Education & Skills
Funding Agency

ILR Data Integrity Guidance

Guidance for college corporations on maintaining complete and accurate ILR data

July 2021

Contents

Summary

The purpose of this guidance is to help colleges:

- understand ESFA funding rules,

- ensure the integrity of their Individualised Learner Record (ILR) data and submit complete and accurate ILR returns and funding claims to ESFA; thereby recognising the appropriate level of ESFA funding in their financial statements, and

- better understand how external auditors can obtain sufficient audit evidence in respect of ESFA funds recognised in college financial statements to inform their external audit 'true and fair' opinion.

Status

This document is guidance only. It does not introduce any new requirements for colleges or their external auditors.

Who is this publication for?

This guidance is primarily for use by:

- college principals/accounting officers, chief executives, finance directors and heads of management information
- college governors as charity trustees

College external auditors may find this guidance helpful in planning their external audits of college financial statements.

Scope

This guidance covers ESFA post-16 funding of further education and sixth-form college corporations established under the Further and Higher Education Act 1992 (as amended), where members of the corporation form the governing body, and to institutions designated under Section 28 of the same Act as being in the further education sector.

Other providers receiving funding from the ESFA through the ILR, including independent training providers and sixth form colleges which have converted to academy status, will find elements of this guidance helpful in maintaining the integrity of their ILR data and, where appropriate, preparing for external audit of their financial statements.

This guidance does not address other sources of public monies that college corporations may receive, such as funding in relation to devolved Adult Education Budget (AEB) nor funding for higher education provision regulated by the Office for Students (OfS).

Key messages

- College corporations are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view of the state of affairs of the college and the performance for that period. The accuracy of information included in the accounts, together with the underlying data, is also their responsibility.

- Colleges are responsible for the accuracy of their ILR data and ensuring that ILR data and funding claims submitted to ESFA are complete and accurate, including data for other funders, recorded in the ILR.

- ESFA provides a number of resources, including the Provider Data Self-Assessment Toolkit (PDSAT), to colleges to enable them to confirm the completeness and accuracy of their ILR data and funding. However, ESFA is not able to provide assurance that the funds payment statement issued annually to each college and their external auditor reflects the funds earned by the college, as it does not perform funding audits of all colleges each funding year. This has been clarified in the 2020 to 2021 edition of the Post-16 Audit Code of Practice ("the Code").

- External auditors will form their own view as to the extent of work required to audit college income, based on their professional judgement and the particular circumstances of each college. Colleges can assist this process by maintaining the integrity of their ILR data through, inter alia, maintaining a sound system of internal control and commissioning internal audit and / or other reviews of ILR data.

- Colleges should engage as soon as possible with their external auditors to understand their expectations of the college in respect of ILR data, and to agree the timing of any additional work on ILR data for the external audit of colleges' financial statements for the year 2020 to 2021 onwards.

Acknowledgement

This guidance has been developed jointly through a working group involving ESFA and other stakeholders working in the college sector, including college finance directors, college external auditors and the Association of Colleges. ESFA thanks the following for their assistance with the development of this guidance:

- Bill Blythe – Petroc College
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Part 1 – Introduction

Background

1. When ESFA published its Post-16 Audit Code of Practice for the year 2020 to 2021, it clarified that the funds' payments statements, which it provides to colleges and their external auditors each year, do not constitute assurance over the funds earned by colleges. Rather, these statements set out the payments made by ESFA based on the funds claimed by colleges. This clarification was made because ESFA does not perform annual funding assurance reviews ("funding audits") of all colleges and so cannot provide assurance to colleges or external auditors on ESFA income earned by all colleges.

2. In the light of the clarification to the Code, and in the absence of such assurance, external auditors may need to perform additional work to obtain sufficient audit evidence in respect of what is likely to be the largest single source of revenue in a college's accounts – its ESFA funding - in order to comply with International Standards on Auditing (UK) (ISAs). In assessing what work may be required, auditors may take into account ESFA's funds' payments statements, but it is likely that auditors will now seek additional audit evidence in respect of ESFA grant income.

3. The primary purpose of this guidance is to help colleges understand ESFA's funding rules, ensure the integrity of their ILR data and submit complete and accurate ILR returns and funding claims to ESFA. It also aims to inform colleges of the processes and controls they should have in place when inputting and checking learner data and the steps they can take to maintain accurate ILR data. If colleges already have or now establish appropriate arrangements, they will minimise any additional burdens arising from any change in external audit approach going forward.

4. Colleges receive funding under funding agreements and contracts with the ESFA and are therefore required to comply with ESFA's funding rules. As such they must properly and accurately maintain ILR data and other learner documents and evidence. Changes to the ILR, including learner withdrawals and breaks-in-learning, must be recorded promptly and accurately so that ILR data reflects the college's learner population at any point in time. Colleges should ensure that their ILR data is complete, up to date and accurate throughout the year, not just before the final R14 ILR data return.

5. External audit is a regulated profession in the UK. In England, audit regulation matters are reserved for the Financial Reporting Council and registered auditors are overseen by the ICAEW, the Regulatory Supervisory Body, for England and Wales[1]. Registered auditors are required to carry out their external audits in accordance with ISAs. Consequently, ESFA has no authority over the conduct of external audits of colleges' financial statements. However, ESFA recognises that this document will be read by college external auditors in planning their audit work. Colleges should discuss with their auditors the steps they take to ensure that the work they are doing is relevant to the auditor's approach.

Who is responsible for ensuring college income is fairly stated?

6. As set out in the Post-16 Audit Code of Practice, college corporations are required to prepare accounts in accordance with the ESFA's College Accounts Direction. The governors of college corporations are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view of the state of affairs of the college and the performance that period. Governors are also responsible for such internal controls as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether owing to fraud or error.

7. The accuracy of information included in the accounts is the responsibility of the college. ESFA is the prime funder and charitable regulator for the college sector, but is not responsible for the accuracy of the ESFA grant income figure that colleges recognise in their financial statements, based on the income they earned from the delivery of learning, recorded in their Individualised Learner Record (ILR) and claimed from / reported to ESFA.

8. ESFA provides colleges with a funds' payment statement each year. However, this statement is based on the ILR data, and the funding claims maintained, prepared, and submitted by colleges. The statement itself does not provide assurance that the funds paid have been properly earned by the college.

[1] Some audit firms may be overseen by the Institute of Chartered Accountants of Scotland

9. External audit's responsibility is to form an opinion as to whether the information included in the accounts is true and fair and that the accounts are properly prepared in accordance with the College Accounts Direction and accounting standards. This means that college financial statements auditors must consider whether the college corporation members have fulfilled their responsibility for the preparation of true and fair financial statements when providing an audit opinion. While auditors are required to provide an opinion as to whether the accounts (including grant income) give a true and fair view of the state of the college's affairs and the performance for that period, it is the responsibility of the corporation, as the party with responsibility for the preparation of the accounts, to ensure that grant income as a component of college income is fairly stated.

Part 2 – An overview of ESFA funding for colleges

Introduction

10. Colleges are independent self-governing organisations but are substantively publicly funded, with ESFA as the prime funder. They receive funding under funding agreements and contracts with the ESFA. Funding is formula based, with learner characteristics, learning activity and delivery as the main drivers, and with learner data through the ILR at the heart of the process. ESFA funds colleges through three main[2] funding streams:

- 16-19 education (FM25)
- adult education budget (FM35)
- apprenticeships (FM36)

In 2020 to 2021 ESFA also provided Covid-19 grants to colleges in response to the pandemic.

