

Circular 00/26

Finance

Audit of the Use of Funds in External Institutions 1999-2000

Summary

This circular is addressed to heads of external institutions, chief education officers, LEA chief finance officers, principals of colleges and external auditors of external institutions (via heads of external institutions). It provides guidance on the preparation of a statement showing their use of funds for the teaching year 1 August 1999 to 31 July 2000. 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. Independent (non-LEA-maintained) external institutions are also requested to provide a set of their latest audited financial statements.

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Finance: Audit of the Use of Funds in External Institutions 1999-2000

Introduction

1 This circular sets out the requirements of the Further Education Funding Council (the Council) for the audit of the use of Council funds in external institutions for the year ended 31 July 2000. It is intended to assist external institutions in briefing their external auditors. The requirements are similar to those for 1998-99.

2 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.

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

Background

4 The Council's requirements for the provision of a use of funds statement were first set out in Circular 96/07, *Audit Arrangements for External Institutions 1993-94 and 1994-95*. A use of funds statement is required from external institutions as they are not required to provide the Council with an audited set of financial statements giving the necessary assurances regarding proper use of Council funds.

Changes to Guidance

Analysis of funding allocation

5 Part I of the return (shown at annex A) includes additional analysis within line 1 in order to provide a breakdown of the different

elements of funding allocated for the year ended 31 July 2000.

Signature of section 151 officer

6 For LEA-maintained external institutions, the declaration by the chief finance officer (designated officer under section 151 of the *Local Government Act 1972*) of the local authority must be completed 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. In a limited number of cases, where another officer has completed the declaration instead, it has not been clear whether the signature carries the authority of the chief finance officer under section 151. Where the chief finance officer of the local authority has delegated his or her authority under section 151 to another officer for the purpose of signing the declaration, this should be stated in Part II of the return.

LEA-maintained external institutions are required to ensure that evidence of any delegation of section 151 authority is provided to their external auditors.

Submission of returns

7 The Council will become part of the new Learning and Skills Council from 1 April 2001. As the office locations of all the new local learning and skills councils are not yet known, external institutions should this year send their use of funds statements and (where applicable) audited financial statements to the Council's Coventry office to arrive on or before 5 February 2001. The returns should be marked for the attention of: Lee Wilson, Funding Team, The Further Education Funding Council, Cheylesmore House, Quinton Road, Coventry CV1 2WT.

Qualified audit opinion

8 Where a return bears a qualified audit opinion, the Council may impose similar requirements to those set out in respect of overdue returns (see paragraphs 25 to 29 below).

Requirements: Use of Funds Statement 1999-2000

9 The Council requires all external institutions which have received Council funding to provide a statement of the use of those funds and secure an audit opinion that the funds have been used for the purpose(s) intended. This audit requirement assists the chief executive, as accounting officer for the Council, to discharge his responsibility to parliament for the proper use and control of public funds.

10 External institutions which received Council funds for the year ended 31 July 2000 are required to arrange for their external auditors to provide the Council and their sponsoring colleges with a report (constituting Part III of the return). This report should contain the details listed in paragraph 17. This requirement also applies to organisations which are no longer funded as external institutions or which have inherited prime responsibility for the assets and liabilities of any external institution which received Council funds for 1999-2000.

Mergers/transfers

11 Where an external institution received a funding allocation for the year ended 31 July 2000 and has subsequently merged with another institution, a separate use of funds statement should be provided for each of the former institutions involved in the merger (where they each received a funding allocation). The newly merged organisation will be responsible for the completion and signing of these returns.

12 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 to be provided to the Council should complete and sign the declaration in Part II of annex A.

Group returns

13 The Council requires a separate use of funds statement from each institution which has received a separate funding allocation for the year ended 31 July 2000. 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 which have received separate funding allocations. To avoid delay, the use of funds statement for each institution should be returned as soon as it has been audited rather than sent in a batch.

Eligibility of expenditure

14 Under the sponsorship arrangements for external institutions, 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*. Expenditure on any other provision is ineligible for Council funding in external institutions; this includes provision for 16–18-year-old full-time students and higher education provision, including NVQ levels 4 and 5.

