

**i** For information



Leading learning and skills

# **Supplement B to the Regularity Audit Framework: Audit Programme Guide for College Regularity Auditors**

**2006**

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# Audit Programme Guide for College Regularity Auditors

## Summary

- 1 The Learning and Skills Council (LSC) funds further education (FE) colleges through a Financial Memorandum. The Financial Memorandum requires colleges to make audit arrangements in accordance with the LSC's *Audit Code of Practice* (LSC, 2004; published as Supplement A to Circular 04/07) (the Code) (for details of this publication and other bibliographic and website references, please see the *Regularity Audit Framework*, which is the main document of which this Supplement is a part). The Code has been revised for the funding year 2004/05 and issued as LSC Circular 04/07.
- 2 Under the Code, for 2004/05 onwards the LSC has removed its requirement that most colleges are subject to an annual funding audit. The LSC is however requiring all colleges to appoint their financial statements auditors to give a revised opinion to the LSC and to colleges on the regularity of colleges' expenditure. This framework sets out the LSC's expectations of colleges and their financial statements auditors, acting as regularity auditors, in giving this regularity opinion.
- 3 The framework is in two parts:
  - a regularity self-assessment and information summary to be completed by colleges. The self-assessment and information summary are issued as Supplement A to the *Regularity Audit Framework*
  - a regularity audit programme guide recommended by the LSC for the use of regularity auditors in giving their opinion (this document).

## Using this Guide

- 4 This guide is intended for FE colleges and their regularity auditors. The LSC has issued this audit programme guide to support regularity auditors in their work. It should be read alongside the overview of the regularity audit framework and the college self-assessment. The audit programme guide is not intended to prevent regularity auditors carrying out additional or different work that in their professional judgement they consider necessary to give their opinions.
- 5 As the regularity testing will be integrated into existing true and fair audit procedures rather than being designed to stand alone, the audit framework outlined within this document seeks to provide an approach to auditing each regularity area rather than prescribing a detailed audit approach.

### Regularity audit report

- 6 The format for the interim regularity audit report is appended to this document at Supplement C. The final regularity audit report will be published as part of the college's financial statements. The interim regularity audit report will only be required if the LSC has notified the college that it is required, or if the corporation has specifically required it.

### Evidence to inform the regularity audit opinion

- 7 The evidence needed to inform the regularity opinion will usually involve normal sources of audit evidence including:
  - analytical review
  - review of minutes of committee and corporation meetings
  - records of discussions with staff
  - formal representations from the corporation where the terms of a particular funding stream require certain outputs to be delivered which are non-financial and therefore cannot be readily checked by the regularity auditor
  - as part of the planning process, records of discussions with local LSC(s), and also taking account of the views of Provider Financial Assurance (PFA).
- 8 The regularity auditor may also perform work on:
  - review of the regularity self-assessment completed by the college. The self-assessment affects all aspects of regularity
  - assessment and testing of the **general control environment** of the college
  - assessment and testing of the **specific control environment** of the regularity of a particular activity
  - substantive testing of the regularity of transactions within a particular activity.

- 9 Substantive testing can be divided into two types:
- **as additional testing:** where the transactions fall outside the scope of normal 'true and fair'
  - **as an extension to existing work:** where a review of transactions would be expected to take place as part of a 'true and fair' audit of the financial statements, for example the testing of the cut-off and matching of income and expenditure on a capital project within the financial statements. The regularity testing would be an extension of this work to confirm spending was in line with the funding body's terms and conditions.

### **Reliance on other auditors and agencies**

- 10 Many colleges receive funding from very diverse sources apart from the LSC. Some of these funding streams are subject to audit by organisations other than the LSC, in accordance with these organisations' own terms and conditions of funding of the college.
- 11 There are some areas of college funding from the LSC, principally work-based learning, Entry to Employment (E2E) and European Social Fund (ESF) where the LSC performs, or contracts with other auditors to perform, audits of that funding.
- 12 The regularity audit covers the spending in relation to these other sources of funding. However, regularity auditors should seek to take assurance from the work of other auditors in respect of the use of those funds in line with the detailed conditions attached to that area of funding.
- 13 As is currently the case, where the regularity auditor wishes to rely upon the work of the college's internal audit services for the provision of information to assist in his or her decisions about the regularity opinion, then as at present, the guidance in SAS 500 *Considering the Work of Internal Audit* is relevant.
- 14 The regularity auditor should ensure that other auditors have not identified any regularity matters in these areas that could impact upon the financial statements. Reliance on the work of other auditors and agencies may provide evidence to support any part of the regularity auditor's assessment.

### **Summary of coverage**

- 15 A high-level summary of how the above principles will apply to each subset of regularity audit is set out in Table 1 below.

**Table 1: Summary of application of principles of regularity audit opinion.**

	Materiality level	General control environment	Specific control environment	Regularity testing in relation to true and fair (T&F) work	
				Additional to T&F	As an extension to T&F
<b>College activities are within statutory powers</b>	Financial statements materiality	Yes	not applicable	not applicable	To ensure commercial activities are not being subsidised by public funds
<b>Financial Memorandum compliance</b>	Financial statements materiality level unless specific level within financial memorandum or determined by LSC	Yes	No*	Yes for certain areas and requirements	Yes, certain work will have regularity testing factored in
<b>LSC other funding</b>	Financial statements materiality unless specific level set by LSC for an individual funding stream	Yes	For certain funding streams determined by the LSC	For certain funding streams determined by the LSC	For all material funding streams determined by the LSC
<b>Non-LSC funding</b>	Financial statements materiality	Yes	Auditor's judgment dependent upon materiality of funding stream, work of others (for example, college internal audit)	No, subject to the auditor's judgement from issues identified by college, third parties and so on	No, subject to the auditor's judgement dependent upon materiality of funding streams and so on
<b>Propriety of activities</b>	not applicable	No**	No, unless issue identified by the college or its other auditors as part of normal audit process	No, unless issue identified by the college or its other auditors as part of normal audit process	No, unless issue identified by the college or its other auditors as part of normal audit process
<b>Fraud</b>	Financial statements materiality	Yes, in accordance with Auditing Standards	In accordance with Auditing Standards	No	No, unless material issue identified

\*No specific additional work unless potential issue identified through feedback from LSC, college, internal audit and so on.

