

28 July 1999

CIRCULAR

THE FURTHER EDUCATION FUNDING COUNCIL

Audit of the Use of Funds in External Institutions 1998-99

To

Heads of external institutions
Chief education officers
Local authority chief finance
officers
Principals of colleges
External auditors of external
institutions (via heads of external
institutions)

Circular type

Guidance and request for audit
reports

Summary

Guidance on the preparation of
statements showing the use of
funding allocations for 1998-99
by external institutions and
arrangements for their audit.
Audit reports should be returned
to the relevant regional office of
the Council by 4 February 2000
Independent (non-LEA
maintained) external institutions
are requested to return a set of
their latest audited financial
statements with their returns

Reference number: 99/34

Enquiries:
Council finance team support desk
01203 863056
Website <http://www.fefc.ac.uk>

Cheylesmore House
Quinton Road
Coventry CV1 2WT

99/34

Audit of the Use of Funds in External Institutions 1998-99

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 in the year to 31 July 1999. It is intended to help external institutions brief their external auditors. The requirements are broadly similar to those for 1997-98.

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 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 was 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 all 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.

New Requirements and Changes to Guidance

5 Independent, that is, non-local education authority (LEA) maintained external institutions are now asked to provide a set of their latest audited financial statements with their audited use of funds statement for 1998-99 as indicated on the returns cover sheet at annex A. The Council has previously requested separately audited financial statements from independent external institutions.

6 Part I of the return (annex B) includes an additional line at line 5 for any adjustment(s) which may have been made in respect of prior years' funding since the previous return was completed.

7 The Council will not confirm funding allocations for future years to external institutions which do not provide by 4 February

2000 an audited statement confirming that funds provided by the Council for the year to 31 July 1999 have been used for the purpose intended. Also, institutions with late data returns will be required to address this issue as set out in paragraphs 26 to 29 of this circular.

Audit Requirements: Use of Council Funds

8 This circular sets out the Council's requirement for all external institutions which have received Council funding to provide a statement of the use of those funds and secure an audit opinion that they have been used for the purpose 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.

9 Each external institution which received Council funds for 1998-99 is required to arrange for its external auditors to provide the Council and the sponsoring college with a report. The report should state whether the external institution's account of the use of its funding allocation for 1998-99 has been properly compiled, correctly extracted from the records of the institution and applied in accordance with the conditions under which it was paid. 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 1998-99.

10 Where an external institution that received a funding allocation for 1998-99 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.

11 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 I of annex B.

12 The head of each institution and, where applicable, the chief finance officer (as the designated officer under section 151 of the *Local Government Act 1992*) of the local authority are required to sign a declaration that the information

included on the institution's return has been correctly extracted from the institution's accounts and records, and that funding received 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 for 1998-99 with the Council.

13 External institutions and their auditors are reminded that the period covered by the audited statements requested by the Council ends on 31 July 1999. This period may not coincide with the financial reporting period of the institution.

14 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 external institutions not maintained by a local education authority, 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 1997-98 and 1998-99, the institution is asked to contact the Council finance team support desk on 01203 863056.

15 The use of funds statement requires external institutions to identify and the external auditor to confirm:

- the level of funds the external institution has received from the sponsoring college
- the institution's entitlement to funds for the period, and
- the use of those funds in providing eligible courses.

The external auditor will need to carry out a programme testing the institution's systems and controls, as necessary, and tests on the data to confirm that the external institution's statement of the receipt and use of funds is properly compiled and correctly extracted from its records, and that the funding has been applied in accordance with the conditions under which it was received.

16 Audited statements should be sent to the appropriate regional office of the Council using the forms provided at annexes A and B to this circular to arrive no later than 4 February 2000. A list of regional office addresses is attached at annex C.

17 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 the relevant regional director in writing and provide a firm promise date. If external auditors become aware of a likely delay they are also requested to inform the relevant regional director in writing.

Audited Financial Statements

18 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 1998 to 31 July 1999.

Support Arrangements

19 External institutions, local authority chief finance officers and their external auditors may make enquiries regarding the compilation and audit of the forms at annex B by contacting the Council finance team support desk (telephone 01203 863056, fax 01203 863156).

