



Department
for Education

Framework and guide for external auditors and reporting accountants of colleges

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Part 1: Introduction

How the Framework and Guide should be used

1.1 The Department for Education's (DfE's) assurance over colleges is partly drawn from the work of external auditors and reporting accountants. In this respect, DfE requires colleges to:

- prepare an annual report and financial statements (referred to as annual accounts hereafter) in line with the [Statement of recommended practice: accounting for further and higher education](#) and DfE's [College Accounts Direction](#), and
- appoint an auditor to give an opinion on whether their annual accounts present a true and fair view and, as reporting accountant, provide a regularity conclusion.

1.2 This Framework and Guide covers audit and regularity reporting in the college sector and applies to all external auditors and reporting accountants who provide statutory audits and regularity reviews to colleges. Its purpose is to:

- explain external auditors' obligations to issue an audit opinion as to whether the college's annual accounts present a true and fair view,
- prescribe to external auditors, in their role as reporting accountants, the requirements for their regularity review and report, and
- help governors (especially audit committee members), accounting officers, chief financial officers and internal auditors understand the roles and responsibilities of external auditors and reporting accountants.

1.3 Additionally, auditors will want to be aware of the full range of assurance activities that DfE's accounting officer relies upon. This includes:

- DfE's review of college annual accounts including review of the audit opinions, audit findings reports of college external auditors and the regularity conclusions of college reporting accountants
- auditors' reviews of the annual certification of grant expenditure (as Annex G returns) for DfE
- DfE funding audits, based on a random and risk-based sample of colleges, which gives sector-wide assurance over funding claimed.

- 1.4 The Framework and Guide should be read by external auditors, governors (especially audit committee members), accounting officers, chief financial officers and internal auditors.

The status and scope of the Framework and Guide

- 1.5 We use the term college to refer to further education and sixth-form college corporations established under the provisions of the [Further and Higher Education Act 1992](#), institutions designated under Section 28 of the [Further and Higher Education Act 1992 \(as amended\)](#)¹, and any subsidiary companies forming part of the parent college group.
- 1.6 Academy trusts with post-16 provision (including any sixth-form colleges which have converted to academy status) are not covered by this Framework and Guide and their auditors and reporting accountants should refer to DfE's [Framework and guide for external auditors and reporting accountants of academy trusts](#). Non-college post-16 providers that are not part of the statutory further education sector are not covered by this Framework and Guide. Auditors of independent training providers should refer to the [Financial handbook for independent training providers](#).
- 1.7 Colleges that are registered with the Office for Students (OfS) are not only required to comply with this Framework and Guide and the [College Accounts Direction](#), but also the OfS terms and conditions of funding, and the [OfS Accounts Direction](#). Higher education institutions that are part-funded by DfE are not covered by this Framework and Guide and should also follow the OfS' requirements.
- 1.8 This Framework and Guide comes into force on the date of publication and applies until it is replaced or updated. The [Post-16 Audit Code of Practice](#) is withdrawn and all references in existing ESFA or DfE publications or documents shall be taken as being in relation to this Framework and Guide insofar as the statutory college sector is concerned. The Framework and Guide should be read with the [College Financial Handbook](#), [College Accounts Direction](#) and any related requirements and guidance published by DfE.
- 1.9 When DfE is communicating its requirements or providing guidance to external auditors or reporting accountants in this document:

¹ The provisions of this Framework and Guide, relevant to designated institutions, also apply to any entity funded by DfE which conducts or controls a designated institution unless that designated institution itself is required to submit annual accounts to DfE.

- **Must** - identifies mandatory requirements and this term is used only for reporting accountants. As described in [paragraph 2.20](#) below, DfE is a party to the terms of engagement between the reporting accountant and the college for their report on regularity and, as a result, reporting accountants must adhere to the requirements set out in this document.
- **Should** - describes good practice. External auditors and reporting accountants should adhere to good practice contained in this document to facilitate a consistent approach to the delivery of assurance to colleges.

1.10 This Framework and Guide also includes content which sets out certain actions or processes to be followed by external auditors. This is drawn from either International Standards on Auditing (UK), the Companies Act 2006, other legislation, requirements, or best practice relevant to the external audit of financial statements. It is included to provide a wider context to the work performed and are not requirements set, or guidance issued, by DfE.

1.11 The Framework and Guide does not aim to direct an external auditor or reporting accountant to reach a particular conclusion. They should use their professional judgement to apply its requirements and guidance to the circumstances that exist at each college.

