



Skills Funding
Agency



Education
Funding
Agency

Joint Audit Code of Practice

Part 1

July 2013

Of interest to principals and chief executives of colleges, finance directors at colleges, chairs of finance and audit committees, financial statements auditors, internal auditors, directors of funding bodies, and other key organisations in the further education and skills sector.

Joint Audit Code of Practice

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Executive Summary

Background

- 1 Under the Apprenticeships, Skills, Children and Learning Act 2009 (ASCL Act 2009), from 1 April 2010 the Chief Executive of Skills Funding (CE of SF), Young People's Learning Agency (YPLA) and local authorities took over the responsibility for commissioning and funding further education from the former Learning and Skills Council (LSC). The Education Funding Agency (EFA) was established on 1 April 2012 as an Executive Agency for the Department for Education (DfE). The EFA brings together the work previously carried out by the YPLA, Partnership for Schools and the maintained schools funding division of the department. Most local authorities commission provision and are in many cases education providers in their own right. For the purposes of this document the term funding bodies refers to the EFA, the CE of SF and local authorities.
- 2 Each of the funding bodies has clear financial accountabilities for this funding that had to be discharged. Part 1 of the Joint Audit Code of Practice (the Joint Code) came into effect from 1 April 2010 (and updated from 1 August 2010), to cover these new arrangements. The revised Part 1 of JACOP has been updated to reflect subsequent sector developments and becomes effective from 1 August 2013.
- 3 The financial accountabilities of the funding bodies include the need to demonstrate that funds voted by Parliament for the purposes of 16–19 and adult learning have been managed in such a way as to satisfy public expectations of stewardship, and that it can be demonstrated that they have been used for the purposes intended by Parliament, and that statutory duties and other legal requirements have been properly discharged. It is therefore appropriate that the funding bodies should account for the public money paid to them, and similarly that the learning providers who receive funding from them should likewise account for their use of public money.
- 4 In addition to fulfilling the requirements of accountability, assurance is also a key element of the broader quality assurance system, and makes a significant contribution to management and quality arrangements. Formal audit is only a part of the funding bodies' whole set of governance and internal control arrangements by which they obtain assurance over the learning they fund.
- 5 The funding bodies are committed to working together and sharing the assurance which each secures in respect of individual learning providers, including local authority maintained schools with sixth forms. This will avoid overlapping and duplicated assurance arrangements and minimize burdens on learning providers. This commitment is captured in the principle of "one learning provider, one funding assurer" whereby each learning provider will normally only have to deal with auditors from one of the funding bodies, who will secure assurance over the learning provider's use of funding on behalf of all of the funding bodies. Depending on the type of learning provider, the assurance secured might also cover, in addition to their use of funds, internal control (including risk management and governance), regularity and propriety, and adherence to accounting standards.
- 6 Learning providers benefit from this arrangement as they only have to provide assurance to one funding body and need only work with one set of funding body

auditors. The funding bodies benefit in that they need to undertake less assurance work, requiring less resource for audit thereby increasing resources for learning.

Purpose of the Joint Code

- 7 It is a requirement of the funding bodies and local authorities (for their own provision) that the learning providers they fund can provide assurance that:
 - Public money is expended in accordance with the requirements of regularity and propriety; and
 - Public money is used for the purposes that it was intended.
- 8 The funding bodies also have additional requirements in respect of their own financial management arrangements, established by statute, HM Treasury, their own funding agreements and by other sources. These requirements are not covered by the Joint Code.
- 9 Similarly, learning providers will also have additional requirements in respect of their own financial management arrangements, established by Companies Acts and Charity Acts legislation, and by other sources. These requirements are likewise not covered by this Joint Code.
- 10 The purpose of the Joint Code is to clearly document the:
 - Inter-dependencies and responsibilities that exist between the funding bodies and learning providers; and
 - Requirements and guidance for further education colleges and sixth form colleges and other providers in funding agreements on their assurance arrangements, including:
 - Requirements for colleges to have financial statements audit and regularity audit
 - Access to colleges by the Department for Education (DfE), Department for Business, Innovation and Skills (BIS), the National Audit Office, the European Commission and others;
 - The appointment of auditors and the establishment and operation of audit committees.

