

**For action:
Responses are requested by 4 February 2002**

Funding

Audit of the Use of Funds in External Institutions 2000/01

Guidance and request for audit reports

Summary

This circular provides guidance to external institutions on the preparation of a statement showing the use of their funding allocations for the academic year 1 August 2000 to 31 July 2001. Each institution should arrange for its statement to be audited. Each LEA-maintained external institution should arrange for its return to be signed by the chief finance officer of the local authority prior to the audit.

Audit reports should be returned to the responsible local Learning and Skills Council (LLSC) office by 4 February 2002.

Independent (non-LEA-maintained) external institutions are also requested to provide a set of their latest audited financial statements.

This circular is of interest to heads of external institutions, chief education officers, local authority chief finance officers, external auditors of external institutions and principals of colleges.

Supersedes

FEFC circular 00/26



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Further information

For further information, please contact the appropriate Learning and Skills Council local office, or write to:

Funding Eligibility Team
The Learning and Skills Council
101 Lockhurst Lane
Foleshill
Coventry CV6 5SF
Telephone 024 7670 3290/1

Enquiries: LSC Provider Financial Support team's support desk, 024 7649 3565

Summary

This circular provides guidance to external institutions on the preparation of a statement showing the use of their funding allocations for the academic year 1 August 2000 to 31 July 2001. Each institution should arrange for its statement to be audited. Each LEA-maintained external institution should arrange for its return to be signed by the chief finance officer of the local authority prior to the audit.

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Audit of the Use of Funds in External Institutions 2000/01

Introduction

1 This circular sets out the requirements of the Learning and Skills Council (the Council) for the audit of the use of Council funds in external institutions (EIs) for the year ended 31 July 2001. It is intended to assist external institutions in briefing their external auditors. The requirements are similar to those for 1999/2000.

2 External Institutions are institutions maintained by local education authorities and other education providers such as private colleges or voluntary organisations outside the further education sector incorporated into the *Further and Higher Education Act 1992* (F and HE Act).

3 During 2000/01 External Institutions made provision which fell within Schedule 2 to the F and HE Act. For 2000/01 funding was provided through a sponsoring Further Education College incorporated in the F and HE Act. From 2001/02 External Institutions are being funded directly by the Council. With effect from 1 April 2001 LEAs and EIs did not require Council approval to offer other provision and have the same freedom as colleges to determine what provision they offer as long as they are over 6 hours long.

4 Institutions may receive additional ring-fenced funds such as access funds, childcare support, childcare places, basic skills

summer schools and the standards fund. Institutions are to ensure that these additional funds are only used for their specified purposes and that unspent balances are repaid to the Council.

5 LEAs themselves also receive separate funding from the Learning and Skills Council for their Adult Learning Plans for adult and community learning (ACL). ACL funding will be covered in a forthcoming circular which will direct that it must be accounted for separately. Reporting for ACL will be by way of its own Use of Funds Statement and audit certificates.

6 From 2000/01 the Council has taken over direct responsibility for the audit of FE Colleges Individual Student Data Returns (ISRs). As stated in FEFC Circular 00/31 the change did not apply to external institutions. No change to the arrangements applying to External Institutions is likely before 2002/03. The Council will consult with External Institutions and the Audit Commission before any decision.

7 The Council has consulted the Audit Commission on this guidance. Later this year the Audit Commission will make available a grant instruction to auditors whom it has appointed as local authority external auditors.

8 The Council has sent two copies of this circular to each external institution and request that heads of external institutions pass one copy to their external auditor.

9 The Council has a duty to account to Parliament each year on the proper use and control of the public funds it provides to training institutions. To support this process, the Chief Executive of the Council requires external institutions to provide an annual audited use of funds statement. This arrangement allows the Chief Executive to discharge his responsibility.

10 The requirements for the provision of a use of funds statements were first set out in FEFC Circular 96/07, *Audit Arrangements for External Institutions 1993/94 and 1994/95*. Each External Institutions obligation for 2000/01 was set out in the funding agreement with the FEFC and the Council as its successor body.

Analysis of funding allocation

11 Part I of the return (shown at annex A) includes additional analysis within line one in order to provide a breakdown of the different elements of funding allocated for the year ended 2001.

LEA-Maintained External Institutions Only

12 For local education authority (LEA)-maintained external institutions, the chief finance officer (designated officer under section 151 of the *Local Government Act 1972*) must complete the declaration before the return is audited. To enable the Council's chief executive to fulfil his responsibility to parliament for the proper use and control of public funds, the Council requires the signature of the chief finance officer. On occasion, where another officer has completed the declaration instead, it has not been clear that the signature carries the authority of the chief finance officer under section 151. Where the chief finance officer of the local authority has

delegated authority under section 151 to another officer to sign the declaration, this must be stated in Part II of the return. LEA-maintained external institutions are required to provide evidence of such delegation, of section 151 authority, to their external auditors.