What has changed in this edition?

1.12 This is the inaugural edition of the Framework and Guide and, for colleges, replaces the [Post-16 Audit Code of Practice](#) for accounting periods ending on or after 31 July 2025. It incorporates pre-existing requirements and guidance of the [Post-16 Audit Code of Practice](#) insofar as that document referred to the audit and regularity framework for colleges. That framework is essentially unchanged but in light of the reclassification of the sector in November 2022 and the publication of the [College Financial Handbook](#), at [Annex C](#) we have expanded and updated our guidance to reporting accountants concerning those areas where regularity testing might be focused.

Part 2: Responsibilities

- 2.1 This section explains the responsibilities of each party involved in the delivery of assurance by the external auditor and the reporting accountant.

External audit

The college's responsibilities

- 2.2 Colleges are responsible for preparing annual accounts in accordance with external financial accounting and reporting requirements, including those set out in financial reporting standards (including FRS 102), the [Statement of recommended practice: accounting for further and higher education](#) (SORP) and DfE's [College Accounts Direction](#). They are also required to appoint an external auditor to audit those annual accounts and, as reporting accountant, to undertake a regularity assurance review.
- 2.3 Colleges have an obligation to ensure appropriate action is taken within a reasonable period to address any findings in the reports issued by the external auditor, once their work is complete.

The external auditor's responsibilities

- 2.4 External auditors are responsible for fulfilling their duties as required by the Companies Act 2006 and by International Standards on Auditing UK (ISAs (UK)).
- 2.5 The external auditor will set out their responsibilities, as well as the scope and objectives of their work, in their letter of engagement to the college.
- 2.6 Where the external auditor concludes that they have to resign from their engagement before the expiry of their term of office, they will provide the college with a statement of circumstances that they consider should be brought to its attention, which the college will send to DfE.
- 2.7 Where the auditor ceases to hold office in any circumstance, they will provide DfE with details of any matters, which would normally be noted in the professional enquiry letter to successor auditors under the ICAEW professional requirements, where such matters exist.

Regularity review

The college's responsibilities

- 2.8 Governors have a responsibility to ensure regularity and propriety in use of the college's funds, and to achieve economy, efficiency, and effectiveness. The board of governors is required to appoint, in writing, a named individual as the college's accounting officer. The appointment of an accounting officer does not remove the governors' responsibility for the proper conduct and financial operation of the college.
- 2.9 The accounting officer is required to prepare a statement of regularity, propriety and compliance which will form the starting point of the work of the reporting accountant. This statement is included in the college's annual accounts (see part 4 of the [College Financial Handbook](#) and Annex B of the [College Accounts Direction](#)). The statement requires disclosure of any identified material irregularity, impropriety or funding non-compliance and specifically addresses compliance with the [College Financial Handbook](#).
- 2.10 The college is responsible for arranging an independent review of regularity at the college and including an independent reporting accountant's report on regularity in the annual accounts. This is referred to as the regularity engagement and is a tripartite arrangement between the reporting accountant, the college and DfE.
- 2.11 Specific responsibilities of the college are set out in DfE's terms of engagement in [Annex B](#). In addition to these responsibilities, governors need to ensure appropriate action is taken, within a reasonable period, to address any findings in the regularity report issued by the reporting accountant.
- 2.12 Colleges should ensure that any references in their final signed statement to instances of material irregularity, impropriety or funding non-compliance are consistent with any findings from the work of the reporting accountant.
- 2.13 Colleges are required to provide a copy of their completed [regularity self-assessment questionnaire](#) (RSAQ) to the reporting accountant, signed by the accounting officer and counter-signed by the chair of governors. The RSAQ will inform the reporting accountant's work by demonstrating how the college has complied with the framework of authorities.

DfE's responsibilities

- 2.14 DfE's permanent secretary is its accounting officer and is responsible and accountable to Parliament for how DfE uses its funds. DfE's accounting officer is also personally responsible for the regularity and propriety of its funds and for ensuring value for money.
- 2.15 To discharge these duties, DfE's accounting officer needs to be satisfied that:
- each college has appropriate arrangements for sound governance, financial management, securing value for money and accounting
 - the way colleges use public funds is consistent with the purposes for which the funds were voted by Parliament.
- 2.16 DfE's accounting officer will place reliance on the statement of regularity, propriety and compliance made by the college's accounting officer and the reporting accountant's report on regularity.