\*\*Expected the college and/or college internal audit will consider the areas highlighted within self-assessment as part of risk management.

## Indicative audit procedures

16 This audit programme guide sets out in the Annex what the LSC recommends regularity auditors should do to cover each area of regularity and propriety within the college self-assessment. Auditors should use their judgement in deciding the nature and extent of audit work and the programme guide should not be considered to be a standard programme that does not require tailoring to the specific circumstances of each college. The columns in the guide are:

- **Column 2** identifies an area of interest.
- **Column 3** cross-refers to the relevant self-assessment question (SAQ) (Supplement A).
- **Column 4** refers to the relevant SAQ (Supplement A).
- **Column 5** refers to the requirement leading to the area of interest.
- **Column 6** sets out inherent risks to specific to each area of interest. Note that this does not consider general risks that should be considered for all areas such as:
  - i change in personnel in the area
  - ii changes in the external environment, for example legislative changes
  - iii complexity of the area
- **Column 7** sets out the risks and controls to consider in the area of interest. Auditors may obtain assurance over the controls through review of the work of the college's internal audit service or other auditors or agencies, through original testing by the regularity auditor or a mix of these. This column also states where testing of the controls is also recommended.
- **Column 8** sets out indicative substantive procedures, which could be carried out in each area. How much testing is done will depend on the auditor's assessment of the control environment, the size and nature of transactions within the area and the prescribed materiality level. For most areas of interest, this column states that substantive testing is strongly recommended. For some areas of interest, this column also indicates what these tests should be.

# Annex: Indicative Audit Procedures

	Area	SAQ	Source ref	Inherent risks	Control environment	Substantive approach
<b>Regularity – LSC</b>						
<b>General activities</b>						
1	All activities (and transactions) within the power of the college	1	Principal powers contained within s18 F&HE Act 1992 and supplementary powers within s19	<ul style="list-style-type: none"> <li>no review undertaken</li> <li>extensive 'commercial' activities</li> <li>overall operating loss position</li> <li>poor cost information.</li> </ul>	<ul style="list-style-type: none"> <li>clear budgets and contribution monitoring for all activities with appropriate allocation of costs</li> <li>monitoring of each material discrete activity within management accounts</li> <li>authorisation and clear financial appraisal of any new activities.</li> </ul> <p>Control testing is strongly recommended.</p>	<ul style="list-style-type: none"> <li>Review management accounts and financial forecast for contribution performance of commercial and other discrete non-teaching activities.</li> </ul> <p>Substantive testing is strongly recommended.</p>
2	College must have effective governance and management arrangements over its investments (subsidiaries, associates, joint ventures, trusts and foundations)	2	Circular 99/14 and, in the case of activities carried out through subsidiary companies, Circular 02/12	<ul style="list-style-type: none"> <li>informal relationships</li> <li>lack of legal advice</li> <li>lack of monitoring or awareness at corporation level</li> <li>lack of knowledge of legislative environment of body (for example charities sector, Companies Act 1989 requirements).</li> </ul>	<ul style="list-style-type: none"> <li>college internal audit review, financial statements auditors' consideration of control arrangements over such bodies (for example monitoring, corporation representation, conflicts of interest and so on), effective memorandum of understanding in place</li> <li>compliance by body with financial regulations (and so on) of college.</li> </ul> <p>Control testing is strongly recommended.</p>	<ul style="list-style-type: none"> <li>Review corporation or company minutes and so on, audit of each entity (company, joint venture and so on).</li> </ul> <p>Substantive testing is strongly recommended.</p>
3	College cannot acquire shares or securities in company to run the college through it nor to provide education funded wholly or partly by LSC funds without prior consent	3	Circular 02/12 and L&S Act 2000	new companies, investments or change in trade of companies	not applicable	<ul style="list-style-type: none"> <li>Review activities of each subsidiary, associate or joint venture against requirement.</li> </ul> <p>Substantive testing is strongly recommended.</p>

	Area	SAQ	Source ref	Inherent risks	Control environment	Substantive approach
<b>Financial Memorandum</b>						



	Area	SAQ	Source ref	Inherent risks	Control environment	Substantive approach
4	College has clear policy of payment to governors and does not provide remuneration	4	DfES (2001) <i>Guidance to Statutory Instrument Instrument &amp; Articles and Articles</i> and Charity Law requirements (see Charity Commission, (2003; 2004)	no policy or tracking of such payments	<ul style="list-style-type: none"> <li>Review policy and assess its appropriateness.</li> <li>Where expenses are payable, ensure these are for reasonable items (for example, not remuneration for time).</li> </ul> <p>Control testing is strongly recommended.</p>	<ul style="list-style-type: none"> <li>Review a sample of expenses to ensure in line with the policy.</li> </ul> <p>Substantive testing is strongly recommended.</p>
5	Compliance with consent requirements over secured and unsecured borrowing limits and leasing of freehold and leasehold land and buildings	5	Section 19(4)(c) and 19(5) F&HE Act 1992, Paragraphs 27 t-o 30 Circular 99/48 <i>Financial Memorandum</i> and paragraphs 8--11 of explanatory notes appended to Circular 99/48		not applicable	<ul style="list-style-type: none"> <li>Ensure the college has obtained prior written consent for any secured or unsecured borrowings by itself or its subsidiaries except where: a) 5% of annual revenue is borrowed on an unsecured basis; b) a maximum of £1m or 5% of annual revenue, whichever is the lower, may be borrowed on a secured basis in order to finance the construction or purchase of buildings, provided that only those buildings are offered as security.</li> </ul> <p>Substantive testing is strongly recommended.</p>
6	Requirement for the corporation to be regularly informed of financial position	6	Para. 10 Circular 99/48 <i>Financial Memorandum</i>	not applicable	<ul style="list-style-type: none"> <li>Review the production of management accounts and the basis on which they are prepared.</li> </ul>	<ul style="list-style-type: none"> <li>Review corporation minutes.</li> </ul> <p>Substantive testing is strongly recommended.</p>
7	Obtain LSC consent for land and building transactions where total cost exceeds lower of £1m or 5% annual revenue	7	Specific power to acquire and dispose of property contained in s19 (4)(a) F&HE Act 1992, consent requirements contained in para. 24 Circular 99/48 <i>Financial Memorandum</i> and paras 12 and 13 of the explanatory notes to the Circular 99/48 <i>Financial Memorandum</i>	sudden decision to sell, purchase or build land and buildings	not applicable	<ul style="list-style-type: none"> <li>If the college has acquired or disposed of land or buildings during the year involving capital sums greater than £1m or 5% of annual income (excluding releases of deferred capital grant (DCG) and any s6 (5) income), whichever is the lower, ensure the college has obtained LSC approval as described in Circular 99/48. For example, if an Exchequer-funded fixed asset is disposed of, then the college may potentially have to repay proceeds to the LSC if conditions are breached.</li> </ul> <p>Substantive testing is strongly recommended.</p>
8	Operating within investment powers	8	Specific power of investment contained in s19(4)(d) F&HE Act	<ul style="list-style-type: none"> <li>unclear college treasury management policy</li> <li>existence of higher risk</li> </ul>	<ul style="list-style-type: none"> <li>monitoring of investments in line with approved college treasury management policy.</li> </ul>	<ul style="list-style-type: none"> <li>Review investments and confirm in line with policy.</li> </ul>