Completion of return

15 Each institution should complete Part I of the return. Guidance notes are set out in annex B. The head of the 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 has been correctly extracted from the institution's accounts and records and that funding receivable from the Council has been applied in

accordance with the conditions under which it was received. The conditions under which the Council provides funds to external institutions are set out in each external institution's funding agreement with the Council for the year ended 31 July 2000.

16 As set out in paragraph 6 above, where a chief finance officer of an LEA-maintained institution has delegated his or her authority under section 151 of the *Local Government Act 1972* to another officer to sign the declaration in Part II of the return, then this should be stated. If the authority has been delegated, the institution should provide evidence of that delegation to its external auditors.

Audit of return

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

- the level of funds the external institution has received via the sponsoring college during the year ended 31 July 2000
- the institution's entitlement to funds for the year ended 31 July 2000, and
- the use of those funds in providing eligible courses for the year ended 31 July 2000.

The external auditor should carry out a programme testing the institution's systems and controls (as necessary) and tests on the data, to confirm that:

- the entries on the institution's use of funds statement are fairly stated and have been properly compiled and properly extracted from the records of the institution, and
- the funding from the Council has been applied in accordance with the conditions under which it was received.

18 For LEA-maintained external institutions, the report on the statement should 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 should be the auditor or accountant already appointed to audit the institution's annual financial statements. Where there is any doubt as to who should undertake the audit, or where the institution's auditor has changed between 1998-99 and 1999-2000, the institution is asked to contact the Council finance team's support desk (telephone 024 7686 3056, fax 024 7686 3156).

19 External institutions and their auditors are reminded that the year covered by the audited statements requested by the Council ended on 31 July 2000. This period will not necessarily coincide with the financial reporting period of the institution. However, the Council expects that institutions will have procedures in place for identifying costs for the year ended 31 July 2000.

Timetable for 1999-2000 returns

20 External institutions should arrange for the audit to take place and ensure that the deadline for audited statements is met by providing the relevant information to their auditors promptly. Any external institution unable to meet this deadline is asked to inform Judith Howden, regional finance director, at the Council's Coventry office, in writing, and provide a firm promise date. If external auditors become aware of a likely delay they are also requested to inform Judith Howden.

21 Audited use of funds statements should be sent to Lee Wilson at the Council's Coventry office using the form provided at annex A to this circular, to arrive on or before 5 February 2001. The address of the Coventry office is given in paragraph 7 of this circular.

Audited Financial Statements

22 The Council requires each independent (non-LEA-maintained) external institution to provide its latest set of audited financial statements together with its use of funds return. The financial statements are required so that the Council may consider the financial health of further education providers in order to fulfil its

statutory duties. This information is requested under paragraph 7 of the funding agreement with the Council for the year 1 August 1999 to 31 July 2000.

Support Arrangements

23 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 finance team's support desk (telephone 024 7686 3056, fax 024 7686 3156).

24 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 finance team's support desk on 024 7686 3056. External auditors of LEA-maintained external institutions should consult the Audit Commission's grants team (telephone 0117 975 7863, fax 0117 979 0552, e-mail apagtechsupport@audit-commission.gov.uk) should they have any doubts or queries about any qualifications to their audit report. The purpose of this request is to provide an opportunity to explore the basis of the proposed qualification more fully and to ensure a consistent approach between auditors.

Overdue Returns

25 A number of external institutions have still not returned an audited statement on the use of funds provided by the Council for previous years. Institutions are reminded that the Council has a statutory duty to account to parliament each year on the proper use and control of public funds. In the absence of audited statements, the Council cannot assure parliament that its funds have been applied properly.

26 For external institutions with late data returns the Council will write to the institution, requiring, as a condition of future funding:

- an assurance from the senior management or, in the case of an LEA-maintained organisation, the chief finance officer of the local authority, that an internal audit evaluating the institution's management information systems will take place
- an action plan demonstrating how the institution will remedy deficiencies within one year from the date of the audit report.

27 The relevant correspondence will be copied to the Audit Commission in the case of an LEA-maintained external institution. The institution will not be eligible for initiative funds during this period. If insufficient progress is made, the institution concerned may not be eligible for growth funding in the following year. If returns remain outstanding, the Council may seek to recover funds from the institution. In this case, the Council will, in discussion with the sponsoring college,¹ seek to secure the provision for students if the recovery of funds will impact on the adequacy of provision.