The reporting accountant's responsibilities

- 2.17 The reporting accountant must be the external auditor, who is conducting the true and fair audit of the annual accounts. The reporting accountant is required to review and report on the statement of regularity, propriety and compliance prepared by the accounting officer, and to take into account the college's responses in its completed RSAQ. This review will also be informed by their testing of the annual accounts.
- 2.18 The reporting accountant must provide a report on regularity addressed jointly to the college and to the Secretary of State for Education, in accordance with part 4 of the [College Financial Handbook](#).
- 2.19 Further information on the responsibilities of the reporting accountant is contained in DfE's terms of engagement for the regularity engagement set out in [Annex B](#).

The tripartite relationship

- 2.20 To allow DfE to draw assurance from the reporting accountant's regularity report, DfE will be a party to the engagement between the college and the reporting accountant. Whilst the college and its reporting accountant will continue to be party to a letter of engagement in the normal way, to avoid bureaucracy there is no expectation that the engagement letter would also be signed by DfE. Instead, the terms of engagement DfE has adopted, as a party

to the regularity engagement, are set out in [Annex B](#).

- 2.21 Additionally, standard paragraphs set out in [Annex A](#) of this document must be included within the letter of engagement between the college and the reporting accountant, which acknowledges their duty to DfE.

Liability

- 2.22 The reporting accountant must conduct their engagement with reasonable skill and care. The limit to the reporting accountant's liability to both the college and DfE in respect of the regularity engagement must be included in the terms of engagement for the regularity engagement. Standard terms of engagement are set out at [Annex B](#) to this document. The default liability is uncapped though the auditor may limit liability in agreement with the college provided that the proposal is discussed with DfE. The relevant limits apply to each period for which the reporting accountant is providing their report.

Additional audit requirements for colleges registered with the Office for Students

- 2.23 Colleges that are registered with the Office for Students (OfS) are obliged to follow the requirements of the [OfS Accounts Direction](#), as well as those set out in this document. OfS-registered colleges, and their auditors, should take note of the requirements set out in the OfS Accounts Direction. The OfS requirement to provide an audit opinion on use of funds as set out in the OfS Accounts Direction does not remove the requirement for the reporting accountant to provide a report on regularity as set out in [Annex D](#) of this Framework and Guide.

Assurance reviews of the subcontracting standard

- 2.24 Colleges with subcontracted provision of over £100,000 are required to obtain an independent report covering the arrangements to manage and control subcontractors. Further information can be found in [Assurance Reviews of the subcontracting standard for post-16 providers](#).

Principles

- 2.25 In carrying out their work external auditors and reporting accountants will also apply the following principles.

- 2.26 **Integrity and objectivity** - the external auditor and reporting accountant will carry out their work with integrity and objectivity. Auditors will also comply with applicable ethical frameworks, along with any additional requirements set out by relevant regulatory, recognised supervisory and other relevant bodies. This includes, amongst other documents, the Ethical Standard published by the Financial Reporting Council on independence, which means that a firm providing external audit to an entity shall not also provide Internal audit or review services to it.
- 2.27 **Professionalism** - the external auditor and reporting accountant will carry out their work in compliance with standards issued by relevant regulatory bodies.
- 2.28 **Professional scepticism** - the external auditor and reporting accountant will exercise professional scepticism. This means they will obtain and document the information and explanations they consider necessary to provide sufficient, appropriate evidence to support their judgements. They will meet the requirements of professional standards, where applicable.
- 2.29 **Proportionality** - the external auditor's work will be risk-based and proportionate. It will be designed to meet the auditor's statutory responsibilities, applying the auditor's professional judgement to tailor their work to the circumstances in place at the college and the audit risks to which they give rise. The auditor will also consider carefully the practical and resource implications for the college, when framing recommendations arising from their work.
- 2.30 **Appropriate knowledge and skills** - the external auditor and reporting accountant will ensure that they have the necessary skills and knowledge to discharge their functions effectively and have arrangements in place to ensure that staff have sufficient knowledge of the relevant financial reporting, regulatory and legislative frameworks. They will ensure that audit teams comply with statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information, particularly personal information received or obtained during their work.