Principles

- 11 The principles that underpin the Joint Code are that assurance arrangements between the funding bodies are:
 - Effective for the purpose of giving assurance to the relevant central government body's accounting officer, learning provider chief executive (or equivalent), other funding bodies, and Parliament, on the regular and proper use of public funds;
 - Accepted by other funding bodies to the fullest extent possible;
 - Delivered in accordance with professional standards, consistent for similar types of learning providers, and proportional in approach;
 - Transparent in terms of working methodology, identifying findings and conclusions, and taking subsequent action where necessary; and

- Delivered with the minimum level of bureaucracy, for the funding bodies and learning providers, normally resulting in “one learning provider, one funding assurer”.

Structure of the Joint Code

12 The Joint Code is made up of two key parts:

- Part 1 addresses the relationships between the funding bodies and issues such as lead arrangements and mutual acceptance; and
- Part 2 will cover specific requirements for colleges and other providers in funding agreements.

PART 1: ASSURANCE ARRANGEMENTS RELATIONSHIPS

Lead Arrangements

13 The principle of “one learning provider, one funding assurer” requires that only one of the funding bodies is involved in assurance work for a specific learning provider, and that that funding body takes the lead for assurance matters on behalf of the others. Lead arrangements therefore need to be established for all learning providers. For many learning providers this arrangement is clear cut.

14 The CE of SF leads for:

- Further education corporations incorporated and designated under the Further and Higher Education Act 1992 (providing they have not been subsequently designated as a sixth form college corporation under the ASCL Act 2009); and
- Most commercial and charitable learning providers

15 The EFA leads for:

- Sixth form college corporations designated under the ASCL Act 2009;
- Independent specialist providers - providers of learning for learners with learning difficulties and/or disabilities (LLDD);
- Academies, where EFA acting as an agent for DfE will cover both pre-16 and 16–19 funding; and
- Some commercial and charitable learning providers.

16 Local authorities will lead for:

- Their own learning provision e.g. adult learning centres; and
- Maintained schools with sixth forms

17 In respect of schools, JACOP is only concerned with the EFA and CE of SF funding. Assurance in respect of other local authority funds paid to schools is covered by separate requirements between the local authority and the EFA as part of Dedicated Schools Grant (DSG) arrangements.

- 18 As part of the High Needs Pupils funding reforms, the EFA is responsible for place based funding (elements 1&2, covering education and a level of additional support) across the range of providers, and the home local authority commissions and provides top-up funding for an individual student's needs (element 3). As part of these reforms, Non Maintained Special Schools (NMSS) come into the scope of EFA funding from 1 August 2013. The proposed responsibilities for NMSS are as follows:
- The EFA will lead for financial health assessments; and
 - Local Authorities will lead on assurance, through their "contract management" procedures.
- 19 A further exception to the principle of "one learning provider, one funding assurer" is for funding provided by the European Social Fund (ESF), which will continue to be assured by the CE of SF, whichever of the funding bodies is the assurance lead.
- 20 Whilst most commercial and charitable learning providers will have the CE of SF as their lead funding assurer, this will be determined on a case by case basis, normally on the basis of the relative proportions of 16-19 and adult funding which they receive.
- 21 The lead arrangements for the period from 1 August 2013 are summarised in table 1 below.

Table 1: Summary of Assurance Arrangements from 1 August 2013

Organisation Type:	Assurance Lead:	Oversight for Assurance Arrangements for:	Providing Funding Assurance on behalf of:
Local authority controlled adult education centres and local authority maintained schools with sixth forms	Local authorities	Internal control Regularity and propriety Accounting requirements Use of funds	Local authorities for their own funds, the EFA for both EFA funding and CE of SF funding. The EFA will transmit assurance in respect of adult funding to the CE of SF.
Further education corporations	CE of SF	Internal control Regularity and propriety Accounting requirements Use of funds	CE of SF for her funding, EFA for their funding (and by exception, LAs' element 3 HNP funding)
Commercial and charitable learning providers	Primarily the CE of SF (the EFA responsible for those who receive more youth funding than adult.)	Use of funds	CE of SF for all her funding EFA for their funding By exception, LAs' element 3 HNP funding

