

For Action: Responses to Annex A are requested by 28 February 2003

Finance

Return on the Use of Funds by Former External Institutions 2001/02

Summary

This circular provides guidance to former external institutions on the preparation of an audited return to the Learning and Skills Council (LSC) showing the use of their funding allocations, under their financial memorandum with the LSC, for the funding year 1 August 2001 to 31 July 2002. Every former external institution should arrange for its return to be signed by the head of the institution and for an audit report to be made on the return. Each LEA-maintained former external institution should arrange for its return to be signed by the chief finance officer of the local authority before the audit.

Independent (non-LEA-maintained) former external institutions must also submit a set of their latest audited financial statements with their audited return.

Returns, accompanying audit reports, and, where applicable, audited financial statements, should be returned to the head of provider financial assurance at the relevant local LSC by 28 February 2003.

This circular is of interest to heads of both LEA- and non-LEA-maintained former external institutions, chief education officers, local authority chief finance officers and financial statements auditors ('external auditors') of former external institutions.

This circular supersedes Circular 01/17.



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Annex A	Use of Funds Return for the Year Ended 31 July 2002
Annex B	Guidance on Completing Part 1

Further information

For further information, please contact:
National Provider Financial Assurance Division
Learning and Skills Council
Cheylesmore House
Quinton Road
Coventry
CV1 2WT

National Provider Financial Assurance Division
Tel: 024 7649 3975
Email: ian.mason@lsc.gov.uk.

Financial statements auditors of local authorities with enquiries should contact the Audit Commission directly.
Tel: 0117 975 7816
Email: apagtechsupport@audit-commission.gov.uk.

Responses to this document

Responses to this document are requested by 28 February 2003.

Executive Summary

Date: December 2002

Subject: This circular provides guidance to former external institutions on the preparation of an audited return to the LSC showing the use of their funding allocations, under their financial memorandum with the LSC, for the funding year 1 August 2001 to 31 July 2002. Every former external institution should arrange for its return to be signed by the head of the institution prior to the audit and for an audit report to be made on the return. Each LEA-maintained former external institution should arrange for its return to be signed by the chief finance officer of the local authority prior to the audit.

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

Returns, accompanying audit reports and, where applicable, audited financial statements should be returned to the head of provider financial assurance at the relevant local Learning and Skills Council by 28 February 2003.

Intended recipients: This circular is of interest to heads of former external institutions, chief education officers, local authority chief finance officers and financial statements auditors of former external institutions.

Status: For action and information.

Date for responses: The returns at Annex A are requested by 28 February 2003.

Return on the Use of Funds by Former External Institutions 2001/02

Introduction

1 This circular sets out the requirements of the Learning and Skills Council (LSC) for the submission by former external institutions of an audited return on each institution's use of LSC funds for the year ended 31 July 2002. This circular is intended to help former external institutions in making these returns and in briefing their financial statements (external) auditors in auditing the returns.

2 Former external institutions are those providers of further education (FE) that are funded under a specific financial memorandum with the LSC. They are usually adult education colleges or similar bodies maintained by local education authorities (LEAs). In a few cases, they are commercial or voluntary sector learning providers. Colleges incorporated under the *Further and Higher Education Act 1992* and other LSC-funded providers of FE that are not colleges, such as directly funded **learnirect** hubs, are not subject to the requirements of this circular.

3 The LSC's chief executive, as its accounting officer, has a duty to ensure the proper use and control of the public funds that the LSC allocates to learning providers. To discharge that duty, the chief executive requires former external institutions, through their financial memorandum with the LSC, to:

- ensure that LSC funds received under the financial memorandum are only used for the purpose(s) provided; and
- provide annually an audited use of funds statement in relation to LSC funds received under the financial memorandum. It is this audited statement that is the subject of this circular.

4 Former external institutions may receive additional ring-fenced funds such as those to support access, childcare, childcare places and basic skills summer schools, or the standards fund. Former external institutions must ensure that these additional funds are only used for their specified purposes and that unspent balances are repaid to the LSC.

5 The LSC also requires former external institutions to submit an audited funding claim and Individualised Student Record (ISR) for 2001/02 to the LSC, as set out in LSC Circular 01/05.