Non-LEA Maintained External Institutions Only

13 The Council also requires each independent (non-LEA-maintained) external institution to provide its latest set of audited financial statements together with its use of funds return. This requirement is required within the funding agreement. The Council needs the financial statements to assess the financial health of further education providers to discharge its statutory duties.

Submission of returns

14 External institutions will send their use of funds statements and (where applicable) audited financial statements to their LLSC office to arrive on or before 4 February 2002.

Requirements: Use of Funds Statement 2000/01

15 The Council requires all external institutions that received Council funding to provide a statement of the use of those funds and an audit opinion that the funds were used for the purpose(s) intended.

16 External institutions that received Council funds for the year ended 31 July 2001 need to arrange that their external auditors provide the Council and their sponsoring colleges with a report (constituting Part III of the return). This report needs to contain the details listed in paragraph 22. This requirement also applies to organisations that are no longer funded as

external institutions or which have inherited prime responsibility for the assets and liabilities of any external institution that received Council funds for 2000/01.

Mergers/transfers

17 Where an external institution received a funding allocation for the year ended 31 July 2001 and has subsequently merged with another institution, a separate use of funds statement is required for each of the former institutions (where they each received a funding allocation). The newly merged organisation is responsible for the completion and signing of these returns.

18 Where an LEA-maintained external institution has transferred from one LEA to another, the LEA responsible for the external institution at the date on which the return is required by the Council will complete and sign the declaration in Part II of (annex A).

Group returns

19 The Council requires a separate use of funds statement from each institution that received a funding allocation for the year ended 31 July 2001. This is consistent with the requirements of previous years. It is not acceptable for an LEA to return a single use of funds statement where it maintains a number of external institutions that received individual funding allocations. To avoid delay, return the use of funds statement for each institution as soon as it is audited rather than send them in a batch.

Eligibility of expenditure

20 The only provision eligible for Council funding is that for 16–18 year old part-time students and all students aged 19 years or over pursuing a programme of study falling within

the definitions of schedule 2 of the *Further and Higher Education Act 1992*. Provision by external institutions for 16–18 year old full-time students and higher education, including NVQ levels 4 and 5, is ineligible for Council funding.

Completion of return

21 Each institution should complete Part I of the return. Guidance notes are set out in annex B. The head of each institution and, where applicable, the chief finance officer of the local authority (as the designated officer under section 151 of the *Local Government Act 1972*) are required to sign the declarations in Part I and Part II respectively before passing the use of funds statement to the external auditor. The declarations confirm that the information included on the institution's return is correctly extracted from the institution's accounts and records and that the funds received from the Council were applied in accordance with any conditions imposed by the Council. Such conditions are set out in each external institution's funding agreement with the Council for the year ended 31 July 2001.

Audit of return

22 The use of funds statement requires each external institution to identify and its external auditor to confirm:

- the institution's entitlement to funds for the year ended 31 July 2001
- the amount of funds the external institution received via the sponsoring college during the year ended 31 July 2001; and
- the use of those funds in providing eligible courses for the year ended 31 July 2001.

23 For LEA-maintained external institutions, the report on the statement will be provided by the external auditor appointed by the Audit Commission to audit the accounts of the local authority. For independent (non-LEA-maintained) external institutions, the external auditor will 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 1999/2000 and 2000/01, the institution is asked to contact the Council Provider Financial Support Team (telephone 024 7649 3565, fax 024 7649 3656).

24 External institutions and their auditors are reminded that the year covered by the audited statements ended on 31 July 2001. This period will not necessarily coincide with the financial reporting period of the institution. However, the Council expects institutions to have procedures in place for identifying income and expenditure for the year ended 31 July 2001.

Timetable for 2000/01 returns

25 External institutions need to arrange that the audit occurs in time to meet the deadline. Any external institution unable to meet this deadline is asked to inform their LLSC in writing and provide a firm promise date. Where external auditors become aware of a likely delay they are also requested to inform the LLSC.

26 Send audited use of funds statements, using the form provided at annex A to this circular, to the LLSC to arrive by 4 February 2002. The addresses of the LLSCs can be obtained from the Council website, (www.lsc.gov.uk).