20 The Council considers an audit report to be qualified if any one of sections 1(c), 1(d) or 1(e) of the audit report (part II) at annex B applies. Auditors, other than those appointed by the Audit Commission, proposing to qualify an audit report are requested to contact the Council finance team support desk on 01203 863056. External auditors of LEA-maintained external institutions should consult the Audit Commission grants team (fax 0117 979 0552, telephone 0117 975 7861) should they have any doubts 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.

Experience Gained from Previous Reports

21 External institutions, auditors and the Council can draw on their significant experience from previous years. Set out below are areas of concern

which have been identified and the Council's response to them.

Eligibility of expenditure

22 Under the sponsorship arrangements for external institutions, only provision for 16 to 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* is eligible for Council funding. Expenditure on any other provision is ineligible for Council funding, including provision for 16 to 18 year-old full-time students and higher education provision, including NVQ levels 4 and 5.

Identification of expenditure

23 Each institution is now expected to have the necessary framework in place to maintain separate records of income and expenditure for the receipt and use of funds provided by the Council.

Group returns

24 The Council requires a separate use of funds statement from each institution which has received a separate funding allocation for the year ending 31 July 1999. 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. The use of funds statement for each institution should be returned as soon as it has been audited, to avoid delay, rather than sent in a batch.

Individualised student record audit

25 External institutions have sometimes provided their use of funds statements late due to a delay in the preparation and/or audit of the final individualised student record (ISR). Where there is sufficient evidence, based on the previous ISR (ISR14 31 July 1999; 1998-99) and other sources, to support an unqualified audit opinion on the use of funds, the use of funds return should be provided without delay. It is important that the institution sends the ISR14 on a timely basis to the Council for validation and makes the ISR14 summary sheet available to the auditor immediately on receipt. Any subsequent funding adjustments can be reflected on line 5 of the return for the following year.

Timeliness of Audited Statements

26 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.

27 For external institutions with late data returns the Council will require, 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 (MIS) will take place
- an action plan demonstrating how deficiencies will be remedied within one financial year from the date of the audit report.

28 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 seek to secure the provision for students, if this has an impact on the adequacy of provision, in discussion with the sponsoring college.

29 In addition, the Council will not be able to confirm an institution's 1999-2000 funding allocation until it has received audited statements and thereby an assurance that its previous funding allocations have been properly applied and controlled.

1998-99 Returns

30 External institutions are asked to send their returns to the relevant regional office using the cover sheet attached at annex A.



Audit of the Use of Funds in External Institutions for the Year Ended 31 July 1999

**THE
FURTHER
EDUCATION
FUNDING
COUNCIL**

(Reference Circular 99/34)

**This cover sheet must be completed by all external institutions.
Please photocopy, complete and return to the appropriate regional
office by 4 February 2000.**

Cheylesmore House
Quinton Road
Coventry CV1 2WT

Telephone 01203 863000
Fax 01203 863100

Name of institution *(please print)*

FEFC code

Contact for queries

Telephone no.

Is the institution LEA-maintained?

☐

Yes

☐

No

Returns enclosed *(please tick)*

1 Use of funds statement for the year ended 31 July 1999

☐

2 Latest audited financial statements

☐

independent (non-LEA maintained) external institutions only

Use of Funds Statement for the Year Ended 31 July 1999

THE FURTHER EDUCATION FUNDING COUNCIL

(Reference Circular 99/34)

External institutions are asked to complete part I of this statement (in conjunction with the chief finance officer of the local authority for local education authority (LEA) maintained institutions) and then pass it to their external auditor for certification.

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 regional director at the appropriate regional office by 4 February 2000. Copies should be provided simultaneously to the external institution and its sponsoring college.