	Area	SAQ	Source ref	Inherent risks	Control environment	Substantive approach
			1992, must be exercised in accordance with the Trustee Act 2000	investments (for example, derivatives and so on).		Substantive testing is strongly recommended.
9	Restrictions on redundancy and/or severance payments to staff	9	Paras 1-7 of explanatory notes to Circular 99/48 <i>Financial Memorandum</i> . For staff eligible to join TPS or LGPS, Teachers Pension Scheme Regulations 1997 as amended 2001; Teachers (Compensation for Redundancy and Premature Retirement) Regulations 1997, and local government equivalent	<ul style="list-style-type: none"> <li>no legal advice taken</li> <li>payments rushed through at year-end</li> <li>inadequate approval process for policy</li> <li>inadequate approval of individual cases.</li> </ul>	<ul style="list-style-type: none"> <li>authorisation at each stage of the process (policy through to payments)</li> <li>appropriate advice taken as relevant (legal, pensions and so on).</li> </ul>	<ul style="list-style-type: none"> <li>Ensure each stage of the redundancy and severance arrangement (policy through to payment) has been appropriately authorised.</li> <li>Ensure legal advice has been taken.</li> <li>Review payments to ensure they have all been paid in accordance with the approved policy and there are no 'unusual' payments.</li> <li>Ensure payments have been made in line with relevant pension fund advice where relevant.</li> <li>Ensure the college does not intend to re-employ any of the staff being made redundant in a similar capacity to their previous role.</li> </ul> <p>Substantive testing is strongly recommended.</p>
10	Consent to retain or repay exchequer funding attached to disposed assets	10	Para. 24 Circular 99/48 <i>Financial Memorandum</i>	sudden disposal, inadequate tracking of assets that have been funded by the Exchequer within the fixed-asset register	not applicable	<ul style="list-style-type: none"> <li>Review disposals within the year to identify whether any assets were funded or part-funded by Exchequer funding.</li> <li>Ensure appropriate consent has been obtained from the LSC.</li> </ul> <p>Substantive testing is strongly recommended.</p>
11	Monitoring subsequent investment of sales proceeds in accordance with agreement with LSC	11	Para. 25 Circular 99/48 <i>Financial Memorandum</i>	no clear plan of how unspent proceeds are being or have been applied	<ul style="list-style-type: none"> <li>monitoring through management accounts and/or other reports of unspent proceeds with clear link in to capital budget, cashflows and purposes for which proceeds have been retained.</li> </ul>	<ul style="list-style-type: none"> <li>Review spending against proceeds and ensure this is in line with correspondence with LSC agreeing how monies should be applied.</li> <li>Ensure unspent balance is clearly disclosed within the financial statements at the year-end.</li> <li>Where the unspent balance represents a significant proportion of the college's working capital, consider the impact of this on future financial projections and going concern.</li> </ul> <p>Substantive testing is strongly recommended.</p>

	Area	SAQ	Source ref	Inherent risks	Control environment	Substantive approach
12	Notify LSC of any significant deterioration in financial position	12	Para. 33 Circular 99/48 <i>Financial Memorandum</i> , and	management accounts and financial forecasts highlight deterioration in financial position that	timely management accounts with rolling 12-month cashflow monitored by corporation.	<ul style="list-style-type: none"> <li>Review management accounts to identify any deterioration in the financial position of the college.</li> <li>Where there has been or is forecasted to be a</li> </ul>