28 In addition, the Council will not be able to confirm an institution's 2000-2001 funding allocation until it has received audited statements and thereby an assurance that its previous funding allocations have been properly applied and controlled.

29 The above requirements may also be placed on an institution if its external auditors qualify their opinion.¹



¹ From 1 April 2001 external institutions will no longer be funded through sponsoring colleges. Instead, they will be funded directly by the Learning and Skills Council (LSC). The LSC may vary the requirements set out in paragraphs 25 to 29.

Use of Funds Statement for the Year Ended 31 July 2000

(Reference Circular 00/26)

External institutions are asked to complete Part I of this statement. 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 Lee Wilson, Funding Team at the Council's Coventry office to arrive on or before 5 February 2001. Auditors are requested to provide a copy simultaneously to the external institution and its sponsoring college.

**THE
FURTHER
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FUNDING
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Name of FEFC-funded external institution for the year ended 31 July 2000 (*please print*)

FEFC code for external institution for the year ended 31 July 2000

Contact name and telephone number for queries

Name of sponsoring college for the year ended 31 July 2000

Is the institution LEA-maintained? Yes No

Returns enclosed (*please tick*)

- 1 Use of funds statement for the year ended 31 July 2000
- 2 Latest audited financial statements
independent (non-LEA-maintained) external institutions only

 Name of institution

 FEFC code

Use of Funds Statement for the Year Ended 31 July 2000

Part I	FEFC 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 2000	
	– main allocation	
	– adult growth	
	– childcare support	
	– basic skills summer schools	
	– access funds	
	– childcare places	
	– inclusive learning	
	– other	
	Total	
2	Net funds received via sponsoring college during the year ended 31 July 2000	
3	Funds receivable from sponsoring college in respect of the year ended 31 July 2000 based on level of activity*	
4	Add: Balance brought forward from the year ended 31 July 1999	
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 2000 (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 2000 has been applied in accordance with the conditions under which it was received from the Further Education Funding Council.

 Signature

 Name (*please print*)

 Position

 Date

Name of institution

FEFC code

Use of Funds Statement for the Year Ended 31 July 2000

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 2000 has been applied in accordance with the conditions under which it was received from the Further Education Funding 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 (*please print*)

Position

Local authority

Date

 Name of institution

 FEFC code

Use of Funds Statement for the Year Ended 31 July 2000

Part III

Audit Report

This must be completed by the auditor

We have examined the entries in the above statement from the above institution, together with the supporting accounts and the records on which they are based, and have carried out the tests *[in GI EDU 23(99-00) 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 have been properly compiled and properly extracted from the records of the institution and the funding from the Further Education Funding Council has been applied in accordance with the conditions under which it was received.

 Signature

 Name *(please print)*

 Name of Audit Firm

 Address

 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

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 2000. This will comprise:

- a. 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 2000) plus, where applicable;
- b. 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 2000);
- c. 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 2000);
- d. basic skills summer schools allocation shown in annex A to Mary Heslop's letter dated 12 July 2000;
- e. access funds set out in the last column of annex A to Circular 99/27 *Access Funds 1999-2000*. 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 C of Circular 99/27);
- f. funding for additional childcare places as set out in an agreement letter from the respective regional director in October 1999. (**Lead institutions should only include their share of the allocation and not the total amount received**);
- g. 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;
- h. any other Council funding allocation for the year ended 31 July 2000.

Calculate the total funding and enter this where indicated.

2 Enter at line 2 the actual funds received from the sponsoring college during the year ended 31 July 2000, **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 that shown at line 1 due to recoveries and/or to:

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

3 Enter at 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 2000 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 include a treatment of basic skills summer schools funding which is consistent with the treatment of basic skills summer schools units in institutions' funding returns, that is, only the following should be included in institutions' use of funds returns for the year ended 31 July 2000 (Circular 99/01 *Tariff 1999-2000*, table 1, page 8 refers):

- basic skills summer schools funding relating to students who enrolled on a basic skills summer school in 2000 and completed their courses by 31 July 2000, and
- basic skills summer schools funding relating to students who enrolled on a basic skills summer school in 1999 in the summer of 1999 who had not completed their courses by 31 July 1999.

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) that may have been made since the previous return was completed in respect of prior years' funding, that is any adjustments which could 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 be 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 All the amounts in Part I of annex A to this circular should be rounded to the nearest whole number.

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