encompasses both primary and secondary legislation (for example, the Further and Higher Education Act 1992, subsequent Education Acts and the Charities Acts), as well as conditions imposed by the funding bodies through the Financial Memorandum and the recurrent funding and other guidance that the funding bodies issue.
37. 'Propriety' is defined by HM Treasury as "*the requirement that expenditure and receipts be dealt with in accordance with Parliament's intentions and the principles of Parliamentary control, including the conventions agreed with Parliament (and in particular the Committee of Public Accounts (PAC)).*" While a college is a private body, the basic test remains whether it would be able to defend to the general public that the relevant expenditure was appropriate to the running of the institution and a proper use of public funds.
38. The Auditing Practices Board (APB) distinguishes propriety from regularity as follows: "*Whereas regularity is concerned with compliance with the appropriate authorities, propriety goes wider than this and is concerned more with standards of conduct, behaviour and corporate governance. It includes matters such as fairness and integrity, the avoidance of personal profit from public business, even-handedness in the appointment of staff, open competition in the letting of contracts and the avoidance of waste and extravagance.*"
39. Regularity auditors must form an opinion over the regularity and propriety of all college expenditure disbursed and income received, regardless of source. The audit is based on a framework set by the funding bodies, and which is published under separate cover. The regularity audit is concerned with all the

activities the college engages in, whether these are consistent with statutory and other regulatory requirements and in accordance with public expectations for the good stewardship of public funds and safeguarding the college's assets. In forming this opinion, regularity auditors are expected to apply professional judgement and not be restricted by a rigid set of rules.

40. The college must appoint its financial statements auditors to undertake the regularity audit. Specifically, and only in relation to the regularity audit, the financial statements auditors must accept and acknowledge that they owe the funding bodies a duty of care for the work undertaken in accordance with the regularity audit framework.
41. Colleges must send a copy of the final regularity audit management letter of the financial statements auditor, including where applicable those arising from interim audits, and including the college's responses, to the designated representative of the relevant funding body by the 31 December immediately following the financial year end.

### **Letter of Engagement**

42. The duties of the financial statements auditor must be clearly set out in an engagement letter in accordance with ISA 210. The specific scope and content of a letter of engagement is for individual colleges and their auditors to agree. However, to meet the specific needs of the funding bodies, colleges must incorporate the provisions set out in Appendix A in all such engagement letters.

### **Limitation of Liability**

43. Any proposal by a college's financial statements and regularity auditor to limit their liability in respect of these audits must be discussed with the audit committee and relevant the funding body in advance of approval by the corporation.

## Internal Audit

44. The original, unmodified Articles of Government require a college corporation “*at such times as it considers appropriate, [to] examine and evaluate its systems of internal financial and other control to ensure they contribute to the proper, economic, efficient and effective use of the Corporation’s resources*”. Under the Education Act 2011, college corporations still have an unalterable responsibility for the effective and efficient use of resources, the solvency of the institution, and the safeguarding of their assets.
45. The appointment of an independent internal audit service to carry out the evaluation ‘*of internal financial and other control[s]*’ is neither mandatory under the Articles of Government, nor under the Financial Memorandum. The EFA’s mandatory requirement on sixth-form college corporations to have an internal audit service was removed from 1 August 2012. Positive opinions from an internal audit service may provide a college corporation with a degree of assurance that it had systems in place to meet its continuing statutory obligations. However, as from 1 August 2013, it is not mandatory under the JACOP for any college corporation to have to appoint an internal audit service. It is for each college corporation, on the advice of its audit committee, to determine for itself how best to fulfil its obligations to secure the proper, economic, efficient and effective use of resources and to safeguard the college’s assets.
46. In general terms, there is no legal restriction on qualified financial statements auditors also providing internal audit services. Similarly, there is no legal restriction on internal audit service providers also undertaking the financial statements audit where they are qualified to do so.
47. Where a college decides to appoint one firm as both financial statements and internal auditors, they must establish and maintain appropriate safeguards<sup>9</sup>. The college also must have amended its Articles of Government to remove the prohibition on one firm providing both services.

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<sup>9</sup> Relevant professional and ethical standards are outlined in Appendix 4 of the Guidance on the Implications Following Rationalisation of Audit Arrangements for Sixth Form Colleges (see Appendix B).