Cheylesmore House
Quinton Road
Coventry CV1 2WT

Telephone 01203 863000
Fax 01203 863100

Name of FEFC-funded external institution 1998-99

FEFC reference of external institution 1998-99

Name of sponsoring college 1998-99

Is the institution LEA-maintained? ☐ Yes ☐ No

Name of LEA (if applicable)

Part I	FEFC Funding	£
This part 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 audited period (year ended 31 July 1999)*	
	2 Net funds received from sponsoring college during the year ended 31 July 1999	
	3 Funds receivable from sponsoring college in respect of 1998-99 based on level of activity*	
	4 Add: Balance brought forward from previous period	
	5 Plus or minus adjustments relating to previous years (if any)	
	6 Less: Cost of providing schedule 2 courses in the audited period (net of fee income)	
	7 Excess (+)/shortfall (-) of funds available to meet schedule 2 courses	
	8 Balance carried forward to next year	

**The figures in lines 1 and 3 should include the following funding: main allocation, basic skills schools, childcare, IT for disabled students and any additional funding allocation for 1998-99 (David Melville's letter dated 5 March 1999 refers).*

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 1998-99 has been applied in accordance with the conditions under which it was received from the Further Education Funding Council.

Signature

Name *(please print)*

Position *(head of institution)*

Date ____/____/____

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 1998-99 has been applied in accordance with the conditions under which it was received from the Further Education Funding Council.

Signature

Name *(please print)*

Chief finance officer*

Local authority

Date ____/____/____

* designated officer under section 151 of the *Local Government Act 1992*

Part II
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 (98-99) 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)*

 Auditor

 Date ____/____/____

 Address

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*

Part III**Notes to part I**

1 Enter at 1 the institution's funding allocation for 1998-99.

This will comprise:

- the allocation shown in box 1 of the institution's final funding allocation (annex A to the funding agreement for 1998-99) plus, where applicable:
 - basic skills schools allocation
 - childcare allocation
 - funding for IT for disabled students, and
 - any additional funding allocation for 1998-99 (David Melville's letter dated 5 March 1999 refers).

The institution's monthly profiled payment was based on these figures, before adjustments were made for under- or over-achievement against funded levels of student activity.

2 Enter at 2 the actual funds received from the sponsoring college during the audit period, net of funds recovered from the institution. Recovery may have been achieved by a reduction in funding made available 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 3 the amount of funds which the institution is entitled to receive from the sponsoring college in respect of 1998-99, based on its level of activity. This figure should include all the elements of funding listed under 1 above, where applicable. Information on funding allocations is contained in *Funding Allocations 1998-99* as follows:

- allocation procedure, paragraphs 18 to 37
- allocations to external institutions, paragraphs 51 to 56
- funding agreement, paragraphs 59 to 64.

4 Enter at 4 funds receivable from the sponsoring college which remained unspent at the end of the last period. This entry should correspond with any positive balance carried forward at line 7 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 5 any adjustment(s) which may have been made in respect of prior years' funding since the previous return was completed.

6 Enter at 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 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 6. Enter at 8 'nil' if there is a shortfall of funds calculated at line 7.

All the amounts in part I of annex B to this circular should be rounded to the nearest whole number.

Regional Offices

East Midlands Region

Regional director: Christine Frost

Cheylesmore House

Quinton Road

Coventry CV1 2WT

Telephone: 01203 863000

Fax: 01203 863359

Eastern Region

Regional director: Martin Lamb

2 Quayside

Bridge Street

Cambridge CB5 8AB

Telephone: 01223 454500

Fax: 01223 454535

Greater London Region

Acting regional director: Jenny Burnette

Metropolis House

22 Percy Street

London W1P 0LL

Telephone: 0171 312 4100

Fax: 0171 312 4134

North West Region

Regional director: Emily Thrane

10 Brindley Road

City Park Business Village

Cornbrook

Manchester M16 9HQ

Telephone: 0161 877 3811

Fax: 0161 876 2936

Northern Region

Regional director: Susan Bickerton

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Kings Manor

Newcastle upon Tyne NE1 6PA

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Fax: 0191 211 2235

South East Region

Regional director: Marilyn Frampton

3 Queens Road

Reading RG1 4AR

Telephone: 0118 955 4200

Fax: 0118 955 4220

South West Region

Regional director: Catherine Christie

Kempton House

Blackbrook Park Avenue

Taunton TA1 2PF

Telephone: 01823 444404

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West Midlands Region

Regional director: Celia Cohen

Cheylesmore House

Quinton Road

Coventry CV1 2WT

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Regional director: Julia Lacey

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