Part 3: External audit

- 3.1 DfE requires external auditors appointed by colleges to comply with Part 42 of the Companies Act 2006, namely to be a firm or individual holding membership of a relevant supervisory body and allowed to carry out audits under the rules of that body.
- 3.2 External auditors conduct their audits of annual accounts in accordance with relevant legal and regulatory requirements and [International Standards on Auditing \(UK\)](#). They will also comply with the Financial Reporting Council's Ethical Standards.

The external audit opinion

- 3.3 The external auditor will issue an audit opinion in accordance with International Standard on Auditing (UK) 700 (Revised November 2019) Forming an Opinion and Reporting on Financial Statements, which states that the auditor has conducted the audit in accordance with the applicable law and International Standards in Auditing (UK).
- 3.4 The audit opinion will state whether:
- the annual accounts give a true and fair view of:
 - the college's financial position at 31 July
 - its financial performance and cash flows for the period then ended
 - the annual accounts have been prepared in accordance with UK Generally Accepted Accounting Practice, the Statement of Recommended Practice: Accounting for Further and Higher Education, and the DfE College Accounts Direction.
- 3.5 The external auditor will also report on whether they consider the college's use of the going concern basis of accounting, or otherwise, is appropriate.
- 3.6 Additionally, the external auditor will report by exception whether, in their opinion:
- the college has not kept adequate accounting records
 - the annual accounts are not in agreement with the accounting records
 - they have not received all information or explanations required for their audit.

Communication with those charged with governance

3.7 External auditors are required to communicate matters arising from the audit with those charged with governance. This will be in the form of a written audit findings report (management letter), prepared in accordance with [ISA \(UK\) 260 Communication with Those Charged with Governance](#) and [ISA \(UK\) 700 Forming an Opinion and Reporting on Financial Statements](#). They will present their findings annually at a meeting of the board of governors, which, at the discretion of the board, may be a joint meeting with the audit committee.

3.8 The auditor will report on:

- their responsibilities in relation to the audit
- the planned scope and timing of the audit
- the significant findings from the audit, including:
 - their views about significant qualitative aspects of the college's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
 - significant difficulties, if any, encountered during the audit
 - significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management and the written representations the auditor is requesting
 - circumstances that affect the form and content of the auditor's report, if any
 - any other significant matters arising during the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process
- any audit recommendations, categorised by priority, for the period, with management responses, if appropriate.
- the status of any audit recommendations from the previous year.

Part 4: The reporting accountant's regularity engagement

- 4.1 The external auditor performs a dual role. In addition to performing a statutory audit of the annual accounts, they are also engaged to provide a report on regularity to the college and to DfE and, in this capacity, are referred to as a reporting accountant. This section provides the framework and reporting requirements for the reporting accountant in undertaking the regularity engagement.
- 4.2 The reporting accountant must set out any material matters relating to transactions within their report on regularity, which may also encompass any findings concerning propriety.

Provisions in the terms of engagement

- 4.3 The duties of the external auditor and reporting accountant must be clearly set out in an engagement letter in accordance with ISA 210. [Annex A](#) sets out standard clauses, covering the external audit of the annual accounts and the regularity review, that must be included within the letter of engagement between the college and the external auditor and reporting accountant.
- 4.4 The large number of colleges in scope of the engagement makes it impractical to have an engagement letter with each individual reporting accountant. Consequently, there is no expectation that DfE will sign the engagement letter and standardised terms of engagement are in place.
- 4.5 [Annex B](#) sets out the pre-agreed terms of engagement on which the Secretary of State for Education engages the reporting accountant to perform a limited assurance engagement and report on regularity in connection with the college. DfE requires colleges and reporting accountants to adopt these terms of engagement, and any substantial changes must not be made without DfE's prior written consent.
- 4.6 DfE accepts that an agreement between the college, its reporting accountant and DfE on these terms is formed when the reporting accountant signs and submits to DfE or the relevant devolved authority a report as set out in [Annex D](#). By publishing this document, DfE confirms that these pre-agreed terms form its agreement with the college and the reporting accountant.

- 4.7 Colleges registered with the OfS and their auditors will need to build a use of funds aspect, in addition to the regularity aspect, in their letters of engagement.