6 LEAs may also have received separate funding in respect of 2001/02 from the LSC in one of the following ways.

- Under a grant letter, for adult and community learning (ACL) provision. The arrangements for reporting on the use of funds and the audit of ACL funding are set out in Circular 02/10. They are not covered in this circular.
- Under a grant letter, for schools sixth form (SSF) provision. The arrangements for reporting on the use of funds and the audit of SSF provision are currently under consideration by the LSC and are not covered in this circular.
- Under separate contracts, for work-based learning or other provision. Arrangements for reporting on and the audit of this funding are not covered in this circular.

7 The LSC has sent two copies of this circular to each former external institution and asks heads of former external institutions to pass one copy to their financial statements auditor.

Requirements

Use of funds return 2001/02

8 The LSC requires former external institutions that received LSC FE funding under a financial memorandum for the year ended 31 July 2002 to make a return in up to three parts (Part I, Part II and Part III; see Annex A).

9 All former external institutions must:

- provide a statement of the use of LSC funds provided under their financial memorandum in Part I of the return; and
- arrange for their financial statements auditors to provide the LSC with a report, including an audit opinion that LSC funds were used for the purpose(s) intended in Part III of the return.

LEA-maintained former external institutions

10 For LEA-maintained former external institutions, the chief finance officer (designated officer under section 151 of the *Local Government Act 1972*) must **also** complete the declaration at Part II of the return before the return is audited. 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 former external institutions are required to provide evidence of any delegation of section 151 authority to their financial statements auditors.

11 The LSC has consulted the Audit Commission on its guidance as it relates to LEA-maintained former external institutions. The Audit Commission will make available a certification instruction (CI EDU23E(01/02)) to auditors whom it has appointed as local authority external auditors.

Independent former external institutions

12 All independent (that is, non-LEA-maintained) former external institutions are **also** required to send their latest set of audited financial statements, along with the

use of funds return. This requirement is part of the institution's financial memorandum with the LSC. The LSC requires the financial statements in order to assess the financial health of FE providers.

Cessation, mergers and transfers

13 The requirement to submit Part I and Part III of the return, and Part II for LEA-maintained former external institutions, also applies to any organisation that:

- was funded as an former external institution for the year ending 31 July 2002, but is no longer so funded;
- has inherited prime responsibility for the assets and liabilities of any former external institution that received LSC funds under a financial memorandum for the year ending 31 July 2002; or
- was funded as a former external institution for the year ended 31 July 2002 and has subsequently merged with another former external institution. A separate use of funds return is required for each of the former institutions that have merged (where they each received a funding allocation). The newly merged institution is responsible for the completion and signing of these returns.

14 Where an LEA-maintained former external institution has transferred from one LEA to another, the LEA responsible for the former external institution at the date on which the return is required by the LSC must complete and sign the declaration in Part II of the return.

Group returns

15 The Council requires a separate use of funds return in respect of each allocation from each institution for the year ended 31 July 2002. This is consistent with the requirements of previous years. It is not acceptable for an LEA to return a single use of funds return where it maintains a number of former external institutions that received individual funding allocations.

Sending returns

16 Former external institutions must send their use of funds return and, where applicable, audited financial statements (see paragraph 12 above) to the head of provider financial assurance at their local LSC to arrive on or before 28 February 2003. Addresses of the 47 local LSCs can be found on the LSC's website (www.lsc.gov.uk).

17 The deadline set for returns is similar to that set for returns made in previous years. Although the deadline is several months after the funding year-end, sizeable numbers of external institutions have not achieved the deadline in the past. External institutions are strongly urged to submit their returns by the deadline.

18 The returns form a significant part of the LSC's evidence showing how providers have used LSC funds. The National Audit Office (NAO) will consider this evidence, as part of its audit of, and reporting on, the LSC's own 2002/03 financial statements. The NAO has stressed to the LSC the importance of prompt submission of returns by external institutions.

19 Local LSCs will write to external institutions at the end of January 2003 to confirm whether the external institution believes that the deadline will be met. Where the external institution does not expect to meet the deadline, it should state the reasons for the delay and the expected date of submission. The local LSC will offer support in achieving the deadline, where appropriate. Where financial statements auditors become aware of a likely delay they are also asked to inform the local LSC. Local LSCs will pursue returns outstanding after 28 February 2003 promptly.