## **Access to Colleges' Records, Information and Assets and Audit Working Papers**

48. All college corporations must allow the funding bodies, the internal auditors of their respective government departments, the college's financial statements and regularity auditors and the National Audit Office (NAO) unrestricted access to all records, information and assets which they consider necessary to fulfil their responsibilities.
49. The financial statements and regularity auditors must comply with any requests from the funding bodies and the NAO for access to any working papers or information which they consider necessary to fulfil their responsibilities. Access may be granted in accordance with the guidance issued by the Institute of Chartered Accountants in England and Wales' technical release '*Audit 2/98 - Access to the Working Papers on Internal and Financial Statements Auditors of FE Colleges*', including the use of 'hold harmless' letters.

## **Fraud and Irregularity**

50. The financial statements auditor of each college has a professional duty to plan and conduct the audit so that there is a reasonable expectation of detecting material mis-statements in the accounts arising from irregularities, including fraud, or breaches of regulations. The financial statements auditor does not have a duty to search specifically for irregularities or fraud, and their audit should not be relied upon to detect any or all that occur.
51. Where the financial statements and regularity auditor, the internal auditor (where applicable) or the funding bodies' funding auditor (where applicable) identifies a significant fraud, or major weakness or breakdown in the accounting or other control framework, it must be reported (subject to the requirements of the Proceeds of Crime Act 2002) to the college<sup>10</sup>, and either the Chief Executive of Skills Funding or the Director of Assurance (for the EFA)

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<sup>10</sup> It is expected that individual colleges and their audit service providers will have an agreed protocol in place as to whom to contact and in what circumstances.

as appropriate and as soon as practically possible. This requirement extends to all funds that the college receives.

Significant fraud is usually where one or more of the following factors are involved:

- there is likely to be great public interest because of the nature of the fraud or the people involved
- the sums of money are in excess of £10,000<sup>11</sup>
- the particulars of the fraud are novel or complex.

52. It is the responsibility of the corporation to establish and maintain an adequate system of internal control, to ensure compliance with statutory and other regulations, and to prevent and detect of irregularities, including fraud and corruption.
53. All colleges must have policies and procedures, including a whistleblowing policy, on the process to be followed when suspicion arises of a potential irregularity, including fraud, corruption, any impropriety or major weakness or breakdown in the accounting or other control framework. The agreed policy and procedures must include the provision that when any significant instance of fraud, irregularity or major weakness or breakdown in the accounting or other control framework is suspected or discovered, the chair of the audit committee and either the CE Chief Executive of Skills Funding or the Director of Assurance (for the EFA) as appropriate are informed as soon as practically possible.
54. The authority of the audit committee to commission a special investigation should be included in the policy. Colleges though must not commission an investigation until either the Chief Executive of Skills Funding or the Director of Assurance (for the EFA) have been informed and agreed the most appropriate course of action.

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<sup>11</sup> Specifically, and only, in relation to the 16-19 Bursary Fund, a lower limit of £5,000 applies here.

## **Annex A: Financial Statements Auditor's Letter of Engagement with College Corporations**

The following paragraphs must be included within the letter of engagement between a college corporation and its financial statements auditors. Where colleges and/or audit firms wish to use an alternative form of words, they must agree this with the relevant funding body.

### *Re: Financial Statements Audit:*

- This letter establishes an agreement between [name of audit firm] and the college in relation to the audit of, and reporting on, the college's financial statements, and an agreement between the college, the [Secretary of State for Education, acting through the Education Funding Agency / Chief Executive of Skills Funding] and [name of audit firm] for the sole purpose of reporting on the regularity audit.
- We shall conduct our audit of the college's financial statements in accordance with the International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board ('ISAs') and in full compliance with any instructions, guidance or frameworks issued by the funding bodies, including those within the annual Accounts Direction.
- We have a professional responsibility to report if the financial statements do not comply in any material respect with applicable accounting standards and the requirements of the Accounts Direction, unless in our opinion the non-compliance is justified in the circumstances. In determining whether or not the departure is justified, we will consider whether:
  - the departure is required for the financial statements to give a true and fair view and
  - adequate disclosure has been made concerning the departure.
- We shall report to the [Education Funding Agency / Chief Executive of Skills Funding], as soon as practically possible, any significant fraud or major

weakness or breakdown in the accounting or other control framework, of which we become aware, subject only to the requirements of the Proceeds of Crime Act 2002.

