



Skills Funding  
Agency

# Providing external assurance on subcontracting controls

March 2017

Of interest to lead providers

# Introduction

- 1 The [Skills Funding Letter](#) issued in February 2015 required the Skills Funding Agency (SFA) to further consider the risks that subcontracting presents and how they can be mitigated. The need to ensure value for money was reiterated in the [Skills Funding Letter](#) issued in December 2015.
- 2 In response, our funding agreements for 2016 to 2017 contain a clause about an annual subcontracting assurance requirement. This clause, along with strengthened subcontracting [funding rules](#), will go some way towards providing the assurance being sought. This assurance requirement excludes new apprenticeship starts from 1 May 2017. The funding rules that apply to training providers delivering the new apprenticeship programme from 1 May 2017 will contain a rule about obtaining an annual report from an external auditor if delivery subcontractors are used. These apprenticeship funding rules will relate to a financial year.
- 3 The annual subcontracting assurance requirement clause requires lead providers that will subcontract more than a defined level of provision in 2016 to 2017 to obtain a report from an external auditor that provides assurance on the arrangements in place to manage and control their subcontractors. The clause requires lead providers in scope to supply us with a certificate (provided at Annex A) confirming that the report provides satisfactory assurance. Lead providers will be in scope if they enter into subcontracts with an aggregate value of £100,000 or more in any one contract year. Employers will be in scope if they enter into subcontracts to deliver the provision with an aggregate value of more than 50% of the funding provided under their Agreement in any one contract year.
- 4 The purpose of this document is to provide additional guidance on the clause and outline the information we need from you to enable us to place assurance on your subcontracting systems and controls. You must read this guidance alongside the full wording of the clause which can be found in your funding agreement. If you are uncertain whether you are in scope to take any action as a result of reading the clause and this guidance you should contact the Business Operations Service Centre at this email address: [servicedesk@sfa.bis.gov.uk](mailto:servicedesk@sfa.bis.gov.uk) .

## Definitions

- 5 A subcontractor is a separate legal entity that has an agreement with you to deliver any element of the education and training we fund, or which is funded through Advanced Learner Loans.
- 6 In relation to this clause, an external auditor is a professionally qualified person from an organisation external to you that is able to provide an independent report on systems and controls and is registered with an appropriate professional body. For the sake of clarity, the external auditor cannot be an employee, director, trustee, shareholder or any other similar party with a vested interest in your organisation, irrespective of whether their normal role is to carry out audit work for you. The external auditor does not necessarily have to be your existing external auditor.

## Process

- 7 You must select and engage an external auditor that fulfils the definition above.
- 8 The external auditor must be able to sign the certificate provided at Annex A.
- 9 You must obtain a report from your chosen external auditor that provides assurance on the **systems and controls** you have in place in 2016 to 2017 for managing subcontracted delivery.
- 10 The report must reflect the end-to-end subcontracting process and subcontracting requirements set out in your funding agreement and the funding rules for 2016 to 2017. It must cover the following as a minimum:
  - 10.1 General subcontracting requirements:
    - Funding rules A46 to A49 and A63 to A63.10 and associated evidence requirements
    - Financial Memorandum (FE) - clauses 9.2 and 9.9
    - Financial Memorandum (SFC) - clauses 6.2 and 6.9
    - Contract for Services - clauses 5.2, 5.9 and 5.10
    - Contract for Services (ESF) - clauses 5.2, 5.9 and 5.10
    - Conditions of funding (grant) – clauses 4.2, 4.9 and 4.10
    - Conditions of funding (grant) (Employer) – clause 4.13
    - Conditions of funding (grant) (HEI) – clauses 4.2, 4.9 and 4.10

## 10.2 Selection and procurement:

- Funding rules A50 to A56.3 and associated evidence requirements
- Financial Memorandum (FE) - clause 9.6
- Financial Memorandum (SFC) - clause 6.6
- Contract for Services – clause 5.6
- Contract for Services (ESF) – clause 5.6
- Conditions of funding (grant) – clause 4.6
- Conditions of funding (grant) (Employer) – clause 4.17
- Conditions of funding (grant) (HEI) – clause 4.6

## 10.3 Entering into a subcontract:

- Funding rules A57 to A62.3 and associated evidence requirements
- Financial Memorandum (FE) - clauses 9.4, 9.5 and 9.7
- Financial Memorandum (SFC) - clauses 6.4, 6.5 and 6.7
- Contract for Services – clauses 5.4, 5.5 and 5.7
- Contract for Services (ESF) – clauses 5.4, 5.5 and 5.7
- Conditions of funding (grant) – clauses 4.4, 4.5 and 4.7
- Conditions of funding (grant) (Employer) – clauses 4.15 and 4.16
- Conditions of funding (grant) (HEI) – clauses 4.4, 4.5 and 4.7

## 10.4 Monitoring:

- Funding rules A64 to A66

## 10.5 Second level subcontracting

- Funding rules A67 to A68 and associated evidence requirements
- Financial Memorandum (FE) - clause 9.3
- Financial Memorandum (SFC) - clause 6.3
- Contract for Services – clause 5.3
- Contract for Services (ESF) – clause 5.3
- Conditions of funding (grant) – clause 4.3
- Conditions of funding (grant) (Employer) – clause 4.14
- Conditions of funding (grant) (HEI) – clause 4.3

## 10.6 Reporting on subcontracting

- Funding rules A69 to A70 and associated evidence requirements
- Financial Memorandum (FE) - clause 9.1
- Financial Memorandum (SFC) - clause 6.1
- Contract for Services – clause 5.1
- Contract for Services (ESF) – clause 5.1
- Conditions of funding (grant) – clause 4.1
- Conditions of funding (grant) (Employer) – clause 4.12
- Conditions of funding (grant) (HEI) – clause 4.1

## 10.7 Fees and charges

- Funding rules A71 to A77.8 and associated evidence requirements

- 11 Whilst there are other funding rules and funding agreement clauses that refer to subcontracting and subcontractors, these are not included within the scope of our minimum requirements of the report.
- 12 We are not prescribing the process that the auditor must follow in undertaking the assignment. It is your role to agree this with the auditor.
- 13 Once the report has been completed, your accounting officer or senior responsible person must review it. Examples of the senior responsible person are: chief executive, managing director, principal or their equivalent.
- 14 Your accounting officer or senior responsible person must then complete a certificate. The certificate must also be signed by the auditor. A template of the certificate can be found at Annex A. Transmittal letters or other forms of letter will not be accepted as a replacement for the certificate.
- 15 When your certificate has been completed, you must send it to this email address: [CF.Subcontracting@sfa.bis.gov.uk](mailto:CF.Subcontracting@sfa.bis.gov.uk) . You must do this by 31 May 2017. You do not need to send a copy of the report to the SFA, but we reserve the right to request a copy from you for us to review as part of our compliance arrangements.
- 16 If the external auditor has indicated that an implementation plan is required following their audit, we reserve the right to request a copy of it from you for us to review as part of our compliance arrangements.
- 17 For the avoidance of doubt, the external auditor will not be liable to us for the work it has undertaken for you.



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