ESFA funding rules

11. Each funding stream is supported by a set of funding rules which are updated by ESFA at least annually:

- Adult Education Budget (AEB) Funding Rules: rules that apply to ESFA funded AEB provision.

- Apprenticeship Funding Rules: there are different funding rules for different apprenticeship start dates. Colleges must follow the funding rules that apply to each apprentice.

- Rules and Guidance for Using 16 to 19 Formula Funding Allocated by ESFA: guidance documents that all education institutions receiving 16 to 19 formula funding must comply with.

- European Social Fund (ESF) Funding Rules: rules for funding the 2014 to 2020 ESF programme.

- Advanced Learner Loans Funding Rules: rules for provision funded by learners through advanced learner loans.

[2] Colleges may also receive income through full cost or self-funded provision, European Social Fund and Advanced Learner Loans.

16-19 Funding

12. 16-19 funding for colleges is based on the number of students they are expected to enrol and uses national funding rates, adjusted by a weighted average calculation based on their characteristics. Colleges need to offer study programmes including A-levels.

13. Funding for 16-19 learning will be the major element of funding for most colleges – overwhelmingly so for sixth-form colleges. It is split into two parts, 16-19 Study Programmes and 16-18 Traineeships. A national funding formula is used to calculate the allocation of funding that each provider receives each academic year, based on published rates and learner numbers from the previous academic year. However, while it is likely to be the largest element of grant funding received by many colleges, it is also the simplest in terms of how it is calculated. Given that the main driver is based on prior year numbers, it should be stable and predictable. A college that ensures its 16-19 numbers are accurate will, most likely, be ensuring most of its ESFA income is accurate.

14. 16-19 Study Programme funding comprises three elements:

<u>Core funding</u>

Core programme funding includes the following elements multiplied together:

- student numbers – based on the prior year numbers (hence “lagged”)
- funding rate per student - based on planned hours and the funding band
- retention factor
- programme cost weighting

with the following elements then added to that figure:

- level 3 programme maths and English payment
- disadvantage funding
- large programme funding

and the total multiplied by area cost.

<u>Programme funding</u>

Total programme funding includes the following elements:

- advanced maths premium payment, plus
- high value courses premium, plus
- T Levels industry placement funding, less
- condition of funding adjustment.

<u>Total funding</u>

Total funding includes the following elements added together:

- care standards funding
- capacity and delivery fund

- high needs students funding (local authority financed)
- student support funding.

Further guidance can be found at: [16 to 19 Funding: How it Works].

15. ESFA fund traineeships for 16 to 18-year-olds (and 19 to 24-year-olds, and up to age 25, with an education, health and care (EHC) plan) through the young people's funding methodology for 16 to 19 study programmes.

Further guidance can be found at: [Delivering traineeships through ESFA funding].

Adult Education Budget

16. Adult Education Budget (AEB) covers funding for adult education (excluding apprenticeships from May 2017), community learning, and learner support. It is targeted at groups of learners with low skills including young adults, unemployed individuals actively seeking work and employed individuals in receipt of a low wage. It also provides funding for certain subjects, such as English and maths. Eligibility for full funding or co-funding (when the student or their employer must pay part of the costs) is based on an individual's age, their prior educational attainment, and personal circumstances.

17. Colleges are allocated AEB funding annually using a nationally consistent methodology. Generally, funding is based on historic delivery of provision and aims to ensure that allocations are in line with what providers can realistically earn from the delivery of education and training that is approved for public funding. The payments are then reconciled against the allocation at the end of the funding year.

18. ESFA grant-funded colleges with an AEB allocation are liable for returning unspent funds where they do not meet a threshold for delivery. For the funding year 2020 to 2021, ESFA has confirmed a reconciliation threshold of 90% for ESFA providers paid on profile. This means that ESFA will only reclaim any under delivery below 90%, including any subcontracting for AEB-funded provision.

19. For most colleges, AEB funding from ESFA is likely to be considerably lower than their funding for 16-19 provision. Since the year 2016 to 2017, the total amount of AEB available to all providers has been no higher than £1.34 billion. From 1 August 2019, control over some of the AEB transferred to six[3] mayoral combined authorities (MCAs) and the Greater London Authority (GLA). These devolved authorities are responsible for commissioning and funding AEB provision for learners resident in their areas. The ESFA remains responsible for funding 19+ learners in England that reside outside the devolved areas. Consequently, the quantum of AEB paid by ESFA to colleges overall is falling. AEB is unlikely to be the major component of grant funding for any individual college (especially sixth-form colleges).

20. Information on the qualifications and learning approved for funding can be found in the publication: [ESFA Funded Adult Education Budget AEB - Funding and Performance Rules 2020 to 2021.]

21. Individual provider allocations are calculated based on a formula that takes into account the type of courses provided, learner numbers, and the demographics of the provider. Details of the funding formula are set out in the publication [Adult Education Budget (AEB) Funding Rules 2020 to 2021]. The formula comprises three elements:

- **Rate:** The basis for funding is the rate for the learning aim. The learning aim may be a qualification or other learning activity. Some courses are funded at a higher rate than others. These programme weightings recognise the relative costs of delivering training in different sectors and subjects.

- **Disadvantage uplift:** This provides extra funding to support the most disadvantaged learners, recognising that they are sometimes more costly to recruit and retain.

- **Area cost uplift:** This reflects the higher cost of delivering training provision in some parts of the country, such as London and the South East.

22. Adult learners may qualify to have their FE course fees paid depending on their residency status, personal circumstances, and on the course they wish to undertake. Which courses are funded may also differ between devolved and non-devolved areas. There is, however, a statutory entitlement to full funding for certain adult learners.

[3] Rising to seven for the year 2020 to 2021, and nine for 2021 to 2022.

23. ESFA funded AEB includes support for four legal entitlements to full funding for eligible adult learners. These entitlements are set out in the Apprenticeships, Skills and Children Learning Act 2009, and enable eligible learners to be fully funded for the following qualifications:

- English and maths, up to and including level 2, for individuals aged 19 and over, who have not previously attained a GCSE grade 4 (C), or higher,
- first full qualification at level 2 for individuals aged 19 to 23,
- first full qualification at level 3 for individuals aged 19 to 23, and the level 3 adult offer for all adults 24 and over,
- essential digital skills qualifications, up to level 1, for individuals aged 19 and over, who have digital skills assessed at below level 1.

If an individual meets the legal entitlement eligibility criteria, providers must not charge them any course fees.

24. Colleges are also provided with a non-formula Community Learning allocation, paid on a monthly profile, the purpose of which is to develop the skills, confidence, motivation and resilience of adults in order to progress toward formal learning or employment, improve their health and well-being or develop stronger communities. Community Learning courses are delivered and reported on the ILR as:

- personal and community development learning
- family English, maths and language
- wider family learning neighbourhood learning.

25. Further information on Community Learning funding, and other aspects of AEB, can be found in ESFA Funded Adult Education Budget (AEB): Funding and Performance Management Rules 2020 to 2021.

26. We fund traineeships for 19 to 24-year-olds through the adult education budget (AEB) funding methodology. Further information on how these traineeships are funded is available in the AEB funding rates and formula.