- Where we cease to hold office for any reason, we will provide the governing body with either a statement of any circumstances connected with the removal or resignation that we consider should be brought to the corporation's attention, or a statement that there are no such circumstances. The college must copy this statement to the [Education Funding Agency / Chief Executive of Skills Funding], as soon as practically possible following receipt.

*Re: Regularity Audit:*

- The scope of our work, and the procedures we shall carry out in preparing our report on the regularity of college income and expenditure, will be in accordance with the guidance contained within the regularity audit framework issued by the funding bodies.
- The [Education Funding Agency / Chief Executive of Skills Funding] may undertake a quality assurance programme over our completion of this work. In accordance with this framework, the [Education Funding Agency / Chief Executive of Skills Funding] will be responsible for ensuring it discloses to us, on request, reasonable and relevant information it holds which may impact upon the planning and subsequent delivery of this audit.
- Regularity audit reports will be sent to the [Education Funding Agency / Chief Executive of Skills Funding] and to the corporation. The final regularity audit report and opinion, covering the college's financial year, will be included in the college's financial statements. We will provide a regularity audit management letter, either as a standalone report or in combination with the financial statements management letter, covering the matters arising from our regularity audit work.
- The [Education Funding Agency / Chief Executive of Skills Funding] has provided a model unqualified final regularity audit report and opinion. Where we are unable to express an unqualified opinion, or wish to use an

alternative wording to that provided, we will communicate this to the principal, the chair of the corporation and the chair of the audit committee and the [Education Funding Agency / Chief Executive of Skills Funding] as soon as practically possible.

## **Annex B: Indicative Sources of Relevant Information**

The following documents and websites provide useful sources of good practice for corporations in determining the audit and assurance arrangements for their institution:

- Skills Funding Agency – Financial Memorandum
- Education Funding Agency – Funding Agreement 2012/13
- Accounts Direction and Handbook:  
<http://skillsfundingagency.bis.gov.uk/providers/finance/financialmanagement/financialmanagement/accountsdirection/>
- Education Funding Agency / Sixth Form Colleges' Association – Guidance on the Implications Following Rationalisation of Audit Arrangements for Sixth Form Colleges:  
[http://www.sixthformcolleges.org/sites/default/files/3.efa\\_sfca\\_ia\\_auditguidancefinal.pdf](http://www.sixthformcolleges.org/sites/default/files/3.efa_sfca_ia_auditguidancefinal.pdf)
- HM Treasury – Managing Public Money:  
[http://www.hm-treasury.gov.uk/psr\\_mpm\\_index.htm](http://www.hm-treasury.gov.uk/psr_mpm_index.htm)
- Association of Colleges – Foundation Code of Governance: Audit and Accountability Annex:  
[http://www.aoc.co.uk/en/college\\_governors/english-college-code-of-governance/index.cfm](http://www.aoc.co.uk/en/college_governors/english-college-code-of-governance/index.cfm)
- Committee of University Chairs (CUC) Guide for Members of Higher Education Governing Bodies in the UK:  
[http://www.hefce.ac.uk/media/hefce1/pubs/hefce/2009/0914/09\\_14.pdf](http://www.hefce.ac.uk/media/hefce1/pubs/hefce/2009/0914/09_14.pdf)
- Public Sector Internal Audit Standards:  
<http://www.cipfa.org/Policy-and-Guidance/Standards/Public-Sector-Internal-Audit-Standards>
- Financial Reporting Council – Guidance on Audit Committees:  
<http://www.frc.org.uk/getattachment/6ec23196-28ee-406e-8f56-89ab9d1dc06d/Guidance-on-Audit-Committees-September-2012.aspx>

- Learning and Skills Improvement Service (LSIS) Excellence Gateway – The Process of Effective Governance:  
<http://www.excellencegateway.org.uk/node/20038>
- Charities Commission – Good Governance: A Code for the Voluntary and Community Sector:  
<http://www.governancecode.org/wp-content/uploads/2012/06/Code-of-Governance-Full1.pdf>



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