	Area	SAQ	Source ref	Inherent risks	Control environment	Substantive approach
			para. 17 of Appendix to Circular 99/48	<p>could result in the college becoming reliant on LSC or other third party support to continue trading</p> <ul style="list-style-type: none"> <li>• untimely management information</li> <li>• history of poor forecasting.</li> </ul>		<p>significant deterioration, ensure through review of LSC correspondence that the position is being discussed.</p> <ul style="list-style-type: none"> <li>• Compare forecast to actual out-turn for the year under review (interim and final) to identify accuracy of budgeting and forecasting process. Where significant differences raise with management and audit committee.</li> </ul> <p>Substantive testing is strongly recommended.</p>
13	College or auditors should report significant cases of fraud or irregularity to the LSC (serious weaknesses, significant frauds, major accounting or other breakdowns, frauds over £10,000 where complex and/or in public interest)	13	Para. 41 Circular 99/48 <i>Financial Memorandum</i> ; paras 97-101 <i>Audit Code of Practice</i> (LSC, 2004); IAASB (February 2004) <i>ISA 240 The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements</i>	<ul style="list-style-type: none"> <li>• new management</li> <li>• poor control environment</li> <li>• dispersed operations</li> <li>• poor segregation of duties in key areas</li> <li>• extravagant lifestyles and so on.</li> </ul>	<ul style="list-style-type: none"> <li>• clear fraud policy statement</li> <li>• clear documented assessment by management and/or governors of likely areas of fraud and/or irregularity and controls in place</li> <li>• testing in these areas by college internal audit over cycle of reviews.</li> </ul> <p>Control testing is strongly recommended.</p>	<ul style="list-style-type: none"> <li>• Discuss any identified potential fraud and/or irregularities with management and review action taken and correspondence with LSC if amounts involved are potentially over £10,000.</li> <li>• Review college assessment of areas susceptible to fraud and/or irregularity and adequacy of arrangements in place to prevent and detect such irregularities. (Consider requirements of SAS 110 and ISA 240).</li> </ul> <p>Substantive testing is strongly recommended.</p>
14	Appointing, grading, suspending, dismissing and determining pay of principal and senior post-holders (including severance payments and any changes to contractual terms)	14	Financial Memorandum paragraph 10 (Circular 99/48) and paragraphs 1-7 of Appendix, Circular 03/08, PAC report (Swansea Institute) re inappropriate contractual terms (pension rights, notice periods)	<ul style="list-style-type: none"> <li>• poor governor monitoring and approval over senior staff employment and severance arrangements</li> <li>• large severance payments made where the college has severe financial difficulties</li> <li>• changes to senior post-holder contracts of employment shortly before staff restructuring.</li> </ul>	<ul style="list-style-type: none"> <li>• effective, monitored and authorised governance process over all aspects of remuneration and severance with appropriate independent advice.</li> </ul> <p>Control testing is strongly recommended.</p>	<ul style="list-style-type: none"> <li>• Review remuneration committee minutes (or equivalent) to ensure that all principal and senior management team appointments, suspensions, pay determinations and severance arrangements have been approved by the governors at each stage of the process.</li> <li>• Review the adequacy of independent advice at each stage.</li> <li>• Ensure there have been no recent changes in contractual terms and conditions (for example notice periods) designed to enhance the level of severance payments.</li> <li>• Ensure appropriate disclosures are made within the financial statements for the basis and levels of pay awards and severance arrangements as required by the latest LSC Accounts Circular.</li> </ul> <p>Substantive testing is strongly recommended.</p>
15	College not to give any guarantees, letters of comfort or indemnities incurring	15	Para. 39 Circular 99/48 <i>Financial Memorandum</i>			<ul style="list-style-type: none"> <li>• Review guarantees, letters of comfort or indemnities incurring contingent liabilities and determine whether given in the normal course of business.</li> </ul>

	Area	SAQ	Source ref	Inherent risks	Control environment	Substantive approach
	contingent liabilities other than in the normal course of commercial business dealings					<ul style="list-style-type: none"> <li>Review bank letter and solicitors' letter to ensure there are no other items disclosed.</li> </ul> <p>Substantive testing is strongly recommended.</p>
16	Complying with any specific requirements laid down by the LSC in Part B of the Financial Memorandum	16	Part B of Financial Memorandum (annual funding agreement)	not applicable	not applicable	<ul style="list-style-type: none"> <li>Review any specific requirements and ensure through appropriate testing that specific terms of funding have been complied with.</li> </ul> <p>Substantive testing is strongly recommended.</p>
17	Using funds for political or campaigning purposes not permitted by charity law	17	Charity law requirements common law and Charity Commission CC9 (Charity Commission, 2004)	<ul style="list-style-type: none"> <li>unauthorised political or charitable donations.</li> </ul>	<ul style="list-style-type: none"> <li>clear authorisation processes for any such donations.</li> </ul>	<ul style="list-style-type: none"> <li>Review any political or campaign payments for compliance with charity law (see CC9 (Charity Commission, 2004).</li> </ul> <p>Substantive testing is strongly recommended.</p>
18	Restrictions on governors holding interests in matters relating to the college and that college must maintain a register of governors' interests	17	Instrument & Articles and charity law requirements (common law but note draft Charities Bill). Charity Commission CC11 and CC37 (Charity Commission, 2003; 2004) also give advice to trustees who wish to enter into contracts to supply goods and services to public bodies	<ul style="list-style-type: none"> <li>infrequent updating of register</li> <li>no formal assessment of the context in which governor disclosures are made (for example, cross-checking to supplier activity).</li> </ul>	<ul style="list-style-type: none"> <li>clear guidance and returns process for governors covering all potential relationships (close family and so on)</li> <li>regular updating of register</li> <li>formal checking of scale of potentially conflicting activity in the context of college activities (for example turnover with a related supplier).</li> </ul> <p>Control testing is strongly recommended.</p>	<ul style="list-style-type: none"> <li>Review the register of interests and identify any instances where governors hold an interest in matters relating to the college.</li> <li>Consider disclosures under SAS 460.</li> </ul> <p>Substantive testing is strongly recommended.</p>
19	Restrictions over types of fundraising activities charities can undertake		Charity law requirements	not applicable		<ul style="list-style-type: none"> <li>Review the fundraising activities undertaken by the college and review these against Charity Commission publication CC20 (Charity Commission, 2002).</li> </ul> <p>Substantive testing is strongly recommended.</p>
<b>LSC (other funding)</b>						
20	Adult bursary pilots - bursaries to over 19s on means-tested basis			<ul style="list-style-type: none"> <li>significant growth in funding.</li> </ul>	<ul style="list-style-type: none"> <li>policies, procedures, training, monitoring and so on.</li> </ul>	<ul style="list-style-type: none"> <li>sample of claims as per LSF.</li> </ul> <p>Substantive testing is strongly recommended.</p>
21	Compliance with terms and condition of discrete revenue	18	<i>Funding Guidance for Further Education in 2004/05</i> (LSC, 2004)	<ul style="list-style-type: none"> <li>significant growth in funding in the year</li> <li>change in personnel</li> </ul>	<ul style="list-style-type: none"> <li>Review the college's written policy for compliance with the LSC and DfES requirements.</li> </ul>	<ul style="list-style-type: none"> <li>Review the return submitted to the LSC to ensure that funding received agrees to allocation letter, expenditure agrees to the supporting records,</li> </ul>