Completion of Returns

Part I and Part II

20 The return is attached to this circular at Annex A in three parts. Part I requires each former external institution to declare:

- the former external institution's entitlement to funds for the year ended 31 July 2002;
- the value of funds the former external institution received during the year ended 31 July 2002; and
- that the former external institution made proper use of public funds in providing eligible courses for the year ended 31 July 2002.

21 Part I requires additional analysis within line 1 in order to provide a breakdown of the different elements of funding allocated for the year ended July 2002. Guidance notes for completing this analysis are set out in Annex B of this circular.

22 The head of each institution and, where applicable, the chief finance officer of the local authority must sign the declarations in Part I and Part II respectively before passing the use of funds return to the former external institution's financial statements auditor. The declarations confirm that the information included on the former external institution's return is correctly extracted from the institution's accounts and records, and that the funds received from the LSC were applied in accordance with any conditions imposed by the LSC. Such conditions are set out in each former external institution's financial memorandum with the LSC for the year ended 31 July 2002.

Part III

23 Part III of the return requires the former external institution's financial statements auditors to report on Part I of the return.

24 For LEA-maintained former external institutions, the audit report must be given by the auditors of the local authority appointed by the Audit Commission. The form of the audit report is that agreed between the LSC and the Audit Commission in the Audit Commission's Certification Instruction (CI EDU 23 (01/02)) to its appointed auditors.

25 For independent former external institutions, the audit report must be given by 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 2000/01 and 2001/02, the institution is asked to contact the LSC's National Provider Financial Assurance Division in Coventry (Tel: 024 7682 3975, Fax: 024 7682 3803).

26 The form of audit report for independent former external institutions' returns has been redeveloped for 2001/02 to reflect the LSC's guidance to financial statements auditors of further education colleges, when these auditors give their opinions on colleges' proper use of public funds.

27 Former external institutions and their auditors are reminded that the year covered by the institution's return ended on 31 July 2002. This period will not necessarily coincide with the financial reporting period of the institution. However, the LSC requires former external institutions to have procedures in place for identifying income and expenditure for the year ended 31 July 2002.

Eligibility of expenditure

28 The only provision eligible for LSC funding is that which is specified in the funding agreement, letter or circular from the LSC notifying the institution of its allocation. A course is not eligible for LSC funding unless it has been approved under Section 98 of the *Learning and Skills Act 2000*. Sections 96 and 97 of the *Learning and Skills Act 2000* provide that courses for the further training of teachers or youth and community workers, postgraduate courses, first degree courses and courses for the Diploma of Higher Education or the Certificate in Education are not eligible for LSC funding.

29 Details of which qualifications have been approved can be found on the DfES website (www.dfes.gov.uk/section96 lists courses for learners under the age of 19, and www.dfes.gov.uk/section97 lists courses for learners aged 19 or over).

30 The funding allocation also includes that for courses for students aged 16 or over who are pursuing courses of higher education falling within paragraph 1(g) or 1(h) of Schedule 6 to the *Education Reform Act 1988*. Paragraph 1(g) covers courses that prepare learners for a professional examination at a higher level than the standard of 'A' level or the examination for the National Certificate or the National Diploma of Edexcel (formerly the Business and Technical Education Council). Paragraph 1(h) covers courses providing education at a higher level (whether or not in preparation for an examination) than the standard of 'A' level or the examination for the National Certificate or the National Diploma of Edexcel.

31 As stated in paragraph 4, former external institutions must ensure that funds are only used for their specified purposes and that unspent balances are repaid to the LSC.

Support arrangements

32 Former external institutions, local authority chief finance officers and their financial statements auditors may make enquiries regarding the compilation and audit of the return at Annex A by contacting the LSC's National Provider Financial Assurance Division.

33 Auditors proposing to qualify their report should follow the procedures given below.

- Auditors of non-LEA-maintained institutions should contact the head of provider financial assurance at the local LSC.
- External auditors of LEA-maintained former external institutions should consult the Audit Commission grants team (Tel: 0117 975 7816, Fax: 0117 979 0552, email apagtechsupport@auditcommission.gov.uk) where they have queries about any qualifications to their audit report.

34 The purpose of this request is to examine the proposed qualification and to ensure a consistent approach between auditors.