Apprenticeship funding

27. Following the introduction of the apprenticeship levy, all new apprenticeship starts from 1 May 2017 are funded according to new rules governing the apprenticeship programme. Levy paying employers get an Apprenticeship Service account and can contract directly with approved providers on the Register of Apprenticeship Training Providers (RoATP) at a negotiated price. Colleges may enrol as many apprentices from levy paying employers as they wish. Colleges and providers have an allocation for non-levy paying employers using the same formula, though most colleges have been limited on their non-levy paying enrolments. Further information can be found in the Apprenticeship Technical Funding Guide.

28. When an employer identifies the apprenticeship they need, they negotiate a price with the college for training and assessment. The agreed price will include the costs of delivering the end-point assessment. The college is responsible for passing on payment for end-point assessment to the End Point Assessment Organisation selected by the employer. The cost of the end-point assessment may not be the same as 20% of the total price, which ESFA withholds for completion. Other than the 20% withheld for completion, ESFA will base the college's earnings on monthly instalments so that funding follows the apprentice for as long as they stay on the apprenticeship.

29. ESFA spreads instalments equally over the number of planned months for the apprenticeship programme aim, based on whether the apprentice is in learning at each census date (the last day of each month). The planned number of months is calculated from the "'Learning start date" and the "Learning planned end date" recorded in the ILR. If the apprentice leaves early, and this is recorded accurately in the ILR, monthly instalments stop. ESFA does not calculate a monthly instalment for the final month if the apprentice withdraws before the last day of the month that learning stops. There is a funding uplift for 16 to 18-year-olds on frameworks using the same pattern of monthly instalments and completion.

30. ESFA calculates funding for English and maths qualifications up to level 2 separately from the apprenticeship programme aim. It splits the rate into equal monthly instalments using census dates, and there is no completion amount.

COVID-19 funding streams

31. Colleges may have been eligible to receive additional funding in 2020 to 2021 from ESFA and other bodies in relation to COVID-19. The main ESFA COVID-19 funding streams provided to colleges in 2020 to 2021 are listed in Annex A of the Supplementary Bulletin to the College Accounts Direction. Eligibility criteria and

allocation method vary by income stream, with links to further guidance provided in the Bulletin.

The qualifying period for funding

32. There is a qualifying period for funding irrespective of the type of learner. If a learner is in learning for at least the qualifying period, ESFA counts them as a 'funding start'. The qualifying periods are:

Length of the learning aim	Qualifying period
168 days or more	42 days
14 to 167 days	14 days
Fewer than 14 days	1 day

Part 3 - What colleges need to do

Introduction

33. Colleges receive funding under funding agreements and contracts with ESFA and are therefore required to comply with ESFA's funding rules. As such, they must properly and accurately maintain ILR data and other learner documents and evidence. It is also important that ESFA and other stakeholders, such as Ofsted, have confidence in the data submitted to ESFA. Changes to the ILR, including learner withdrawals and breaks-in-learning, must be recorded promptly and accurately so that ILR data accurately reflects the college's learner population at any point in time. Changes made to ILR data may have implications for funding reconciliations. Therefore, colleges should ensure that their ILR data is complete and accurate throughout the year, as well as before the close of the R14 ILR data return.

Maintaining the ILR

34. The ILR is an on-going collection of data about learners and the learning provided to them by providers in the Further Education and Skills sector, including colleges, for each teaching year (1 August to 31 July). Data recorded on the ILR return is used to calculate funding earned by providers and to enable comparison of actual volumes and costs against contracted levels. The data also provides management information, including performance indicators, which are used to manage current programmes, to assist with the development of future programmes, to ensure that the public money distributed through the ESFA is being spent in line with government targets for quality and value for money, for planning, and to make the case for the sector in seeking further funding.

35. ILR data must be returned according to the data collection timetable set out in Appendix A of the ILR Specification. This timetable sets out the return date by which the college must send complete data. The return date is the hard close date for including data in the national database for that return and represents the last opportunity to send data for each return. For the year 2020 to 2021 the timetable is:

- R01 – 4 September 2020
- R02 – 6 October 2020
- R03 – 5 November 2020
- R04 – 4 December 2020 (reference date 1 November 2020)
- R05 – 7 January 2021
- R06 – 4 February 2021 (reference date 1 January 2021)
- R07 – 4 March 2021
- R08 – 8 April 2021
- R09 – 7 May 2021
- R10 – 4 June 2021 (reference date 1 May 2021)

- R11 – 6 July 2021
- R12 – 5 August 2021
- R13 – 14 September 2021 (reference date 31 July 2021)
- R14 – 21 October 2021 (reference date 31 July 2021)

36. Where the timetable includes a “reference date” for any particular return, the ILR data must accurately describe all provision delivered up to and including this date. Colleges may include data for provision delivered after the reference date. For returns that do not have a reference date, the college must return new starters, leavers and changes in a timely way.

37. The ILR is therefore the primary data source used by ESFA (and the devolved authorities) to make payments to colleges and is likely to be the primary evidence source for auditors seeking to reconcile against the evidence held by colleges at learner level. Therefore, it is essential that the ILR reflects the information and evidence held within the learner files and that any changes to a learner’s learning status are reported promptly, so that achievement rates, retention and funding are accurately recorded / reported.

38. ILR maintenance is at the heart of the integrity of all college funding claims and colleges should make every effort to ensure the accuracy of each return submitted. Data recorded on the ILR return to ESFA is used to calculate funding earned by providers and to enable comparison of actual volumes and costs against contracted levels.

39. Colleges must return ILR data for which they receive direct funding from the ESFA through any of the main grant funding blocks, including learners that are subcontracted out as follows:

Funding Stream	ILR Return requirement	Funding Model in ILR (FM)
16-19 (excluding Apprenticeships)	R04, R06, R10, R13, R14	FM25
Adult Skills (Adult Education Budget)	Monthly	FM35
Apprenticeships (starts from 1 May 2017)	Monthly	FM36
Community Learning	R04, R06, R10, R13, R14	FM10

Funding Stream	ILR Return requirement	Funding Model in ILR (FM)
European Social Funding (ESF)	Monthly	FM70
Other Adult	Monthly	FM81
Other16-19	R04, R06, R10, R13, R14	FM82
Non funded*	Monthly	FM99

*Can include learners funded through Advanced learner loans.

40. ESFA expects colleges to maintain ILR data and other learner documents properly and accurately, as required by the funding rules. ILR transactions, including learner starts, withdrawals, breaks-in-learning, completions/achievements must be recorded promptly and accurately, so that ILR data accurately reflects the college's learner population and their associated programmes of learning at any point in time.

41. Colleges may collect the data required to make an ILR return in whatever way they wish - there are several proprietary software packages available. The information about the learning aims and programmes being undertaken may be held within a Management Information System and exported directly from this into the ILR.

42. The ILR data should be regularly reviewed. ESFA provides tools colleges can use to test the validity of their data frequently prior to its submission, including the Funding Information System (FIS) and Provider Data Self-Assessment Toolkit (PDSAT), as well as regular funding rule monitoring reports based on the ILR data submitted. These can be accessed through View Your Education Data (VYED), which provides interactive dashboards and reports on the data submitted, including reports on data errors, allowing colleges to make amendments after the ILR has been submitted. More information on these tools is provided below. ESFA also produces validation rule reports and submission reports that highlight data errors requiring review.