Organisation Type:	Assurance Lead:	Oversight for Assurance Arrangements for:	Providing Funding Assurance on behalf of:
Sixth form college corporations	EFA	Internal control Regularity and propriety Accounting requirements Use of funds	EFA for all their funding, the CE of SF for any funding she provides (and by exception, LAs' element 3 HNP funding)
Independent Specialist Providers	EFA	Use of funds	EFA for all their funding, the CE of SF for any funding she provides
Non Maintained Special Schools	Local authorities	Use of funds	Local authorities for their own funds and the EFA for their funding
Academies	EFA	Internal control Regularity and propriety Accounting requirements Use of funds	EFA for all their funding (and by exception LA element 3 HNP funding).

22 The areas of assurance identified in the above table are explained as follows:

- Internal control; that the learning provider's systems of internal control, risk management and governance are adequate and effective for the purpose of securing the organisation's objectives and adhering to statutory, legal and other requirements. Assurance in this area is usually derived from the Statement of Corporate Governance and Internal Control included within the Operating and Financial review in the annual accounts;
- Regularity and propriety; that expenditure incurred and income received has been in a regular and proper manner. Audit-based assurance is normally taken, where relevant, from the reports of the learning provider's regularity auditors;
- Accounting requirements; that the annual financial reports of the learning provider are produced in accordance with accounting requirements established by the funding bodies and accounting profession; Assurance in this area is derived from the work of the learning provider's financial statements auditors; and
- Use of funds; that the learning provider has earned the funding paid to it by the funding body(s), in accordance with its funding agreement(s). Assurance in this area is normally secured by direct funding assurance work carried out by the funding bodies on the learning provider's funding claims.

- 23 It is expected that in FE colleges, Sixth Form colleges, Academies, and commercial and charitable providers, local authorities own assurance needs over their element 3 HNP funding will be met through their own “contract management arrangements” rather than formal audit. It is not expected that the value of this funding will be material for the majority of providers. However by exception, local authorities may be able to raise issues of regularity through the EFA to inform briefings for regularity auditors in colleges and Academies, and any relevant issues arising from regularity audit opinions would be shared with local authorities.
- 24 The EFA will retain assurance responsibilities for Independent Specialist Providers in 2013/14, this arrangement will be subject to review for 2014/15.
- 25 Many universities and other higher education colleges (higher education institutions (HEIs)) are significant providers of 16–19 and adult learning. These HEIs are lead funded by the Higher Education Funding Council for England (HEFCE). HEFCE funds HEIs under a parallel audit code of practice that obtains similar assurances as the Joint Code. The CE of SF obtains assurance through an annual exchange of letters between the chief executive and accounting officer of HEFCE and the CE of SF. The CE of SF then transmits assurances to the EFA on HEIs’ use of EFA funds, just as it would for other CE of SF led learning providers who receive EFA funding.
- 26 There will be sharing of assurance between the funding bodies. This sharing of information needs to address two key requirements, namely to ensure that:
- The assurance arrangements of the other funding bodies are provided with sufficient, relevant, information, and on a timely basis, to inform decision making. This requires adverse findings from assurance work relating to individual learning providers and areas of learning delivery to be shared promptly between the funding bodies; and
 - Formal annual reporting arrangements to the satisfaction of the NAO and Parliament. The following section describes these arrangements in greater detail.