Basis of the engagement - limited assurance

- 4.8 The reporting accountant must perform the engagement to provide a limited assurance conclusion. Limited assurance is defined by paragraph 12(a)(i)(b) of the International Standard on Assurance Engagements ([ISAE \(UK\) 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information](#)). It sets out that the nature and extent of testing, to provide a meaningful level of assurance, is a matter for the professional judgement of the reporting accountant, although it is anticipated that the accounting officer's statement of regularity, propriety and compliance with form the starting point of the work.
- 4.9 The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide sufficient appropriate evidence to express a limited assurance conclusion on regularity.
- 4.10 A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable the reporting accountant to obtain assurance that they would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, they do not express a positive opinion.
- 4.11 The reporting accountant provides a limited assurance conclusion, that is - nothing has come to their attention to suggest that, in all material respects, expenditure and income has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities that govern them.

Framework of authorities applying to the engagement

- 4.12 The reporting accountant's report on regularity refers to the authorities that govern the college. The authorities include:
- the college's instrument and articles of government
 - the college's accountability agreement
 - the [College Financial Handbook](#)

- the [College Accounts Direction](#)
- charities legislation
- Charity Commission guidance
- specific terms and conditions relating to individual elements of funding, or funding from other sources.

4.13 In planning the separate ‘true and fair’ audit as external auditor, the reporting accountant will already understand what the relevant authorities are, in accordance with [ISA \(UK\) 250 - Consideration of Laws and Regulations in an Audit of Financial Statements](#) and [ISA \(UK\) 315 - Identifying and Assessing the Risks of Material Misstatement](#). Understanding the framework of authorities is also essential to the reporting accountant in identifying the risk of material irregularities.

4.14 The reporting accountant should also have regard to the Financial Reporting Council’s Statement of Recommended Practice, Practice Note 10, Audits of Financial Statements of Public Sector Bodies in the United Kingdom ([PN10](#)). This sets out a general framework for obtaining reasonable assurance over regularity. The regularity assurance framework for colleges seeks limited assurance, and therefore PN10 does not strictly apply. It does, however, remain a useful reference document.

Planning and delivery of the engagement

4.15 For most, if not all, colleges it will be more efficient to perform regularity review work in conjunction with and at the same time as the statutory true and fair audit. This should enable both cost and time savings, as the reporting accountant may then undertake extended testing of a single sample of transactions to support both the audit opinion and regularity conclusion.

Assessing compliance with the framework of authorities

4.16 The starting point for the reporting accountant’s review will be the college accounting officer’s statement of regularity, propriety and compliance, together with any reports of issues found by the college or other reviews by third parties. The input from the accounting officer to the statement and depth of analysis and supporting evidence will assist the reporting accountant in performing their engagement. As colleges are also required to complete a RSAQ and provide it to the reporting accountant, this should inform the reporting accountant’s work by demonstrating how the college has met the requirements under the framework of authorities.

4.17 The reporting accountant will need to further understand and assess how the college has interpreted the framework of authorities in its own context, and the systems, procedures and controls that have been put in place to ensure compliance.

Assessing risk

4.18 In planning the limited assurance engagement on regularity, the reporting accountant will use the understanding obtained under ISA (UK) 315 Identifying and Assessing the Risks of Material Misstatement and ISA (UK) 250 Section A Consideration of Laws and Regulations in an Audit of Financial Statements and make other appropriate enquiries to identify areas where a material irregularity is likely to arise. This will provide the basis for designing and performing the procedures to address the identified areas to obtain limited assurance to support the regularity conclusion, which are likely to be lesser in extent than if reasonable assurance was being given.

4.19 The nature, timing and extent of procedures is a matter of professional judgement for the reporting accountant. [Annex C](#) of this Framework and Guide assists reporting accountants in determining the types of tests that can be used to provide evidence for their regularity review.

4.20 In determining the areas where material irregularity is more likely to arise, it is imperative to understand how the college itself and DfE perceive risk. This can be achieved through review of the audit committee and internal review or internal audit findings, together with an analysis of their risk management processes.

4.21 DfE considers that, within any college, the following matters may heighten the risk profile:

- culture (attitude and values) within the college
- a change in accounting officer, chief finance officer or significant changes in the board of governors, potentially leading to a change in the strength and quality of governance
- a college merger
- changes to the scheme of delegation or major accounting systems
- other significant changes in the control environment