43. Detailed information on the ILR is given at Provider Support Manual 2020 to 2021 and Individualised Learner Record (ILR). ESFA also provides a suite of online advice, guidance and tools to providers on how to maintain their ILR data, including:

Check ILR reports for possible data errors in your return

Submit Learner Data known issues

[Set up your ILR and collect data with the Learner Entry Tool]

[How to return monthly Individualised Learner Record (ILR)]

44. The ILR Data Management Principles are set out at Annex A.

Understanding the funding rules

45. It is important that college finance staff, as well as MIS staff, understand the relevant funding rules for each type of funding, as set out in Part 2 above. It is also reasonable to expect college external auditors to become conversant with these rules to the extent to which those rules impact on the recognition and measurement of income in college accounts.

The college framework of internal control

46. Internal controls are the mechanisms a business designs and implements to prevent, detect and correct errors in its processes, including misstatement in the financial statements. The fundamental principle is the stronger the control system the lower the risk of material misstatement.

47. External auditors may decide that they can place reliance on the college's own controls as part of their audit approach and in line with each firm's determined audit methodology. This would involve testing to obtain evidence of the effective operation of those controls. In some circumstances, auditors may take the view that the work required to obtain sufficient assurance over the operating effectiveness of a college's controls would be disproportionate in terms of any potential reduction in substantive testing or assurance gained. However, efficiency is not the only consideration. The external auditor may determine that the college's controls are not effective, are not expected to be effective, or that there is insufficient evidence of their operation in practice, and so it would be inappropriate to adopt an audit approach based solely on tests of controls. The external auditor must assess the risk of misstatement in relation to each material figure and in doing so may take into account the effectiveness of controls, provided that the auditor can test the operation of the controls and the result of the testing provides evidence of their effectiveness.

48. There is always a presumed fraud risk in relation to income recognition, though this presumed risk may be rebutted to "not significant" in certain circumstances, depending on the characteristics of the revenue subject to audit. Where external auditors seek to place some reliance on internal controls and determine that controls are effective, the substantive testing required as part of their audit will reduce as a result. So, it is important for the college to discuss with the auditor what audit approach they are going to take. To be able to assess the effectiveness of controls, the auditor may need to:

- ascertain how a particular financial process operates,
- document the process and controls in audit working papers,
- assess the design and implementation of relevant controls,
- test the operating effectiveness of relevant controls,
- determine the impact on the audit approach for specific classes of transactions, account balances and disclosures.

49. A sound system of internal control is fundamentally for the benefit of the college, not simply for the benefit of the auditors. It is also a condition of the Post-16 Audit Code of Practice (paragraph 56) that colleges establish and maintain an adequate system of internal control. Therefore, irrespective of its relevance to the audit process, colleges should document their key controls, including the checks they have in place to mitigate the key risks and what is done to ensure the checks are working ("internal control checks").

50. If a college has a system of internal control that is designed, implemented and operating effectively (for example, by documentation that evidences regular management checks of ILR learner data), then this is more likely to support the auditor in obtaining evidence in respect of ESFA income. Accordingly, colleges should consider the way in which internal control checks are recorded and evidenced. A comprehensive audit trail will assist the college demonstrate to the external auditor that internal controls have operated throughout the accounting period. Such documentation may detail the following:

    - frequency of control checks
    - sample sizes used
    - names of the individuals carrying out the checks
    - a note of the ILR data/records sampled
    - a record of findings and conclusions
    - details of remedial action as necessary

51. Even where the auditor takes the view that controls assessment would be inappropriate in terms of its limited impact on the levels of substantive testing, the college should, nevertheless take all necessary steps to maintain the integrity of controls in relation to its learner data and funding processes. It is likely that, in relation to a significant risk area, external auditors would always assess the design and implementation of controls and this assessment would always have an impact on their substantive testing approach.

52. Such an assessment on the part of the auditor should also take into account the way in which the college uses the Funding Information System (FIS), the Provider Data Self-Assessment Toolkit (PDSAT), and the work of internal audit (IA).

The Funding Information System

53. The Funding Information System (FIS) is an ESFA software application that colleges can download. FIS contains some of the ILR data validation rules and allows a provider to check their ILR data for incompatible entries before submitting it to ESFA. FIS also contains many of the funding calculations for the ESFA and several funding reports which may be run and exported based on provider data. These reports are indicative only: colleges should refer to the online service for actual earnings and payments reports. Please also see: Check How Accurate Your ILR Data is With FIS.

Provider Data Self-Assessment Toolkit

54. Colleges can use the PDSAT to analyse their ILR data to highlight data discrepancies prior to submission. While use of the PDSAT cannot guarantee that the college will be able to identify all data entry errors, it does interrogate ILR data at learner level and produces a suite of reports to test its integrity to assist the college in identifying potential data anomalies or errors. Currently colleges can download the PDSAT.

55. PDSAT allows the user to import ILR XML data files and FIS data files for each funding year. PDSAT also has in-built “audit” functionality, enabling substantive sample selection. As well as interrogating ILR data, it can produce a set of reports for colleges and auditors to review, select random audit samples for each funding stream (the auditor being required to select the number of learner records) and will automatically create a set of audit working papers when the sample is selected. This functionality should be helpful to colleges and their external auditors.

56. Whilst the use of PDSAT is not mandatory, ESFA strongly recommends its frequent use to assist colleges in their routine data cleansing, as well as assisting in their preparation for external audits and funding assurance visits.

Internal audit review of funding / ILR data

57. Colleges should consider the extent to which they should deploy their IA resource, or a separate funding assurance provider to audit their ILR data and returns. Any IA programme of work needs to be agreed by the audit committee and should be informed by risk. It is hard to think of many greater risks to any entity than the validity of its income and serious consideration should be given to planning for an IA review of college funding, including subcontracted elements, every year as a core element of IA’s work programme and whether such work should be limited to a review of controls or should be extended to include detailed tests of learner data.

58. IA may not produce an opinion on the college funding claim itself, but should be able to confirm whether there are adequate controls which ensure the completeness and accuracy of ILR data and whether the data and supporting evidence complies with the funding rules. Colleges without an IA function should consider alternative ways of obtaining this assurance.

59. Some of the IA work programme may overlap with the that of the external auditor, specifically in areas dealing with the assessment of control processes. Therefore, it is likely that in evaluating and reviewing a college's internal control framework, IA performs procedures on financial and ILR data controls relevant to the external audit. While this may not be efficient in all circumstances, the external auditor, rather than duplicating these procedures, may be able to draw on the work carried out by the internal auditor. Reciprocally, working through the audit committee, the external auditor may be able to suggest elements to be included in the IA work programme. The external auditor must decide if it is appropriate and practicable in the college's circumstances and under their own audit approach to take into account the work of IA. ISA (UK) 610 Using the Work of Internal Auditors (revised June 2013), paragraph 15, sets out the factors that the external auditors should take into account in establishing the extent to which they can take into account the work of IA:

- the extent to which the IA function's organisational status and relevant policies and procedures support the objectivity of the internal auditors,
- the level of competence of the IA function,
- whether the IA function applies a systematic and disciplined approach, including quality control.

60. This is likely to be deemed satisfactory where it can be evidenced that the function as a whole operates at the level required to (i) enable assigned tasks to be performed diligently and (ii) in accordance with applicable professional standards. The external auditor would take into consideration the following:

- whether there are established policies for hiring, training and assigning internal auditors to IA engagements
- whether IAs have adequate technical training and proficiency in auditing
- whether IAs possess the required knowledge relating to the entity's financial reporting and the applicable financial reporting framework
- whether the IA function possesses the necessary skills (such as ILR and grant funding knowledge) to perform work related to the entity's financial statements.