	Area	SAQ	Source ref	Inherent risks	Control environment	Substantive approach
	funding: LSC learner support funds (LSF)			<ul style="list-style-type: none"> <li>administering funding</li> <li>unclear policy</li> <li>no formal tracking or authorisation of expenditure</li> <li>large amounts of funding allocated to 'general' college expenditure on transport and so on.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure policies have been approved by governors and are widely available.</li> <li>Review the college's record-keeping to ensure that it records the applications, separately records each payment, identifies unspent funds and identifies funds unspent at the end of the year.</li> <li>For a sample of payments, ensure the claim form has been authorised in accordance with the college procedures.</li> </ul> <p>Control testing is strongly recommended.</p>	<p>admin costs do not exceed 5% of the total allocation and reasonable interest has been added the fund.</p> <ul style="list-style-type: none"> <li>Check that the return has been submitted by the deadline.</li> <li>Select any individual payments in excess of 2.5% of the LSF funds and ensure these have been paid in compliance with the requirements of the Circular and, subject to the assessment of the control environment, select a judgemental sample of further payments to confirm they have been authorised and learner meets the eligibility requirements set out in the guidance.</li> </ul> <p>Substantive testing is strongly recommended.</p>
22	Compliance with terms and conditions of discrete revenue funding (LSC FE childcare places)	19	Circular 01/12	<ul style="list-style-type: none"> <li>poor project management, inadequate monitoring of spend</li> <li>issues identified by local LSC(s) in their monitoring.</li> </ul>	<ul style="list-style-type: none"> <li>Review the procedures for monitoring expenditure against the approved bid.</li> </ul> <p>Control testing is strongly recommended.</p>	<ul style="list-style-type: none"> <li>Agree a sample of expenditure items (any individual items over 2.5% of the funding level and a judgemental sample of other items) to supporting invoice and verify that funds have been spent in accordance with approved bid.</li> <li>Verify that project expenditure meets the criteria set out in the guidance.</li> </ul> <p>Substantive testing is strongly recommended.</p>
23	Compliance with terms and conditions of LSC discrete capital grant funding: FE capital buildings (including disability access); ILT funding	20	Circular 03/05	<ul style="list-style-type: none"> <li>large capital developments</li> <li>inexperience of dealing with grant funding bodies</li> <li>complex terms of funding</li> <li>history of disputes with funding bodies</li> <li>history of clawback of funding.</li> </ul>	<ul style="list-style-type: none"> <li>approval process for capital spend and grants (at each stage from bid)</li> <li>separate monitoring and reporting of spend and progress in complying with grant terms</li> <li>college internal audit or other external review.</li> </ul>	<ul style="list-style-type: none"> <li>Review grant agreement to confirm terms.</li> <li>Review correspondence with LSC.</li> <li>Vouch sample of expenditure (any items in excess of 2.5% of funding and further judgemental sample) to ensure in line with terms.</li> <li>Check cut-off and matching of funding and spend within the financial statements.</li> <li>Obtain management representation regarding delivery of outputs (where non-financial).</li> </ul> <p>Substantive testing is strongly recommended.</p>

	Area	SAQ	Source ref.	Inherent risks	Control environment	Substantive approach
24	Compliance with terms and conditions of discrete grant funding: CoVE (capital and revenue)	21	Circular 03/05	<ul style="list-style-type: none"> <li>large capital developments</li> <li>inexperience of dealing with grant funding bodies</li> <li>complex terms of funding</li> <li>history of disputes with funding bodies</li> <li>history of clawback of</li> </ul>	<ul style="list-style-type: none"> <li>approval process for capital spend and grants (at each stage from bid)</li> <li>separate monitoring and reporting of spend</li> <li>progress in complying with grant terms, college internal audit or other external review.</li> </ul>	<ul style="list-style-type: none"> <li>Review grant agreement to confirm terms.</li> <li>Review correspondence with funding body.</li> <li>Review the latest financial report submitted to the LSC.</li> <li>Vouch sample of expenditure (any items in excess of 2.5% of funding and further sample) for any items not covered by the latest financial return to the local LSC to ensure in line with terms.</li> </ul>

	Area	SAQ	Source ref.	Inherent risks	Control environment	Substantive approach
				<ul style="list-style-type: none"> <li>funding</li> <li>history of late returns.</li> </ul>		<ul style="list-style-type: none"> <li>Check cut-off and matching of funding and spend within the financial statements.</li> <li>Obtain management representation regarding delivery of outputs (where non-financial).</li> </ul> <p>Substantive testing is strongly recommended.</p>
25	Compliance with terms and conditions of other discrete revenue LSC funding where the LSC does not perform its own detailed audits (for example, increased flexibility for 14-16 year olds, LID funding (Transforming local delivery, Better teaching and learning, golden hellos and so on. The main recurrent grant from the LSC is also excluded as there are no specific terms and conditions relating to it	22	Circular 03/05	<ul style="list-style-type: none"> <li>many funding streams and lack of guidance on their use.</li> </ul>	<ul style="list-style-type: none"> <li>clear cost centre accountability for monitoring of spending.</li> </ul>	<ul style="list-style-type: none"> <li>Vouch a sample of expenditure items to supporting documentation and verify the spending is in accordance with funding condition.</li> <li>Obtain management representation that non-financial outputs have been achieved.</li> </ul> <p>Substantive testing is strongly recommended.</p>

	Area	SAQ	Source ref.	Inherent risks	Control environment	Substantive approach
<b>Non-LSC funding</b>						
26	Compliance with terms and condition of discrete revenue funding (HEFCE teaching funding)	23		<ul style="list-style-type: none"> <li>data issues identified</li> <li>general concerns raised by HEFCE.</li> </ul>	<ul style="list-style-type: none"> <li>No specific additional work as assurance drawn from work in other areas and overall assessment of general control environment and review of overall activities.</li> </ul>	not applicable unless issues identified through review of correspondence