Assessing materiality

- 4.22 Materiality is relevant when planning and performing the regularity engagement, including when determining the nature, timing and extent of procedures, and when evaluating whether the subject matter information is free of misstatement. As set out above, the Framework and Guide draws on some of the principles set out in [PN10](#) even though the further education sector is not specifically within scope.
- 4.23 [PN10](#) (Part 2: paragraphs 13 and 33 to 42) sets out that the auditor's assessment of what is material is a matter of judgement and includes both quantitative (value) and qualitative (nature) considerations. Materiality affects both the way in which the auditor plans and designs the engagement and how the auditor evaluates and reports the results of that work. The assessment of materiality at the planning stage of the engagement may be different to that applied for the audit of the annual accounts as a whole.
- 4.24 The quantitative and qualitative assessment of materiality, which is the same for a limited assurance engagement as a reasonable assurance engagement, is a matter of professional judgement for the reporting accountant. The materiality level applied for the testing of transactions in terms of the regularity engagement may also differ to that applied to the annual accounts.
- 4.25 Some issues of irregularity will relate to specific transactions, while others may be across the college's activities. For the former an assessment of materiality by value will be possible. However, an assessment of materiality by nature will still need to be made and a low value transaction may still be material overall.
- 4.26 The judgement of materiality will also need to have regard to the number of issues identified. A number of issues that might not be material in isolation may, taken together, be material, and these in turn will need to be reported within the audit findings report and regularity report as appropriate.
- 4.27 DfE considers any breach by value of the transactions for which the college has delegated authority through the [College Financial Handbook](#) to be material.

Testing

- 4.28 The review must include all sources of college expenditure and income. As the regularity engagement applies to the group, the work conducted by the reporting accountant will be determined by the frameworks that apply to each of the parent (the college) and any subsidiaries, or joint venture arrangements if that joint venture is consolidated within the group annual accounts. Therefore, if the subsidiary is a company, then Companies Act 2006 and any legislation or regulations relating to its operations will apply. If the reporting accountant identifies any matters of a regularity, propriety or compliance nature relating to a subsidiary or joint venture, they must report these to the college and to DfE.
- 4.29 Regularity testing of the Individualised Learner Record (ILR) return is not excluded from the reporting accountants' work. However, the reporting accountant may rely on the work they have undertaken on DfE funding body grants and contracts in the annual accounts audit to address the likelihood of relevant material irregularities in respect of funding generated through the ILR.
- 4.30 Reporting accountants must notify the college and DfE, if potential regularity or propriety matters that could affect ILR returns and associated claims come to their attention during their work. They must also notify the relevant Mayoral Combined Authority (MCA) or Greater London Authority (GLA) if devolved adult education funding is concerned.

Tests and evidence to support conclusion on regularity

- 4.31 [Annex C](#) of this Framework and Guide aims to assist reporting accountants to determine the types of tests that can be used to provide evidence on the regularity report. The list of tests is not exhaustive, especially as the form of the report is limited assurance. DfE has not defined a minimum scope of testing.
- 4.32 The reporting accountant will determine the extent of procedures that will need to be undertaken to obtain sufficient, appropriate evidence to provide the regularity engagement conclusion.
- 4.33 Procedures designed to obtain assurance over the regularity of transactions are usually based on a combination of tests of controls and substantive procedures. Whilst potential tests are suggested in [Annex C](#), the reporting accountant should have regard to the college and develop the testing as appropriate.

- 4.34 The nature and volume of work to be performed will be determined by the reporting accountant.

Reliance on internal review or internal audit work

- 4.35 Part 3 of the [College Financial Handbook](#) explains that a college is required to have a process to deliver a programme of internal review of its systems and controls. The reporting accountant should consider whether they can rely on the work of a third party who has performed such work, where it is relevant to the objectives of the regularity engagement.
- 4.36 It is a matter of professional judgement how much reliance the reporting accountant places on this work. They should assess the independence, objectivity and competence of the function and the nature, scope and subjectivity of the work performed. Where the work is used, the reporting accountant may evaluate and perform testing on that work to determine its adequacy for regularity reporting.

Documenting regularity testing

- 4.37 DfE does not require reporting accountants to maintain separate audit files in respect of the statutory true and fair audit and the regularity engagement. Sampling in respect of regularity testing can be incorporated into the true and fair audit. However, the objectives, method and conclusion will need to be clearly documented. Reporting accountants may, of course, choose to maintain separate files.

DfE access to working papers

- 4.38 DfE does not routinely require access to the reporting accountant's working papers. As such, there is no reference made to DfE access within the standard terms of engagement.
- 4.39 In its capacity as regulator and funder, DfE may wish to discuss the conduct and outcomes of the regularity review with both the reporting accountant and college accounting officer. This should also inform the development of the regularity review in future years.