61. For a college external auditor to be able to place any degree of reliance in respect of IA work in relation to funding data, the work would have to be include a sufficient, relevant and robust assessment of learner record controls.

62. Provided a college can evidence the above in relation to its IA function, specifically in terms of its ability to conduct ILR data checks and evidence funding earned, the external auditor may be able to draw on the work of the IA function to assess risk and avoid duplication between the work of IA and their own work. Colleges will need to discuss this with their external auditors, as some external auditors may consider that it is not the most efficient way of obtaining assurance, given the time needed to assess the skill and knowledge of IA compared with reperforming the work themselves. Nevertheless, IA may seek to develop its approach to auditing ILR data, drawing on the ESFA's funding audit methodology as set out in Part 4, where appropriate.

63. College audit committees will want to ensure that IA and external audit maintain a constructive relationship through appropriate and regular communication, sharing of information (within what is contractually allowable) and ensuring resources are used efficiently (i.e. avoiding duplication of audit testing where possible). It is acknowledged that coordination between external and internal audit is likely to be especially challenging in relation to the audit programmes for the year 2020 to 2021, but that this is an issue that audit committees must address proactively from the year 2021 to 2022 onwards to maximise the efficiency and effectiveness of their audits.

The Further Education and Training Providers Community

64. The further education and training providers community is an on-line peer-led discussion forum for further education and training providers hosted by ESFA, for providers to talk to others about funding and data issues in the education and training sector, helping each other to resolve queries. All content is in the public domain, but only registered users can post topics or replies. ESFA staff approve users before they can begin posting.

ILR news and updates

65. Another resource that colleges should access is ESFA Update: a weekly newsletter containing actions and information for ESFA-funded organisations. This includes news for MI managers, software writers and suppliers about ILR data collections, FE data systems and reports, open data and other data news. Any college that has not yet signed up to receive this update should consider seriously doing so.

Part 4 - ESFA ILR data validation and assurance arrangements

Introduction

66. ESFA's ILR data validation and assurance arrangements comprise:

- funding rules monitoring,
- apprenticeship compliance checks,
- a combination of random and risk-based funding assurance reviews,
- new provider controls assessments,
- targeted and/or thematic funding assurance reviews.

67. These arrangements may serve to increase the confidence of both colleges and auditors in the completeness and accuracy of ILR data.

Data validation

68. When ILR data is submitted to ESFA, it is subject to validation checks to help ensure that the data received is complete and accurate. ILR files are validated at the point of transmission to the online service or through the FIS against both the XML schema definitions and validation rules. If any data fails the validation checks, then the learner record and all associated records for that learner are rejected. Rejected records are not loaded into the national ILR database and do not generate funding; these records are reported on the rule violation report.

69. The ILR validation rules document includes details about the error condition for each rule and the ILR data it checks. The validation rule document includes a column named "Online Only", which identifies rules that are not included in FIS and are only run when data is submitted to the online service.

Post-16 monitoring reports and funding claim

70. ESFA monitors and reviews the data submitted by colleges through the ILR (and the school census from the academic year 2021 to 2022) to ensure that payments are made in accordance with the requirements, and to check data quality, eligibility and prior attainment etc. The post-16 monitoring reports cover:

- 16 to 19 study programmes
- T Levels
- T Levels transition programme
- traineeships
- apprenticeships

- the adult education budget
- community learning
- advanced learner loans funding

71. ESFA can review multi-year and multi-provider data to identify issues affecting a learner's current eligibility (e.g., double funding) or indicate potential manipulation of achievement rates (changing key data between funding years). ESFA regularly contacts providers and prompts them to correct their data in a timely manner. This review of how the funding system and funding rules operate has the following aims:

    - to identify possible errors in the funding claimed for post-16 delivery that require further investigation,
    - to improve the overall quality of the data reported,
    - to obtain assurance that the provision funded meets the funding rules,
    - to inform ESFA's business processes for assurance, audit, end-of-year payment and reconciliation,
    - to support the development of policy,
    - to ensure benefits are realised and policy reaches its intended target groups.

72. ESFA publishes a set of reports each funding year after the close of the R04 ILR data submission window and continues to publish them every month until R14. ESFA expects colleges to review these reports regularly and incorporate them into their monthly business monitoring cycle. A college can access its monitoring reports via the post-16 monitoring reports dashboard published on View Your Education Data. Further information on how to use the reports dashboard and correct data is available in the Post-16 Monitoring Reports Dashboard User Guide 2020 to 2021.

73. The college must correct data frequently, including when prompted by ESFA, and supply ESFA with any additional evidence requested within the period specified. This evidence can include digital copies of documents such as learner files, commitment statements or employer declarations.

74. Some of the monitoring reports appear in the PDSAT. These PDSAT reports reflect the data contained in the ILR files submitted by providers and aim to assist them in cleansing their data before submitting their ILR return each month. They also enable external auditors to follow up potential issues with colleges, so it would be reasonable for the external auditors to expect the college to share these monitoring reports with them.

75. Where ILR data is incorrect in the final data submission of the academic year (typically in early November following the end of the academic year to which the data relates), ESFA will seek to recover the payments associated with the incorrect data. ESFA has indicated which reports will be subject to a recovery at year-end in the monitoring reports dashboard and the reports user guide. For colleges, this will mean that ESFA offsets any calculated error against the college's reconciliation statement and any published tolerances for over- or under-delivery. If ESFA needs to investigate any issues further, this could result in it withholding the college's reconciliation statement while ESFA confirms the final value of the error.

76. Further information on funding monitoring is available at [Financial Assurance: Monitoring Post-16 Funding for 2020 to 2021.]

Funding claim and reconciliation

77. Colleges must make a funding claim for:

- ESFA AEB – Adult Skills and Community Learning – grant-funded
- ESFA AEB - 19 to 24 Traineeships (procured)
- Advanced Learner Loans Bursary (ALLB) – grant-funded
- ESFA AEB – Adult Skills Learner Support – paid-on-profile (AEB procured)
- 16 to 19 Education

78. ESFA requires a year-end forecast funding claim estimate from all colleges and institutions, after they have submitted their ILR R10 data, and before the end of the academic year. There is a subsequent final funding claim, the R14 Claim, after the end of the academic year, based on ILR R14 data. Any college that fails to meet the deadlines for ESFA ILR returns will also need to return a funding estimate. ESFA will identify such colleges as high-risk institutions for funding audit purposes.

79. College ILR returns enable ESFA to check AEB delivery against the AEB allocation. It is this reconciliation process that generates the annual grant payment statements after the year-end. However, the reconciliation is ongoing and works to the timetable set out in the Adult Education Budget (AEB) Funding Rules 2020 to 2021 and will follow the process in the ESFA's ESFA Funding Claims and Reconciliation guidance.

80. Where the college's actual delivery (including any through subcontracting) per the final claim will result or has already resulted in an overpayment of ESFA funded AEB (including non-formula funded community learning and 19 to 24 traineeships), ESFA deducts the amount owed over the remainder of the financial year and may offset the overpayment against other payments made to the college. If the overpayment cannot be recovered from future payments within the financial year, ESFA will invoice the college for any remaining overpayment.