	Area	SAQ	Source ref.	Inherent risks	Control environment	Substantive approach
27	Compliance with terms and condition of discrete revenue funding (ESF traditional)	24	Audit requirements set out in ESF guidance issued by DWP (www.esf.gov.uk)	<ul style="list-style-type: none"> <li>• rapid growth</li> <li>• lack of experience in dealing with ESF</li> <li>• change in personnel, involvement of multi-partners</li> <li>• poor costing environment</li> <li>• concerns raised by college internal audit, financial statements audit or Government Office.</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring by college internal audit and financial statements audit requirements over such projects should give assurance over compliance with ESF regulations and control environment if funding is material.</li> </ul>	<ul style="list-style-type: none"> <li>• Review accountants report by financial statements auditors where work has been undertaken. Where there is no accountants report and figures are material, undertake testing in line with scope of work for ESF audit.</li> <li>• Note that as the financial statements auditor will generally be carrying out both the regularity and ESF grant claim audits, undertaking work during the year should not result in any overlap or duplication of resource. Reliance on college internal audit work in the area may reduce or negate the need for detailed work at the interim stage if projects have not been subject to individual audits.</li> </ul> <p>Substantive testing is strongly recommended.</p>
28	Compliance with terms and condition of discrete revenue funding (other grants (for example RDA), activity being funded within general teaching activity and no funding body requirement to track expenditure separately, that is, output driven)	25	not applicable	<ul style="list-style-type: none"> <li>• inexperience of dealing with particular funding source</li> <li>• significant growth in activity</li> <li>• change in staff administering project</li> <li>• concerns expressed through college internal audit or review by funding body.</li> </ul>	<ul style="list-style-type: none"> <li>• independent monitoring of progress on each project, authorisation and review of returns to funding body</li> <li>• checks that requirements of the project are being met (for example through independent check, college internal audit review, review by funding body and so on).</li> </ul>	<ul style="list-style-type: none"> <li>• Review each material grant agreement to identify terms.</li> <li>• Review correspondence with funding body.</li> <li>• Vouch sample of expenditure to ensure this is in line with terms.</li> <li>• Check cut-off and matching of funding with progress on delivery of outputs within the financial statements. Where material, consider obtaining management representation regarding delivery of outputs (where non-financial).</li> </ul> <p>Substantive testing is strongly recommended.</p>
29	Compliance with terms and condition of discrete revenue funding (other grants for example RDA), expenditure separately tracked and outputs monitored	26	not applicable	<ul style="list-style-type: none"> <li>• inexperience of dealing with particular funding source</li> <li>• significant growth in activity</li> <li>• change in staff administering project</li> <li>• concerns expressed through college internal audit or review by funding body.</li> </ul>	<ul style="list-style-type: none"> <li>• independent monitoring of progress on each project, authorisation and review of returns to funding body</li> <li>• checks that requirements of the project are being met (for example through independent check, college internal audit review, review by funding body and so on).</li> </ul>	<ul style="list-style-type: none"> <li>• Review each material grant agreement to identify terms.</li> <li>• Review correspondence with funding body.</li> <li>• Vouch sample of expenditure to ensure this is in line with terms.</li> <li>• Check cut-off and matching of funding and spend within the financial statements. Where material, consider obtaining management representation regarding delivery of outputs (where non-financial).</li> </ul> <p>Substantive testing is strongly recommended.</p>

	Area	SAQ	Source ref.	Inherent risks	Control environment	Substantive approach
30	Compliance with terms and conditions of discrete non-LSC capital grant funding	27	not applicable	<ul style="list-style-type: none"> <li>• large capital developments</li> <li>• inexperience of dealing with grant funding bodies</li> <li>• complex terms of funding</li> <li>• history of disputes with funding bodies</li> <li>• history of clawback of funding.</li> </ul>	<ul style="list-style-type: none"> <li>• approval process for capital spending and grants (at each stage of bid)</li> <li>• separate monitoring and reporting to relevant committee of spend and progress in complying with grant terms</li> <li>• college internal audit or other external reviews by the funding body and so on.</li> </ul>	<ul style="list-style-type: none"> <li>• Review each material grant agreement to identify terms, review correspondence with funding body.</li> <li>• Vouch sample of expenditure to ensure this is in line with terms.</li> <li>• Check cut-off and matching of funding and spend within the financial statements. Where material, consider obtaining management representation regarding delivery of outputs (where non-financial).</li> </ul> <p>Substantive testing is strongly recommended.</p>
31	Complying with terms and conditions of specific donations and/or trusts and so on	28	relevant trust terms		<ul style="list-style-type: none"> <li>• monitoring and approval of spend out of donation or trust funds.</li> </ul>	<ul style="list-style-type: none"> <li>• Sample check of spending against term(s) of trust or donation.</li> <li>• Ensure income is appropriately accrued to trust investment balances.</li> </ul> <p>Substantive testing is strongly recommended.</p>
	<ul style="list-style-type: none"> <li>• Propriety</li> </ul>					
32	Clear protocols to mitigate against corruption (in addition to register of interests) for example policies on acceptance of gifts and/or hospitality	29	Public Audit Forum guidance	<ul style="list-style-type: none"> <li>• poor segregation of duties</li> <li>• poor procurement controls</li> <li>• no clear policy on or register of gifts, hospitality and so on</li> <li>• extravagant lifestyles and so on.</li> </ul>	<ul style="list-style-type: none"> <li>• clear procurement procedures, for example particularly when accepting tender which is not the cheapest</li> <li>• clear policies which are part of employment arrangements and so on.</li> </ul>	<ul style="list-style-type: none"> <li>• Review minutes to ensure that interests are noted when making decisions.</li> <li>• Review a sample of purchases to verify that financial regulations have been followed.</li> </ul>
33	Conflicts of interest and related parties. Clear framework and monitoring of such transactions must extend to all staff in significant procurement positions (for example, liaison with partners, franchise operatives and project heads)	30	PAC (1994; 1999; 2000) reports; Circular 03/08	<ul style="list-style-type: none"> <li>• infrequent updating of register</li> <li>• no formal assessment of the context in which staff disclosures are made (for example cross-checking to supplier activity).</li> </ul>	<ul style="list-style-type: none"> <li>• clear guidance and returns process for staff covering all potential relationships (close family and so on)</li> <li>• regular updating of register</li> <li>• formal checking of scale of potentially conflicting activity in the context of college activities (for example turnover with a related supplier)</li> <li>• guidance on establishing preferred suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>• Review the register of interest and identify any instances where staff hold an interest in matters relating to the college.</li> <li>• Consider disclosures under SAS 460.</li> </ul> <p>Substantive testing is strongly recommended.</p>
34	Dealing with staff concerns openly. Clear whistle-blowing procedures.	31	PAC (1998; 1999; 2000) reports; Circular 00/25	not applicable	not applicable	<ul style="list-style-type: none"> <li>• Consider impact of any whistle-blowing allegations on the financial statements and regularity opinion.</li> </ul>