Support Arrangements

27 External institutions, local authority chief finance officers and their external auditors may make enquiries regarding the compilation and audit of the forms at annex A by contacting the Council Provider Financial Support team (telephone 024 7649 3565, fax 024 7686 3656).

28 The Council considers an audit report to be qualified if any one of subparagraphs (c), (d) or (e) of the audit report at part III of annex A applies. Auditors, other than those appointed by the Audit Commission, proposing to qualify an audit report are requested to contact the Council National Provider Financial Support Team support desk on 024 7649 3565. External auditors of LEA-maintained external institutions should consult the Audit Commission grants team (telephone 0117 975 7816, fax 0117 979 0552, e-mail apagtechsupport@audit-commission.gov.uk) where they have queries about any qualifications to their audit report. The purpose of this request is to examine the proposed qualification and to ensure a consistent approach between auditors.

Overdue Returns and Qualified Audit Opinions

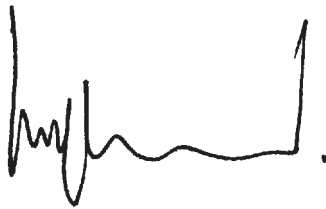
29 External Institutions are reminded that the Council has a statutory duty to account to parliament each year on the proper use and control of public funds. In the absence of audited statements, the Council cannot assure Parliament that its funds were applied properly.

30 Where the Chief Executive of the Council cannot secure timely assurance about the proper use and control of funds at an External Institution the Council May:

- seek to secure other provision for the students
- require satisfactory assurances and actions by the institution. Such an agreement will also be supported by restrictions on the funding provided. The institution will not qualify for any initiative funds.

31 In the case of an LEA-maintained External Institution the relevant correspondence will be copied to the Audit Commission.

32 Where a return is qualified, the Council may impose similar sanctions to those set out above.

A handwritten signature in black ink, appearing to read 'John Harwood', with a stylized, cursive script.

John Harwood, Chief Executive

Annex A: Use of Funds Statement for the Year Ended 31 July 2001

101 Lockhurst Lane
Foleshill, Coventry
CV6 5SF
T 024 7658 2761
F 024 7658 2738

www.lsc.gov.uk
info@lsc.gov.uk

External institutions are asked to complete Part I of this statement. Local education authority (LEA)-maintained institutions should arrange for the chief finance officer of the local authority to sign Part II. All external institutions should then pass it to their external auditor for certification (Part III).

Once certified, this form – together with, in the case of independent (non-LEA-maintained) institutions, a set of the institution's latest audited financial statements – should be returned to the local LSC office to arrive on or before 4 February 2002. Auditors are requested to provide a copy simultaneously to the external institution and its sponsoring college.



Learning+Skills Council

Name of funded external institution for the year ended 31 July 2001 (*please print*)

FEFC/LSC code for external institution for the year ended 31 July 2001

Contact name and telephone number for queries

Name of sponsoring college for part of the year ended 31 July 2001

Is the institution LEA-maintained? Yes No

Name of LEA (if applicable)

Returns enclosed (*please tick*)

- 1 Use of funds statement for the year ended 31 July 2001
- 2 Latest audited financial statements
Independent (non-LEA-maintained) external institutions only

Name of Institution
LSC Code

Part I	FEFC/LSC Funding	£
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 year ended 31 July 2001	
	– main allocation_____	
	– adult growth_____	
	– additional funds_____	
	– access funds_____	
	– inclusive learnin_____	
	– childcare support_____	
	– basic skills summer school_____	
	– childcare places_____	
	– standards fund_____	
	Total _____	
	2 Net funds received via sponsoring college during the year ended 31 July 2001	
	3 Funds receivable from sponsoring college in respect of the year ended 31 July 2001 based on level of activity*	
	4 Add: Balance brought forward from the year ended 31 July 2000	
	5 Plus or minus adjustments relating to previous years (if any)	
	6 Less: Cost of providing schedule 2 courses in the year ended 31 July 2001 (net of fee income)	
	7 Excess (+)/shortfall (–) of funds available for future schedule 2 courses	
	8 Balance carried forward to next year	

*The figure in line 3 should include the elements of funding listed in line 1

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 the year ended 31 July 2001 was applied in accordance with the conditions under which it was received from the Further Education Funding Council and the Learning and Skills Council.

Signature
Name (<i>please print</i>)
Position (<i>Head of Institution</i>)
Date

Name of Institution
LSC Code

Part II**Declaration to be completed by the Chief Finance Officer of the Local Authority (for LEA-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 the year ended 31 July 2001 has been applied in accordance with the conditions under which it was received from the Further Education Funding Council and the Learning and Skills Council.

