

# Circular 00/31

## Audit

### **Proposed Arrangements for the Audit of Final Funding Unit Claims and Individualised Student Record Data from 2000-01: Responses to Consultation**

#### **Summary**

Reports on the outcome of the responses to Circular 00/27 and sets out the updated arrangements for the audit of final funding unit claims and individualised student record data from 2000-01.

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# Proposed Arrangements for the Audit of Final Funding Unit Claims and Individualised Student Record Data from 2000-01: Responses to Consultation

## Introduction

1 This circular gives the results of the responses to Circular 00/27 *Proposed Arrangements for the Audit of Final Funding unit Claims and Individualised Student Record Data from 2000-01* (re-print) and outlines how the proposals will be implemented by the Council and the LSC.

## Background

2 Circular 00/27 set out a number of proposals for new arrangements at colleges for the audit of final funding unit claims and individualised student records, together referred to as the ISR returns, for 2000-01. It also set out proposals for 2001-02 and beyond.

3 The Council consulted colleges and their auditors on the following proposals:

- the grouping of colleges for individual audit contracts
- the awarding of individual audit contracts
- the consultation with colleges over the appointment of external auditors
- ensuring the separation of internal and external auditors
- the arrangements for payment of audit fees
- the length of the new external audit contracts
- the arrangements for breaking existing external audit contracts
- the role of the audit committee
- potential restrictions on consultancy work
- specific arrangements for 2000-01

- arrangements from 2001-02
- use of the July ISR return as the basis for the final funding unit claim.

4 Comments on Circular 00/27 were requested by 27 November 2000. The Council asked respondents whether they supported each proposal, and invited additional comments.

## Responses

5 The Council received 257 responses, 91% from sector colleges. Of these, 214 responses were received by the deadline. Responses received subsequently have, however, also been taken into consideration. The Council thanks respondents for contributing to the consultation process.

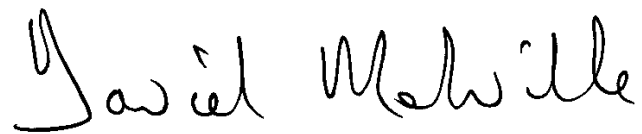
6 A summary of the responses and key concerns arising from Circular 00/27 is provided in annex A to this circular.

## Next Steps

7 Annex B sets out the arrangements which it is proposed to implement from 2000-01. These arrangements take account of the responses received where possible.

## Further Information

8 Institutions seeking further advice on the matters addressed in this circular should contact Phil Eames, audit manager, on 01823 623625.



# Responses to Consultation

## Introduction

1 The Council received 257 responses in total to Circular 00/27. Responses were received from:

- 234 further education colleges, including governing bodies and audit committees
- 14 firms of auditors
- 2 external institutions
- 7 other bodies.

2 Respondents were invited to indicate their support or otherwise for a series of proposals and to offer comments on those proposals. The responses were broadly in support of the proposals made, with only two key areas of concern: payment of audit fees and the Council taking responsibility for the external audit of colleges' financial statements and ISR returns. Table 1 sets out the relative proportions of the responses to each proposal.

**Table 1. Responses to proposals**

	<i>Proposal</i>	<i>Support</i> %	<i>Do Not Support</i> %	<i>Total Responses</i> <i>No.</i>
<b>Annex A</b>				
1	Grouping of colleges for individual audit contracts	80%	20%	236
2	Awarding individual audit contracts	73%	27%	233
3	Consultation with colleges	83%	17%	235
4	Separation of internal and external auditors	88%	12%	241
5	The arrangements for 'top-slicing' payment of audit fees	43%	57%	229
6	Length of (new) external audit contracts	93%	7%	237
7	Breaks to existing external audit contracts	86%	14%	236
8	The role of the audit committee	67%	33%	227
9	Restrictions on consultancy work	62%	38%	237
<b>Appendix to annex A</b>				
1	Arrangements for 2000-01	68%	32%	224

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**Annex B**

1	From 2001-02, the LSC's responsibility for the audit of colleges' ISR returns be extended also to encompass colleges' financial statements	24%	76%	244
2	Auditors appointed to undertake the ISR returns audit in 2000-01 also be appointed to undertake the financial statements audits from 2001-02	29%	71%	242

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**Annex C**

1	Use of the July ISR return as the basis for the final funding unit claim	64%	36%	229
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**Areas of concern**
***Payment of audit fees***

3 The Council proposed that from 2001-02 it would 'top-slice' the funds necessary to meet the costs of the audit work for which it assumed responsibility. The general view expressed by respondents was that they were concerned about the likely rise in costs relating to the new arrangements. The Council is, however, committed to improving the standard of audit in the sector, as required by the Department for Education and Employment and the Public Accounts Committee. Whilst acknowledging that costs are likely to rise, the Council considers that 'top-slicing' represents the most practical solution.

***Responsibility for audit of colleges' financial statements and ISR returns***

4 The Council proposed that from 2001-02 its responsibility might be extended to cover the external audit of colleges' financial statements. In the light of the concerns expressed by colleges and auditors on this issue, the Council does not intend to take forward this proposal at this time. In line with the alternative proposal in option 2 of the circular, the Council will now consider the possibility that, from 2001-02, the ISR returns and final funding unit claim be based on the July ISR return.