Overdue returns/qualified audit opinions

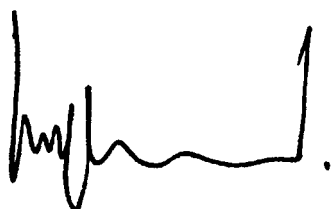
35 Former external institutions are reminded that the LSC has a statutory duty to account to Parliament each year on the proper use of public funds. In the absence of audited returns, the LSC cannot assure Parliament that its funds were applied properly.

36 Where the LSC's chief executive cannot secure timely assurance about the proper use of funds at an former external institution the LSC may:

- seek to secure other provision for learners funded at the former external institution; and/or
- require satisfactory assurances and actions by the institution. Such an agreement will also be supported by restrictions on the funding provided. The former external institution will not qualify for any initiative funds.

37 In the case of an LEA-maintained former external institution, the relevant correspondence will be copied to the Audit Commission.

38 Where an audit report accompanying a return is qualified, the LSC may impose similar sanctions to those set out above.

A handwritten signature in black ink, appearing to read 'John Harwood', with a stylized flourish at the end.

John Harwood, Chief Executive

Annex A: Use of Funds Return for the Year Ended 31 July 2002

Cheylesmore House
Quinton Road
Coventry
CV1 2WT
T 024 7649 3975
F 024 7649 3835

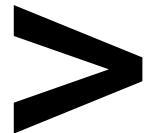
www.lsc.gov.uk
ian.mason@lsc.gov.uk

(Reference Circular 02/24)

Please complete this form clearly in ink.

All former external institutions are asked to complete Part I of this return. Local education authority (LEA)-maintained institutions should arrange for the chief finance officer of the local authority to sign Part II. All former external institutions should then pass the signed return to their financial statements auditors for their report on it in Part III.

Once audited, all relevant parts of this form – together with, in the case of independent (non-LEA-maintained) former external institutions, a set of the institution's latest audited financial statements – should be returned to the head of provider financial assurance at the relevant local LSC to arrive on or before 28 February 2003. Auditors are asked to provide a copy of their report simultaneously to the former external institution.



Learning+Skills Council

Name of funded external institution for the year ended 31 July 2002 <i>(please print)</i>	
LSC code for former external institution for the year ended 31 July 2002	
Contact name and telephone number for queries <i>(please print)</i>	
Is the institution LEA-maintained? <i>(please tick one box)</i>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Name of LEA <i>(if applicable)</i>	
Returns enclosed <i>(please tick appropriate boxes)</i>	
1 Use of funds return for the year ended 31 July 2002	<input type="checkbox"/>
2 Latest audited financial statements (independent (non-LEA-maintained) former external institutions only)	<input type="checkbox"/>

Part I. This must be completed before passing to the financial statements (external) auditor. The notes at Part III must be followed when completing the form.

LSC Funding

1	Funding allocation for the year ended 31 July 2002	£ <input type="text"/>
	– main allocation	£ <input type="text"/>
	– access funds	£ <input type="text"/>
	– basic skills and ESOL	£ <input type="text"/>
	– childcare places	£ <input type="text"/>
	– standards fund	£ <input type="text"/>
	– other – please specify	£ <input type="text"/>

Total

		£ <input type="text"/>
--	--	------------------------

2	Net funds received during the year ended 31 July 2002	£ <input type="text"/>
---	---	------------------------

3	Funds receivable in respect of the year ended 31 July 2002 based on level of activity*	£ <input type="text"/>
---	--	------------------------

4	Add: Balance brought forward from the year ended 31 July 2001	£ <input type="text"/>
---	---	------------------------

5	Plus or minus adjustments relating to previous years (if any)	£ <input type="text"/>
---	---	------------------------

6	Less: Cost of providing eligible courses in the year ended 31 July 2002 (net of fee income), and eligible expenditure from other ring-fenced allocations	£ <input type="text"/>
---	--	------------------------

7	Excess (+)/shortfall (–) of funds available for future eligible courses	£ <input type="text"/>
---	---	------------------------

8	Balance carried forward to next year	£ <input type="text"/>
---	--------------------------------------	------------------------

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

Declaration

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 2002 was applied in accordance with the conditions under which it was received from the Learning and Skills Council.