81. ESFA allows a threshold for under-delivery, which is normally set at 97% of delivery. However, for the 2020 to 2021 academic year the threshold has been set at 90% of delivery. This means that for 2020 to 2021, ESFA will only seek recovery of overpaid AEB up to that 90% threshold. For example, a college that has delivered AEB learning up to 85% of its allocation, would only need to repay 5% of the allocation. If the college's actual delivery in the final claim exceeds allocation, ESFA may pay for the over-delivery. For the academic year 2020 to 2021 delivery of up to 103% of colleges' ESFA funded AEB grant allocation will be funded.

ESFA funding assurance

82. ESFA's Provider Market Oversight Assurance (PMOA) team performs an annual programme of funding assurance reviews ("funding audits") to assess colleges' ILR returns and associated funding for each year. This is informed by a risk assessment process at funding stream level. Any college may be selected for a review, so all colleges should be "audit ready" by ensuring that its ILR returns are complete, accurate, up-to-date and consistent with the data contained in the ILR records. The emphasis is coverage of all funded learners included in colleges' ILRs. For those colleges selected ESFA will seek to obtain assurance that there is no misstatement in their final adult Funding Summary Report, which contains details of their total earnings for the year, and their final funding claims. ESFA achieves this by testing to ensure that the college holds the required evidence to support its funding claims and earnings. The ESFA reviews may take place after the end of the funding year (i.e. post R14).

83. The purpose of PMOA's work is to verify the existence, completeness and accuracy of the ILR data to ensure funding was earned correctly (in line with Parliament's intentions), rather than to validate college grant income for the purposes of ensuring the college financial statements are 'true and fair'. Nevertheless, a college that has been subject to an ESFA funding audit will have a high degree of confidence that any material errors in its ESFA funding have been identified and, depending on the timing of this work, it would be reasonable for the college's external auditors to take this into account. A "clean" ESFA funding audit from a prior year may also serve to provide the college auditors with useful evidence to inform their risk assessment for the current year.

84. Whilst the ESFA funding audit methodology is not fully publicly available, it always involves a detailed review of the college's PDSAT analysis and the use of associated working papers, which are publicly available. It follows a standard audit methodology appropriate to the sector, involving:

- processing the latest ILR data through FIS
- producing PDSAT reports from the ILR data processed through FIS
- reviewing all appropriate PDSAT reports and, where appropriate, selecting

risk-based samples to test

- using the built-in PDSAT sampling module
- substantive testing at learner level based on samples
- when the audit is pre-R14, using PDSAT to reconcile all movements resulting from data amendments between the ILR used for the assurance review and the final R14 ILR return forming the basis of the college's funding claims
- identification of funding errors (overstatements and understatements)
- provision of a management letter quantifying any funding errors and an audit opinion

In the case of new providers delivering apprenticeships, ESFA will also review responses to a controls questionnaire.

85. ESFA may select the main samples of learners from the college ILR returns, processing the ILR through the FIS and produce PDSAT reports from this data. ESFA may also review reports generated by the PDSAT to identify potential data anomalies in the ILR. The PDSAT is used to select the main substantive samples.

86. One of the objectives of the ESFA funding audit is to facilitate improvements to the quality of ILR reporting by providers. In order to progress this improvement, ESFA publishes Common Findings from Funding Assurance Work on Post-16 Providers and Institutions. This report provides details of common issues identified during assurance visits on the main funding programmes as well as generic findings that apply to multiple programmes on additional learning support and sub-contracting. The reported findings should help colleges to focus their data quality checks to check and correct their own ILR return, thereby avoiding delays in correcting data and avoiding large errors or subsequent funding adjustments because errors were not detected or corrected earlier. The findings should also be of interest to college auditors.

Subcontracting assurance

87. ESFA requires providers, including colleges, that sub-contract £100,000 or more of their provision annually, to obtain an annual report from an independent auditor (this could be the external auditor or other suitably "qualified" organisation, such as the internal auditor) providing assurance on sub-contracting arrangements. This takes the form of an annual assurance certificate which is underpinned by an independent report which must include an action plan where the college's end-to-end subcontracting processes do not meet the requirements of the funding agreements and the associated funding rules for the respective year. Where an action plan identifies significant issues with subcontracting arrangements, this could lead to the ESFA withholding or withdrawing funding and cancelling funding contracts.

88. This work does not involve auditing over the actual sub-contracting funding earned and is generally not a reasonable assurance engagement and instead reports factual findings. However, given that these reviews draw upon some of the principles and concepts set out in auditing standards, the reports produced may be assessed by college external auditors as providing evidence in relation to ESFA funding for learners supported through subcontracting arrangements.

Part 5 – External audit considerations

What is the aim of external audit?

89. The primary objective of the work performed by external auditors is to obtain reasonable assurance about whether an organisation's financial statements give a true and fair view and are free from material misstatement. Reasonable assurance means a high (but not absolute) level of assurance and to obtain it the auditor must design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base their opinion.

Audit evidence

90. ISA (UK) 500 (Audit Evidence) explains the auditor's responsibilities in obtaining evidence to support their opinion and what constitutes sufficient appropriate audit evidence. Much audit work involves obtaining and evaluating audit evidence, which is primarily derived from audit procedures carried out during the audit, but can also be obtained from other sources, such as previous audits, internal audits or the college's own control procedures, subject to assessments by the auditors. Audit procedures are often applied in combination, and can include inspection, observation, confirmation, recalculation, reperformance and analytical review.

91. Audit evidence is used to reduce to an acceptably low level the risk that the auditor could express an inappropriate opinion, including when the financial statements are materially misstated. Audit evidence only allows the auditor to draw reasonable conclusions when it is sufficient (a measure of quantity) and appropriate (a measure of quality) to the circumstances. Whether the evidence obtained is sufficient and appropriate is a matter of professional judgment, which should be informed by a structured approach to gathering evidence, based on the assessed risks of material misstatement of the financial statements. The extent of the audit work required on college grant income should be influenced by the quality of the evidence that the college itself can present to the auditor. In short, the better the quality of the college's learner data, the greater the likelihood that any additional audit activity will be minimised.

How will the auditors plan their work?

92. Auditors plan and conduct their work in accordance with International Standards on Auditing (UK). ISA (UK) 300, ISA (UK) 315 and ISA (UK) 330 require that audit evidence should be obtained by performing risk assessment procedures and further audit procedures, such as tests of controls and substantive procedures, including tests of details and analytical procedures. The results of the auditor's risk assessment procedures inform the nature, timing and extent of further audit procedures to be performed in respect of the risks identified.

93. Further audit procedures should respond to the assessed risks of material misstatement at the level of each balance and class of transaction, so that sufficient appropriate evidence can be obtained in respect of those risks. The audit evidence generated by the planned audit procedures should be sufficient and appropriate to support and corroborate (but also challenge) management's assertions in respect of specific classes of transactions, account balances or disclosures in the financial statements.

The materiality and risk of grant income recognition

94. Materiality is the concept that assesses the importance of a figure or disclosure in the financial statements. A matter will be material if it can affect the decision making of the users of financial statements and it may involve both quantitative and qualitative characteristics. Auditors will set a materiality threshold for the financial statements as a whole to help them to determine where to focus their attention. A misstatement in the financial statements that is not material does not need to be corrected for the auditors to provide an unmodified audit opinion.

95. Auditing standards set out considerations for auditors to consider when setting the materiality level, but ultimately it is determined by the auditor's judgement. For instance, many auditors will assess materiality on the basis of total revenue and may set materiality at between X% and Y%[4] of total revenue. ISA (UK) 450 (Evaluation of Misstatements Identified During the Audit) also requires the auditor to consider the cumulative materiality of all non-trivial misstatements that might be seen as immaterial when taken individually. Given that ESFA grant income is likely to form a significant proportion of the total revenue for college corporations, it is evident – even if disaggregated into its component parts – that any figure or figures stated by the corporation in its accounts in relation to ESFA grant and contract income is likely to be material and so of interest to the auditors.