	Area	SAQ	Source ref.	Inherent risks	Control environment	Substantive approach
35	Safeguarding assets from theft and so on	32		<ul style="list-style-type: none"> <li>lack of inventory, physical verification, checking of assets.</li> </ul>	not applicable	not applicable unless any concerns become apparent from the self-assessment
36	Clear policy and monitoring of overseas travel expenses	33	PAC (1999) report on Halton College; Circular 03/08	<ul style="list-style-type: none"> <li>large number of overseas trips</li> <li>no clear framework for overseas travel.</li> </ul>	<ul style="list-style-type: none"> <li>financial regulations and so on</li> <li>separate coding.</li> </ul>	<ul style="list-style-type: none"> <li>Review overseas travel policy and reports to governors to ensure that these are adequate based on the level of overseas travel disclosed in the financial statements.</li> <li>Sample check where necessary.</li> </ul> <p>Substantive testing is strongly recommended.</p>
37	Clear protocols to mitigate against inappropriate disposal of assets (property and other)	34	PAC guidance	<ul style="list-style-type: none"> <li>poor controls over disposal of assets</li> <li>poor controls over assets (such as no physical verification of assets).</li> </ul>	<ul style="list-style-type: none"> <li>Review the controls in operation to identify fixed asset-disposals and procedures to ensure that appropriate authorisation is obtained.</li> </ul>	<ul style="list-style-type: none"> <li>Review disposals and ensure that these have been approved in accordance with financial regulations.</li> </ul>
38	Controls and monitoring over expense claims (particularly SMT) and use of college credit cards	35	PAC (1999) report on Halton College	<ul style="list-style-type: none"> <li>lack of policy and procedures</li> <li>high level of individual expense claims.</li> </ul>	<ul style="list-style-type: none"> <li>financial regulations</li> <li>periodic checks of overall expenses claim per person to identify unusual levels.</li> </ul>	<ul style="list-style-type: none"> <li>sample checking of forms, overall expense levels per person.</li> </ul>
39	Lack of project appraisal and monitoring or lack of control over discrete projects and initiatives, including non-core activities	36	PAC (1998; 1999; 1999; 2000) reports on Swansea Institute, Halton College, Southampton Institute and Gwent Tertiary College	<ul style="list-style-type: none"> <li>loss-making non-core activities</li> <li>issue arising unexpectedly on specific projects or grant-funding streams</li> <li>concern from funding bodies.</li> </ul>	<ul style="list-style-type: none"> <li>appraisal approach for new initiatives or projects</li> <li>monitoring of performance (financial and non-financial), independent review (for example college internal audit).</li> </ul>	See above sections.
40	Reasonableness of procurement policies (for example, limits for purchase of individual purchase without recourse to governors and so on)	37	PAC (1999) report on Halton College	not applicable	not applicable	not applicable unless any concerns become apparent from the self-assessment
41	Unnecessary extravagance in purchases (for example, refurbishments, equipment and so on)	37	PAC (1999) report on Halton College	not applicable	not applicable	not applicable unless any concerns become apparent from the self-assessment

	<b>Area</b>	<b>SAQ</b>	<b>Source ref.</b>	<b>Inherent risks</b>	<b>Control environment</b>	<b>Substantive approach</b>
42	Independence of the clerk	38	Circular 99/48 paras 10, 16	not applicable	not applicable	not applicable unless any concerns become apparent from the self-assessment
43	Ongoing review of corporation decision-making processes	39	PAC (1999) report on Halton College	not applicable	not applicable	not applicable unless any concerns become apparent from the self-assessment

# Appendix to Annex: References

## DfES publications

DfES (2001) *Guidance to Instrument and Articles The Further Education Corporations (Former Further Education Colleges) (Replacement of Instruments and Articles of Government) Order 2001*, London: DfES ([www.dfes.gov.uk/furthereducation](http://www.dfes.gov.uk/furthereducation))

Note that sixth form colleges will have different references as their model articles of government are provided in DfES (2001) *The Further Education Corporations (Former Sixth Form Colleges) (Replacement of Instruments and Articles of Government) Order 2001*, London: DfES ([www.dfes.gov.uk/furthereducation](http://www.dfes.gov.uk/furthereducation))

Catholic sixth form colleges have their own instrument and articles of government agreed between the DfES and the appropriate Catholic Church authorities.