Declaration to be completed by the head of institution

Signature
Name <i>(please print)</i>
Position <i>(head of institution)</i>
Date

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 2002 has been applied in accordance with the conditions under which it was received from the Learning and Skills Council.

I confirm that either <i>(please tick one of the boxes below)</i> :	
I am the chief finance officer (designated officer under section 151 of the Local Government Act 1972); or	<input type="checkbox"/>
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.	<input type="checkbox"/>
Signature	
Name <i>(please print)</i>	
Position <i>(chief finance officer)</i>	
Local Authority	
Date	

Part III. This must be completed by the auditor (non-LEA-maintained institutions only)

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 we consider necessary. In addition, we have obtained such information and explanations as we consider necessary to form the basis of our opinion.

(Except for the matters raised in the attached qualification letter dated)*

In our opinion, in all material respects, monies expended out of funds provided by the Learning and Skills Council have been applied in accordance with the funding agreement between the Learning and Skills Council and the institution and any other terms and conditions attached to them for the year ended 31 July 2002.

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

* *Delete as necessary*

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

Part III This must be completed by the auditor (LEA-maintained institutions only)

Report of Auditor Appointed by the Audit Commission

The Statement of Responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns, issued by the Audit Commission, sets out the respective responsibilities of these parties, and the limitations of our responsibilities as appointed auditors. I/we have:

- examined the entries in this form (which replaces or amends the original submitted to me/us by the authority dated)* and the related accounts and records of the authority in accordance with Certification Instruction A1 prepared by the Audit Commission for its appointed auditors; and
- carried out the tests specified in Certification Instruction EDU 23 (01/02) prepared by the Audit Commission for its appointed auditors, and I/we have obtained such evidence and explanations as I/we consider necessary.

(Except for the matters raised in the attached qualification letter dated)*

I/we have concluded that the entries are

- fairly stated; and
- in accordance with the relevant terms and conditions.

Signature
Name <i>(please print)</i>
Name of organisation
Job title
Date

* *Delete as necessary*

Annex B: Guidance on Completing Part I

1 Enter at line 1 the institution's funding allocation for the year ended 31 July 2002.

This will comprise:

- the main allocation shown in **box ac** of the institution's final funding allocation (Annex A to the funding agreement for the year ended 31 July 2002);
- access funds set out in Supplement B, Annex F to Circular 01/08 *FE Learner Support Funds 2001/02*. Please note that not every former external 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 G of Circular 01/08);
- 'Basic skills and ESOL in local communities' – utilisation of unspent funds from the FE summer schools allocation for 2000/01, determined in accordance with Anita Hallam's letter to project managers of 1 March 2002;
- funding for additional childcare places as set out in a funding agreement letter from the respective executive director. Lead institutions should only include their share of the allocation and **not** the total amount received;
- allocations from the standards fund as set out in Emer Clarke's letter to the institution; and
- any other LSC funding allocation for the year ended 31 July 2002 under the former external institution's financial memorandum with the LSC.

2 Calculate the total funding and enter this where indicated.

3 At line 2, enter the actual funds received from the LSC during the year ended 31 July 2002, **net** of funds recovered from the former external institution and **irrespective** of the period to which they relate. Recovery may have been achieved by a reduction in funding or by repayments to the LSC. The line 2 entry may differ from the total shown at line 1 due to recoveries and/or to:

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

4 Enter at line 3 the amount of funds that the institution is entitled to receive in respect of the year ended 31 July 2002 based on its level of activity. This figure should comprise:

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

5 The above approach should treat basic skills summer school(s) (BSSS) funding consistently with the treatment of BSSS units in institutions' funding returns. Therefore, include only the following in institutions' use of funds returns for the year ended 31 July 2002:

- BSSS funding relating to learners who enrolled for a BSSS in 2002 and completed their courses by 31 July 2002; and

- BSSS funding relating to learners who enrolled for a BSSS in 2001 who had not completed their courses by 31 July 2001.

6 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 LSC funds held by institutions but not yet applied.

7 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.

8 Enter at line 6 the net identified cost of providing courses eligible for LSC funding and for which LSC funding is claimed, after deducting any fee income earned from the courses.

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

10 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.

11 Round all the amounts in Part I of the return to the nearest whole number.

Notes

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