Assurance Framework - Overview

- 27 The framework for assurance over use of funds paid to learning providers by the funding bodies is described below. These arrangements are complex between the funding bodies in the interests of minimising burdens on learning providers.
- 28 The CE of SF will give assurance to BIS over funds paid to it and subsequently paid to learning providers. This assurance will be based on:
- The CE of SF performing assurance work on all funding (EFA, LA and CE of SF), received by learning providers that the CE of SF leads on; and
 - The EFA performing assurance work on all funding (EFA, LA and CE of SF), received by learning providers that they lead on. This requires the EFA to notify the CE of SF of the outcomes of their work in respect of CE of SF funding; and
 - Local authorities providing assurance to the EFA in respect of funding provided by the CE of SF to learning providers they lead on. The EFA will then transmit this assurance to the CE of SF

- 29 The EFA will give assurance to the DfE over funds paid to it and subsequently paid to learning providers. This assurance will be given through the EFA Accounting Officer's annual statement of internal control. This assurance will be based on:
- The EFA performing assurance work on all funding (EFA, LA and CE of SF), received by learning providers that the EFA leads on;
 - The CE of SF performing assurance work on all funding (EFA, LA and CE of SF), received by learning providers that the CE of SF leads on. This requires the CE of SF to notify the EFA of the outcomes of this work; and
 - Local authorities providing assurance to the EFA in respect of funding provided by the EFA received in respect of learning providers they lead on.
- 30 Local authorities will give assurance through their chief financial officers' annual grant return to the EFA over funds paid to them by the CE of SF and the EFA. It will cover maintained schools with sixth forms, and local authority controlled learning providers and adult learning centres.
- 31 The CE of SF and EFA will give assurance, through an exchange of accounting officer letters, to each other on all relevant funding received by learning providers for which they lead.
- 32 Table 1 above highlights that for many learning providers, notably commercial and charitable learning providers, the funding bodies will only be concerned about the "use of funds" being appropriate, that is, whether the learning provider has legitimately earned those funds by delivering learning. For other types of learning provider, for example, further education and sixth form college corporations, the public interest in these learning providers is such that the extent of assurance needs to cover more than just "has the funding been legitimately earned?". It needs to cover the learning provider's system of internal control, whether expenditure has been regular and proper, and whether accounting requirements have been adhered to.
- 33 Assurance over a learning provider's internal control is obtained from the Statement of Corporate Governance and Internal Control included within the Operating and Financial review in the annual accounts in respect of further education corporations, sixth form colleges and academy trusts. For schools with sixth forms and local authority managed adult education centres assurance is obtained through internal management frameworks designed to secure this, including financial regulations and standing orders, internal guidance, internal audit coverage and the review of school's completing the Schools Financial Value Standard (SFVS).
- 34 Assurance over a learning provider's regularity and propriety is obtained from the regularity audit opinions in respect of further education corporations and sixth form college corporations. Academy trusts are required to receive a regularity audit from their auditors. In respect of schools with sixth forms and local authority managed adult education centres this assurance is obtained through internal management frameworks designed to secure this, including financial regulations and standing orders, internal audit coverage and oversight from the local authority external auditors.
- 35 Assurance over a learning provider's accounting treatment of public funds is obtained from the financial statements and financial statement management letters

in respect of further education corporations, sixth form college corporations and academies. In respect of schools with sixth forms and local authority controlled learning providers and managed adult education centres this assurance is obtained through internal management frameworks designed to secure this.

- 36 Assurance over the use of funds is obtained by the funding bodies undertaking funding audits for commercial and charitable learning providers, independent specialist providers, academy trusts, further education corporations and sixth form colleges. In respect of schools with sixth forms and local authority controlled learning providers, managed adult education centres and non-maintained special schools the assurance is gained through the local authorities completing an annual return certifying the funds have been used for the purposes intended.

Mutual Acceptance of Assurance

- 37 In order for the principle of “one learning provider, one funding assurer” to work, the funding bodies will accept the assurance work carried out by each other under signature of the CE of SF for assurance work carried out by the CE of SF and the accounting officer of the EFA for assurance work carried out by the EFA. The EFA will accept the assurances received from local authorities in the signed grant returns made by their chief financial officers. The funding bodies will also accept that each other has delivered the assurance work to a standard upon which the other can rely.
- 38 It is for the funding bodies to determine their own quality assurance arrangements over their assurance work and these arrangements need to be reviewed and accepted by their financial statements auditors. Peer review will be by mutual agreement and with the aim of improving the standard of assurance work across the sector.



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