I confirm that either (*please tick one of the boxes below*):

- I am the chief finance officer (designated officer under section 151 of the *Local Government Act 1972*); or
- I have delegated authority to sign in place of the chief finance officer as designated officer under section 151 of the *Local Government Act 1972*.

Signature
Name (<i>please print</i>)
Position (<i>please print</i>)
Local Authority
Date

Name of Institution
LSC Code

Part III

This must be completed by the auditor

Audit Report

We have examined the entries in the above statement from the above institution, together with the supporting accounts and the records on which they are based, and have carried out the tests *[in GI EDU 23(00-01) and other 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 statement at part I are fairly stated and properly compiled and properly extracted from the records of the institution and the funding from the Further Education Funding Council and the Learning and Skills Council was applied in accordance with the conditions under which it was received.

Signature
Name <i>(please print)</i>
Name of Audit Firm
Address
Phone number
Email
Date

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

*delete for independent (non-LEA-maintained) external institutions

Annex B: Guidance on the Completion of Part I of Annex A

1 Enter at line 1 the institution's funding allocation for the year ended 31 July 2001. This will comprise:

- the main allocation shown in **box r** of the institution's final funding allocation (annex A to the funding agreement for the year ended 31 July 2001) plus, where applicable
- adult growth shown in **box w** of the institution's final funding allocation (annex A to the funding agreement for the year ended 31 July 2001)
- childcare support allocation shown in **box af** of the institution's final funding allocation (annex A to the funding agreement for the year ended 31 July 2001)
- basic skills summer schools allocation shown in annex A to Mary Heslop's letter dated 12 July 2000
- access funds set out in the last column of Supplement B, annex E to FEFC Circular 00/14b *Learner Support Funds 2000-2001*. Please note that not every institution accepted the allocation or all of the allocation. Institutions should check the exact amount allocated, if any, by referring to their completed acceptance form (annex F of Circular 00/14b)
- funding for additional childcare places as set out in an agreement letter from the respective regional director in October 2000. **(Lead institutions should only include their share of the allocation and not the total amount received)**
- inclusive learning initiative funds set out in Mary Heslop's letter of 13 January 2000. Please note that institutions were asked to confirm acceptance of this allocation. Institutions should check the exact amount allocated, if any, by referring to their completed acceptance form; and
- any other Council funding allocation for the year ended 31 July 2001.

Calculate the total funding and enter this where indicated.

2 At line 2 enter the actual funds received from the sponsoring college or directly from the Council during the year ended 31 July 2001, **net of funds recovered from the institution and irrespective of the period to which they relate**. Recovery may have been achieved by a reduction in funding or by repayments to either the sponsoring college or the Council. The line 2 entry may differ from the total shown at line 1 due to recoveries and/or to:

Annex B:

- timing differences
- in-year adjustments for over- or under-achievement of student activity.

3 Enter at line 3 the amount of funds that the institution is entitled to receive from the sponsoring college in respect of the year ended 31 July 2001 based on its level of activity. This figure should comprise:

- units delivered at the institution's average level of funding (ALF); plus
- cash (non-unit-based) allocations to the extent that the institution has satisfied the conditions of funding.

The above approach should treat basic skills summer schools funding consistently with the treatment of basic skills summer schools units in institutions' funding returns, thus include only the following in institutions' use of funds returns for the year ended 31 July 2001 (*FEFC guidance on the Tariff 2000/01*, table 1, page 25 refers)

- basic skills summer schools funding relating to students who enrolled for a basic skills summer school in 2001 and completed their courses by 31 July 2001; and
- basic skills summer schools funding relating to students who enrolled for a basic skills summer school in 2000 who had not completed their courses by 31 July 2000.

4 Enter at line 4 the balance brought forward. This represents funds which remained **unused** at the end of the last period. This entry should correspond with any positive balance carried forward at line 8 on the previous year's statement, which was compiled on an accruals basis to identify FEFC funds held by institutions but not yet applied.

5 Enter at line 5 any adjustment(s) made since the previous return was completed in respect of prior years' funding, that is any adjustments which affect the balance brought forward in line 4 above.

6 Enter at line 6 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.

7 Enter at line 7 the excess (+)/shortfall (-) of funds available to meet schedule 2 costs. This should equal to the amounts shown at line 3, plus line 4, plus or minus line 5, minus line 6.

8 The balance carried forward at line 8 represents the excess of funds made available as calculated at line 7. Enter at 8 'nil' if there is a shortfall of funds calculated at line 7.

9 Round all the amounts in Part I of annex A to the nearest whole number.

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