Reporting the conclusions from the regularity engagement

The regularity report

4.40 The mandatory regularity report is included in [Annex D](#). This is in the form of a limited assurance report and covers the regularity of transactions underlying the annual accounts.

Reporting on potential irregularities and non-compliance

4.41 Issues identified by the reporting accountant will, in the first instance, be raised with the college's accounting officer and chief financial officer and they should be able to demonstrate, to the reporting accountant's satisfaction, the regularity of the transaction in question. Any such issues that cannot be resolved satisfactorily should be escalated to the audit committee or board.

4.42 DfE should only be consulted where there is significant disagreement between the reporting accountant, governors and college accounting officer.

4.43 The reporting accountant will consider the nature and extent of any potential irregularities or non-compliance and will determine the extent to which additional testing on a particular category of transactions is required.

4.44 When the reporting accountant concludes:

- that there are matters of material irregularity (by virtue of value or nature) of a financial transaction, this will lead to a modified regularity conclusion, with full disclosure of those matters within the regularity report, including the monetary amounts if known
- that there are matters of irregularity, but they are either:
 - not material (by virtue of value or nature)
 - not in respect of a financial transaction

these should be reported in the audit findings report.

4.45 If the reporting accountant has been unable to obtain sufficient evidence that the requirements have been met, they should consider whether this has limited the scope of their work and should be reported as a limitation in scope.

4.46 Where the reporting accountant has modified their report, they must, as soon as they become aware, notify DfE.

- 4.47 The issues should be fully discussed with the governors before notifying DfE, unless the reporting accountant deems this to be inappropriate due to the nature of the matters identified.
- 4.48 The audit findings report details significant matters arising from the true and fair audit of the annual accounts. It is also possible for issues raised in the reporting accountant's report on regularity to be reported in the audit findings report, and vice versa. This will allow DfE to have full information for all regularity issues to draw an overall view on the college.
- 4.49 The audit findings report should document the regularity issue as follows:
- issue (including a rating of the risk, importance and financial impact)
 - implication and consequence
 - recommendation
 - management response, if appropriate (including timescale for change)
- 4.50 With regards to the reporting of issues of propriety, which come to light during the regularity engagement, the reporting accountant should have regard to PN10, Part 2: paragraph 9. This states that "when issues of propriety come to light in the course of the audit of financial statements, the auditor considers whether and, if so, how they may be reported".
- 4.51 Accordingly, the reporting accountant has discretion as to whether and how such matters are reported. This does not preclude any propriety exceptions being formally reported as part of the regularity conclusion. Where instances of impropriety arise which do not result in a modified conclusion or disclosure in the report on regularity, it is DfE's expectation that the reporting accountant will report such matters in their audit findings report.
- 4.52 If any of these matters of irregularity or impropriety (either individually or collectively) constitute matters of material significance (as defined in: [Matters of Material Significance reportable to UK charity regulators](#)), then the reporting accountant must in any event notify DfE directly. Such reportable matters are set out in part 5 and summarised at [Annex E](#).

Part 5: Reporting fraud and matters of material significance to DfE

- 5.1 As part of the true and fair audit, the reporting accountant will address requirements of [ISA \(UK\) 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, including fraud risk and its reporting](#).
- 5.2 Auditors have a duty to report matters of material significance to the principal regulator. The requirement is set out in the Charities Act 2011 ([sections 156\(2\)](#), [159](#) and [160](#)).
- 5.3 Auditors and reporting accountants must report such matters to DfE on behalf of the Secretary of State for Education as principal regulator for the sector. The matters to be reported must include those identified through the external audit and regularity engagement. To assist, the Charity Commission has produced specific [guidance](#).
- 5.4 The guidance includes a list of nine matters that are always considered reportable as matters of material significance and sets out more details of each, along with specific examples. This list is included at [Annex E](#). Auditors and reporting accountants may decide that other matters not included in this list are, in their judgment, of such a nature that they consider them reportable as a matter of material significance.
- 5.5 In the first instance of identifying matters of material significance the auditor or reporting accountant must contact DfE.

Annex A: Clauses for inclusion in the letter of engagement

The following paragraphs must be included in the letter of engagement between the college corporation and their external auditor and reporting accountant.

Regarding the audit of the annual accounts

This letter establishes an agreement between [name of audit firm] and the corporation in relation to the audit of, and reporting on, the corporation's annual report and financial statements (annual accounts).