96. Under ISA (UK) 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements (revised June 2016) (updated January 2020)), there is a presumed risk of fraud in relation to revenue recognition, which means that auditors will likely classify revenue as an area of significant risk and therefore undertake more extensive audit work than if it had not been assessed as a significant risk. An auditor can rebut the presumption that the risk of material misstatement of revenue due to fraud is significant, but would require evidence to support that rebuttal. ISA (UK) 240 also recognises that the risk of fraud due to management override of internal controls is a significant risk. Accordingly, auditors must apply professional scepticism and set aside any preconceptions concerning the honesty and integrity of college corporation leadership.

[4] This is a decision for the auditor, but is typically in the range of 1% to 3% of revenue.

97. External auditors form their own view as to the extent of work required to audit college income, based on their professional judgement and the particular circumstances of each college. This is likely to be shaped by a number of factors, such as the type and value of ESFA funds received by the college, the related inherent risks, the college's control environment, including checking of funding claims and related data, as well as the work of other professionals, such as internal auditors.

98. Colleges may assist this process by maintaining the integrity of their ILR data through, inter alia, maintaining a sound system of internal control. Colleges should invest the appropriate time and effort required commensurate to mitigation of the risks associated with material misstatement arising from inaccurate learner data in the ILR.

99. Once the external auditor has assessed the risks of material misstatement, they need to determine their procedures. These may include tests of controls as well as the two substantive procedures: analytical procedures and tests of detail[5]. Testing of controls is necessary when substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion[6] level or when the auditor's risk assessment includes an expectation that controls are operating effectively. Substantive procedures must be performed for each material class of transaction, account balance, and disclosure.

Tests of controls

100. A test of controls is an audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level. If the auditor finds that controls have not been effectively implemented, they may assess that the potential risks of misstatement need to be addressed using additional substantive procedures. If auditors assess that they can rely on the operating effectiveness of controls, this may reduce their need to rely on tests of detail and analytical procedures, although it should be noted that, under ISA (UK) 330 (The Auditor's Responses to Assessed Risks), substantive procedures must be performed for each material class of transaction and therefore tests of control cannot eliminate the need for substantive testing entirely.

[5] Under ISA (UK) 330, where the external auditor has assessed a risk of material misstatement at the assertion level as significant and, where tests of controls will not be performed, the substantive procedures must include tests of detail.

[6] Assertions are representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur.

101. A test of controls could involve similar audit procedures to a test of detail, but the aim is different. The test of controls supports control risk assessment, whereas a test of detail supports the overall audit opinion in relation to the accounts.

102. Tests of controls may include:

- inquiry: the auditor asks the college to explain their control processes
- observation: the auditor observes a business process or transaction while it is being carried out
- reperformance: the auditor starts a new transaction to repeat the procedures used by the college
- inspection: the auditor examines the college's documents for any signs of review, looking for signatures, stamps and so on

Analytical procedures

103. Under ISA (UK) 520 (Analytical Procedures), analytical procedures are used at both the planning and review stages of an audit. The procedures are a type of substantive test involving evaluation of financial information through analysis of plausible relationships among both financial and non-financial data from separate systems. The premise is that certain stable relationships exist among financial and non-financial data, for instance between learner numbers in the ILR and grant income in the college's financial systems. This could include:

- comparing current period financial information to prior periods' data
- comparing current period financial information to budgeted or forecasted results
- considering relationships among elements of financial information and ratio analysis
- comparing current period financial information to sector statistics
- comparing financial information with non-financial information.

104. Analytical procedures may be effective tests of financial data in which misstatements cannot be detected from examining the detailed evidence. 16-19 funding is likely to be the largest element of grant funding received by many colleges, so a college that ensures that its 16-19 numbers are correct will, most likely, be ensuring that a significant proportion of its ESFA income is accurate. 16-19 income is also the funding block that is the simplest in terms of how it is calculated. Given that the main driver is prior year numbers, it should be stable and predictable and so amenable to substantive audit testing through analytical procedures. Nevertheless, some detailed testing by external auditors around key funding triggers such as eligibility and attendance on ‘day 42’ especially should be anticipated.

105. In terms of applying analytical review procedures to 16-19 funding, comparisons of 16-19 grant income claimed with 16-19 learner numbers could indicate unauthorised claims not apparent from testing individual learner records. Analysis of the current year grant income information with the prior years' data could also be effective in discerning potential audit issues. For example, if the corporation has had stable 16-19 learner numbers in the last four years, but this year's numbers have varied significantly, analytical review procedures would reveal this change and the auditor would be prompted to investigate or factor this into their risk assessment.

106. Colleges may consider carrying out their own analytical review of grant income data both as a means to obtain their own assurance over earned income and to enhance audit readiness.

Tests of detail

107. Auditors use tests of detail to gather audit evidence. ISA (UK) 330 does not define tests of detail nor explain how to perform them, the approach always depending on the circumstances. However, they involve the auditor looking at the detail of individual transactions or balances, such as searching for unrecorded liabilities in accounts payable. ISA (UK) 330 states that it is for the auditor to determine whether performing only analytical procedures is sufficient to reduce the audit risk to an acceptably low level. Alternatively, if the auditor considers it appropriate, they may only use tests of detail. So, auditors must decide between analytical procedures and tests of detail, or a combination of both. The key issue for the auditor is whether the selected procedures will allow them to detect a material misstatement at the assertion level.

108. Tests of detail may constitute a key part of the auditor’s evidence on ESFA income. They are performed on a sample basis and, in a college context, such tests most likely would involve the checking of the records for a sample of learners for each of the funding streams and then checking for key factors such as existence, eligibility, qualifying period, etc. If substantive testing identifies errors or misstatements, additional audit testing may be required.

109. The auditor must also consider the timing of evidence and whether they should perform interim audit procedures. Interim work is more easily done when the systems being audited are assessed as reliable, with most detailed testing deferred until period-end when the systems are considered unreliable. If interim work on an unreliable system identified significant issues, the auditor may conclude that additional work would need to be reperformed at period-end anyway. Similarly, if colleges need to make changes to their data subsequent to the interim audit work being performed, this may invalidate the interim audit work and require the testing to be repeated. The fundamental issue for colleges is therefore that the reliability of their ILR system will have a direct impact on the auditor's planning and that good ILR management could reduce the volume of detailed testing at period-end, if the auditor concludes that interim procedures can be performed.

110. The quantity of evidence is another decision for the auditor. Higher risks require more evidence. For example, if grant income has been materially overstated for two prior years, then the auditor might consider increasing learner sample sizes. The higher the risk the more evidence that will be required.

111. Audit committees should engage proactively with their external auditors to better understand when aspects of their audit work will be performed. For example, depending on the external auditor's assessment of the reliability of college systems and processes, they may consider conducting the bulk of any substantive testing at the interim audit stage and then focusing the testing after year-end on changes between the interim audit data and the R14 Claim data.

112. Substantive testing may also be conducted by internal auditors at any point in the year to provide assurance that internal systems are performing effectively and thereby provide for a "cleaner" audit when the external auditors conduct their tests at year-end. If internal audit is to conduct a detailed audit of ILR data then its timing might be scheduled to allow for the results to be shared with external audit before substantive testing is performed.