# Detailed Arrangements for 2000-01

## Introduction

1 This annex sets out the arrangements for the audit of final funding unit claims and individualised student record data at colleges from 2000-01, following the format established in Circular 00/27. The new arrangements only relate to colleges. Audit arrangements for external institutions, which are funded through sponsoring colleges until 31 July 2001, currently remain unchanged.

## Grouping of Colleges for Individual Contracts

2 The Council will award contracts on the basis of groups of colleges. Each contract will encompass a minimum group of approximately ten colleges. The colleges in each group will be determined on the basis of geographical location and the estimated number of audit days required to carry out the Council's audit programme.

## Awarding Individual Contracts

3 Audit firms may tender for work in one or more of the nine areas of the Government Offices, specifying the total number of audit days they have, or plan to have, the capacity to deliver in each of the areas where they wish to be considered for work. The Council will undertake the initial review of the tenders received. A single tender panel, that includes college representation at a national level, will award all contracts. Contracts will be awarded on the basis of a number of criteria, including value for money and the ability of individual audit firms to deliver the estimated number of audit days required.

4 Each audit firm awarded a contract (or contracts) will be required to nominate a single named individual as the key point of contact between the Council and the audit firm. This person will be required to demonstrate a good understanding of the nature of ISR returns data and the Council's approach to the audit. They will also be responsible for ensuring a nationally consistent level of quality in the work undertaken by all staff from that firm involved in the contract(s). The Council will monitor the quality of ISR audit work,

on a similar basis to the current arrangements for its review of firms' work on the audit of final funding unit claims and ISR data. The Council will establish a mechanism for reporting and disseminating the results of its quality control reviews to colleges and auditors.

## Consultation with Colleges

5 Colleges will be informed of the Council's preferred appointment of audit firm arising from the tender panel, and asked to comment. Where a college expresses reservations about a firm, the Council will discuss the reasons with the college and auditors. The possibility of re-assigning the college to another audit group will be considered if necessary. Colleges will not have the right to veto an appointment made by the Council.

## Separation of Internal and External Audit

6 In the Council's opinion, the ISR audit, although not a statutory audit, is equivalent to an external audit. It is a condition of funding that the same audit firm cannot undertake both internal and external audit roles at a college. In accordance with this condition, the Council will ensure in the awarding of contracts that the separation of internal and external audit providers is maintained.

## Arrangements for Payment of Audit Fees

7 For 2000-01, the Council will meet the cost of the external audit of colleges' ISR returns and colleges will pay for the external audit of their financial statements in accordance with the terms of engagement they have negotiated with their auditors. From 2001-02 the Council will retain a centrally allocated fund to meet the costs of the ISR audit work.

8 Where auditors need to incur significant additional costs, this will have to be approved by the Council, in consultation with the college. Where auditors identify a small increase in the work required at a particular college in any one year, the Council would normally expect the cost to be absorbed by the auditors, on the basis that there may be compensating decreases in the work required at other colleges in the contract group.

### ***Length of audit contract***

9 Contracts will be awarded for an initial period of three years, with an option to extend for a further two years. The appointments would be subject to annual re-appointment by the LSC and satisfactory performance. The Council is considering phasing the re-tendering process from 2003-04 onwards, so that a proportion of the contracts is tendered annually within a five-year cycle.

### ***Breaks to existing contracts***

10 The Council has not been notified of any significant difficulties by colleges in appointing external auditors solely for the financial statements audit for 2000-01.

### ***Role of the college audit committee***

11 The role of a college's audit committee in appointing and monitoring the work of the college's internal and financial statements auditors remains unchanged. In respect of the ISR returns audit, the committee will have a role in advising the Council on the quality of work carried out by ISR auditors and also in ensuring the implementation of recommendations arising. The ISR auditors will be required to attend audit committee meetings at the request of the college, and to present 'management letters' to the committee.

### ***Restrictions on consultancy work***

12 The Council will not impose any specific restrictions on auditors from undertaking consultancy work at colleges. Guidance on this issue as set out in the *Audit Code of Practice* will continue to apply.

### ***Arrangements for 2000-01***

13 The Council will require ISR returns auditors to provide an interim opinion on the July 2001 return by November 2001. This opinion is likely to be in the format of a statement confirming the number of units a college is anticipated to claim. This opinion will be provided to the Council and will enable the Council to provide, to the auditors of the college's financial statements, a statement of the anticipated level of funding for the college for 2000-01. This process should allow the financial statements auditors to meet the 31 December 2001 deadline for submission of the financial statements.

14 The audit opinion on a colleges December 2001 ISR return and final funding unit claim will need to be available to the Council by the date in February 2002 to be specified in the Council's circular on the audit of colleges' 2000-01 final funding unit claims.

### ***Options 1 and 2***

15 The Council set out in Circular 00/27 the drawbacks envisaged in having separate firms of auditors undertaking the ISR returns and financial statements audits. After due consideration of all the points raised during the consultation however, the Council will only take over the responsibility for the ISR returns audits of colleges. The Council will also take forward for further consideration the proposal that, from 2001-02, the audit opinion on the ISR returns and final funding unit claim should be based on the July ISR return.



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