## FEFC circulars

The following FEFC circulars can be obtained from <http://lsc.wwt.co.uk/documents/circulars>

99/14: Circular 99/14: *College Companies, Joint Ventures and Overseas Operations*

99/48: Circular 99/48: *The Financial Memorandum*

00/25: Circular 00/25: *Complaints to the Council*

## LSC circulars

The following LSC circulars can be obtained from [www.lsc.gov.uk/National/Documents/Series/Circulars/default.htm](http://www.lsc.gov.uk/National/Documents/Series/Circulars/default.htm)

01/12: Circular 01/12: *Access to Learning: the FE childcare places grant programme 2001-02 to 2003-04*

02/12: Circular 02/12: *College Involvement in Companies*

03/08: Circular 03/08: *FE Colleges: Accounting Policies and Return of Audited Financial Statements*

03/05: Circular 03/05: *Capital Project Grant Support: New and updated arrangements for 2003-04 awards and consultation on the rate of grant support*

04/07: Circular 04/07: *Audit Code of Practice*

## Parliamentary Acts and statutory instruments

HM Government (1989) *Companies Act 1989*, London: HMSO ([www.hmso.gov.uk/acts/acts1989/Ukpga\\_19890040\\_en\\_1.htm](http://www.hmso.gov.uk/acts/acts1989/Ukpga_19890040_en_1.htm))

HM Government (1992) *Further and Higher Education Act 1992*, London: HMSO ([www.hmso.gov.uk/acts/acts1992/Ukpga\\_19920013\\_en\\_1.htm](http://www.hmso.gov.uk/acts/acts1992/Ukpga_19920013_en_1.htm))

HM Government (1997) *Teachers Pension Scheme Regulations 1997*

HM Government (1997) *Teachers (Compensation for Redundancy and Premature Retirement) Regulations 1997* SI 311, London: HMSO ([www.legislation.hmso.gov.uk/si/si1997/19970311.htm](http://www.legislation.hmso.gov.uk/si/si1997/19970311.htm))

HM Government (2000) *Learning and Skills Act 2000*, London: HMSO ([www.hmso.gov.uk/acts/acts2000/20000021.htm](http://www.hmso.gov.uk/acts/acts2000/20000021.htm))

HM Government (2000) *Trustee Act 2000*, London: HMSO ([www.hmso.gov.uk/acts/acts2000/20000029.htm](http://www.hmso.gov.uk/acts/acts2000/20000029.htm))

HM Government (2001) *The Teachers' Pensions (Amendment) Regulations 2001* SI 871, London: HMSO ([www.legislation.hmso.gov.uk/si/si2001/20010871.htm](http://www.legislation.hmso.gov.uk/si/si2001/20010871.htm))

## Other relevant publications

- Charity Commission (September 2004) CC9: *Campaigning and Political Activities by Charities*, London: Charity Commission ([www.charity-commission.gov.uk/publications/cc9.asp](http://www.charity-commission.gov.uk/publications/cc9.asp))
- Charity Commission (September 2004) CC11: *Payment of Charity Trustees*, London: Charity Commission ([www.charity-commission.gov.uk/publications/ccpubs2.asp#cc1head](http://www.charity-commission.gov.uk/publications/ccpubs2.asp#cc1head))
- Charity Commission (September 2003) CC37: *Charities and Contracts*, London: Charity Commission ([www.charity-commission.gov.uk/publications/ccpubs2.asp#cc1head](http://www.charity-commission.gov.uk/publications/ccpubs2.asp#cc1head))
- Charity Commission (July 2002) CC20: *Charities and Fundraising*, London: Charity Commission ([www.charity-commission.gov.uk/publications/ccpubs3.asp](http://www.charity-commission.gov.uk/publications/ccpubs3.asp))
- FEFC and NAO (May 2000) *College Companies and Joint Ventures: a good practice guide*, Norwich: The Stationery Office ([www.tso.co.uk/bookshop/bookstore.asp](http://www.tso.co.uk/bookshop/bookstore.asp))
- IAASB (February 2004) ISA 240: *The Auditors Responsibility to Consider Fraud in an Audit of Financial Statements*, London: IFAC ([www.ifac.org/Store/Details.tmp?SID=10779268633791149&Cart=11067798063282439](http://www.ifac.org/Store/Details.tmp?SID=10779268633791149&Cart=11067798063282439))
- LSC (2004) *Funding Guidance for Further Education in 2004/05*, Coventry: LSC ([www.lsc.gov.uk/National/Documents/SubjectListing/FundingLearning/FurtherEducation/Funding\\_Guidance04\\_05.htm](http://www.lsc.gov.uk/National/Documents/SubjectListing/FundingLearning/FurtherEducation/Funding_Guidance04_05.htm))
- LSC (2005) *Regularity Audit Framework 2004/05*, Coventry: LSC
- Nolan Committee (May 1996) *Local Public Spending Bodies: second report of the Committee on Standards in Public Life, chaired by Lord Nolan*, Norwich: The Stationery Office ([www.public-standards.gov.uk](http://www.public-standards.gov.uk) for Summary); paper copies from The Stationery Office ([www.tso.co.uk/bookshop/bookstore.asp](http://www.tso.co.uk/bookshop/bookstore.asp))
- Public Accounts Committee (1998) *Financial Management, Governance and the Management of Overseas Courses at Swansea Institute of Higher Education*, Eighth Report HC 393, London: UK Parliament ([www.publications.parliament.uk/pa/cm199798/cmselect/cmpubacc/393viii/pa0802.htm](http://www.publications.parliament.uk/pa/cm199798/cmselect/cmpubacc/393viii/pa0802.htm))
- Public Accounts Committee (1999) *Overseas Operations, Governance and Management at Southampton Institute*, Twenty-sixth Report HC 345, London: UK Parliament ([www.publications.parliament.uk/pa/cm199899/cmselect/cmpubacc/345/34502.htm](http://www.publications.parliament.uk/pa/cm199899/cmselect/cmpubacc/345/34502.htm))
- Public Accounts Committee (1999) *Investigation of Alleged Irregularities at Halton College*, Thirty-seventh Report HC413, London: UK Parliament ([www.publications.parliament.uk/pa/cm199899/cmselect/cmpubacc/413/41303.htm](http://www.publications.parliament.uk/pa/cm199899/cmselect/cmpubacc/413/41303.htm))
- Public Accounts Committee (2000) *Financial Management and Governance at Gwent Tertiary College* Second Report HC 102, London: UK Parliament ([www.publications.parliament.uk/pa/cm199900/cmselect/cmpubacc/102/10202.htm](http://www.publications.parliament.uk/pa/cm199900/cmselect/cmpubacc/102/10202.htm))

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