Taking into account ESFA's funding audits

113. As set out in Part 3, the purpose of ESFA's funding audit programme is to verify the completeness and accuracy of data provided in support of the funding claimed, rather than to audit college grant income for the purposes of ensuring college financial statements are not materially misstated. Further, the assurance, that ESFA is seeking, is in relation to the whole sector as opposed to the individual college. Nevertheless, should a college be selected for an ESFA funding audit, then, depending on when that work has been carried out, the external auditor may be able to take account of the outcome of that funding audit in its risk assessment.

Other considerations

114. External auditors have several other factors that they may take into account in determining the scope of their work. As noted in Part 2, depending on the circumstances, they may take into account the work of internal audit, or indeed of other subject matter experts (such as funding audit specialists) that have been brought in by the college. They can also take into account their own prior year tests of control where the risk is not significant, including whether any previous errors have been adjusted for, and this process may inform risk assessment. However, while these considerations may serve to reduce the extent of substantive tests of detail, they are unlikely to eliminate them entirely.

115. ESFA will continue to issue its funds' payment statements to colleges and auditors. Whilst these statements cannot be relied upon in isolation to provide assurance that ESFA funding paid is legitimately earned, they are nevertheless a source of evidence in relation to payment itself.

Communication with the college

116. External auditors are required to communicate with those charged with governance at the college matters arising from the audit, in accordance with ISA (UK) 260 (Communication with Those Charged with Governance). Auditors are required to communicate:

- their responsibilities in relation to the audit
- the planned scope and timing of the audit, and
- the significant findings from the audit.

117. The findings must be in the form of a written report ("management letter"), prepared in accordance with ISA (UK) 260, and ISA (UK) 700 (Forming an Opinion and Reporting on Financial Statements)).

What happens if the external auditor finds a funding error?

118. Any work performed by the auditors as part of their normal responsibility to obtain evidence in respect of the income figures included in the college financial statements is not a funding audit. The work is performed solely for the purposes of the external audit of the college's financial statements, not ESFA and ESFA is not a party to the engagement. Consequently, there is no obligation on the part of the auditor to report the outcome of its work to ESFA or any other party.

119. Issues brought to light during the course of testing would be discussed with the college, although this may exclude issues, which the external auditor considers to be trivial. The college should take any appropriate action in respect of any misstated income or other ILR errors as if it had discovered them itself. For example, if an auditor performed testing pre-R14 and identified errors, then the college could amend the data and any repayments be made automatically. Likewise, issues with apprenticeship ILR could be corrected and payments made back to the ESFA automatically (without any notification). Colleges will determine any actions to be taken in response to potential accounting adjustments identified by the auditor, in line with Financial Reporting Standard 102 (FRS 102). Any adjusted and unadjusted errors, unless trivial, would be noted in the audit management letter, which is shared with ESFA.

120. Where the external auditor identifies ILR errors, which result in a material misstatement in the accounts, they will report the potential adjustment to the college. The college will determine any action to be taken in response and agree this with the auditor. The auditor may also consider the risk of there being a similar previously undetected material misstatement in the prior year. They may choose to perform additional audit work to clarify this, in the same way that they would for other financial data included in the accounts.

121. ESFA uses both a random and risk-based approach to selecting colleges for a funding audit. Output from the external audit, including management letter points and adjusted and unadjusted errors, will be one of a number of sources of data used for the risk-based sampling approach, which contributes to whether a college will be selected for a funding audit.

122. External auditors must report matters of material significance[7] to the ESFA, as set out in section 160 of the Charities Act 2011.This would include, but is not limited to, any matters suggesting dishonesty or fraud involving a significant loss of, or a material risk to, charitable funds or assets

[7] As defined in: Matters of Material Significance reportable to UK charity regulators.

Annex A - The Individualised Learner Record (ILR) Data Management Principles

Colleges must adhere to the following five Data Management Principles when completing the ILR.

Principle 1: The ILR must accurately describe the provision delivered to each learner.

- The data you record on the ILR must accurately reflect the journey for the learner and what has happened. Inaccurate information must never be entered even where it is perceived that this would result in a more equitable claim for funding or accurate record of performance.
- If no learning is delivered for a learner, then no learning should be recorded on the ILR. For example, if a learner withdraws without attending the first class, then this learner is not included on the ILR. You must not record this on the ILR with a Completion status of 'withdrawn'.

Principle 2: The ILR must accurately and comprehensively reflect what is recorded in the learner file or learning agreement

- The learner file (or learning agreement) records the goals that the learner and provider have agreed. It is against these goals that provider performance, in terms of achievement rate, is measured.
- It is recognised that the learning aim may be agreed during the initial period of learning for a long qualification. However, a learning aim must not be changed once set. It is reasonable to expect that the goal should be agreed as soon as possible.
- Consequently, providers must agree and record the learning aim within the funding qualifying period as defined in the relevant ESFA funding documentation.
- Where a provider and learner agree to a change of aim after delivery of the aim has commenced and the funding qualifying period has passed, then this change must be recorded as a transfer in the ILR.

Principle 3: For any particular return, a provider must meet the timeliness specification

- Where there is a collection reference date on the ILR data collection timetable (Appendix A), you must accurately describe in the ILR all provision delivered up to and including the collection reference date. The provider may include data for provision delivered after the collection reference date.
- For ILR returns that do not have a reference date, you must return new starters,

leavers and changes in a timely manner.

- Where data describes provision to be delivered in the future, that is beyond the reference date or beyond that required to meet the timeliness standard, no one should assume this data is complete or accurate.

Principle 4: Basic pieces of information about a learner and their learning must remain constant once entered in the ILR except where the information has been entered in error.

- The following fields in particular should not be changed without keeping a record of the reason for the change:
    - Planned learning hours
    - Planned employability, enrichment and pastoral hours
    - Postcode prior to enrolment
    - Learning aim reference
    - Funding model
    - Learning start date.
- The Learning planned end date field must not be changed once set and this is stated specifically in the ILR specification.
- Where inaccurate data is sent, Principle 1 takes precedence: it is more important to correct inaccurate data than to not change fields.

Principle 5: Providers should aim to implement data management best practice when processing learner data within their systems in order to deliver timely and accurate data in their ILR

Annex B - Links to information and guidance

Audit and Accounting Framework

Post-16 Audit Code of Practice

International Standards on Auditing (UK)

Financial Reporting Standard 102

ESFA funding tools

Check how accurate your ILR data is with FIS

FIS (Funding Information Service) tool

Provider Data Self-Assessment Toolkit (PDSAT)

View Your Education Data (VYED)

Funding reconciliation and assurance

ESFA financial assurance: monitoring the funding rules

ESFA funding claims and reconciliation

Common findings from funding assurance work on post-16 providers and institutions

ILR information, advice and guidance

Provider Support Manual 2020 to 2021

Individualised Learner Record (ILR)

Check ILR reports for possible data errors in your return

Submit Learner Data known issues

Set up your ILR and collect data with the Learner Entry Tool

How to return monthly individualised learner record (ILR)

Funding rules and guides

Adult Education Budget (AEB) funding rules

Advanced learner loans funding rules

Apprenticeship funding rules

Apprenticeship technical funding guide

European Social Fund (ESF) funding rules

Rules and guidance for using 16 to 19 formula funding allocated by ESFA

16 to 19 funding: how it works

Further support and news

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