We shall conduct our audit of the corporation's annual accounts in accordance with the latest [International Standards of Auditing \(UK\)](#) issued by the Financial Reporting Council and in full compliance with any instructions, guidance or frameworks issued by DfE, including those within the extant [College Accounts Direction](#), and where relevant any issued by Mayoral Combined Authorities or the Greater London Authority in respect of devolved adult education funding.

We have a professional responsibility to report, if the annual accounts do not comply in any material respect with applicable accounting standards and the requirements of the College Accounts Direction, unless in our opinion non-compliance is justified in the circumstances. In determining if departure is justified, we will consider whether:

- the departure is required for the annual accounts to give a true and fair view
- adequate disclosure has been made concerning the departure.

We shall report to DfE, and when applicable the relevant devolved authority, as soon as practically possible, any matters of material significance including significant fraud or major weakness or breakdown in the accounting or other control framework, of which we become aware, subject only to the requirements of the [Proceeds of Crime Act 2002](#).

Where we as auditors conclude that we must resign from the engagement before the expiry of the term of office, we will provide the corporation with a statement of circumstances that we consider should be brought to its attention, which the corporation will send to DfE.

Where we cease to hold office in any circumstance, we will provide DfE with details of any matters, which would normally be noted in the professional

enquiry letter to successor auditors under the ICAEW professional requirements, where such matters exist.

Regarding the regularity engagement

The Secretary of State for Education has prescribed standard terms for regularity engagements. These are included within Annex B of the Framework and Guide for External Auditors and Reporting Accountants of Colleges.

We will perform our regularity engagement and report to DfE and, if applicable the relevant devolved authority, in accordance with those standard terms.

The Secretary of State will not be required to sign this engagement letter.

Annex B: Terms of engagement for regularity

The following are the pre-agreed terms of engagement on which the Secretary of State for Education engages the reporting accountant to perform a limited assurance engagement on regularity, in connection with the college corporation.

1 Introduction

The corporation is required to submit to DfE a regularity report signed by a reporting accountant, which provides a limited assurance conclusion, as part of its audited annual report and financial statements (annual accounts).

These terms of engagement set out the basis on which the reporting accountant will sign the report.

2 The corporation's responsibilities

The corporation is responsible for:

- complying with the requirements of its accountability agreements with the Secretary of State for Education and any other public funder's accountability agreements, grant funding agreements and contracts, and the extant College Financial Handbook
- producing annual accounts to 31 July in accordance with the requirements of the extant [College Accounts Direction](#)
- having these annual accounts audited by a registered auditor and the regularity engagement completed by the auditor in their role as reporting accountant
- submitting the audited annual accounts to DfE by 31 December
- ensuring the accounting officer's statement of regularity is accurate
- maintaining proper records complying with the terms of any legislation or regulatory requirements and the terms and conditions of funding
- complying with the framework of authorities relevant to regularity and propriety
- providing information to DfE as required under its accountability agreements

The corporation's annual accounts shall meet the requirement of the extant [College Accounts Direction](#) to include the reporting accountant's report on regularity.

The corporation will make available all records, correspondence, information and explanations that the reporting accountant considers necessary to enable the reporting accountant to perform their work. The reporting accountant will request, and the corporation shall provide:

- written representations in relation to matters for which independent corroboration is not available
- confirmation that significant matters have been brought to the reporting accountant's attention.

The corporation, DfE and, where applicable, the relevant devolved authority accept that the ability of the reporting accountant to perform their work effectively depends upon the corporation providing full and free access to financial and other records. The corporation shall obtain any such records held by a third party and ensure they are made available to the reporting accountant.

The reporting accountant accepts that, whether or not the corporation meets its obligations, there remains an obligation on the reporting accountant to DfE to perform their work with reasonable care. The failure by the corporation to meet its obligations may cause the reporting accountant to modify their conclusion or be unable to provide a conclusion.

3 Scope of the reporting accountant's work

The reporting accountant will use professional judgement and take account of the particular circumstances of the corporation to determine the scope of work to support the conclusion in accordance with the Framework and Guide for external auditors and reporting accountants of colleges.

The reporting accountant will communicate with DfE as part of the planning and delivery of the regularity engagement where they believe there is an issue, which needs to be brought to the attention of DfE.

4 Form of the reporting accountant's report

The mandatory report that the reporting accountant will provide, on the assumption that the reporting accountant is able to report in that form, is included in the Framework and Guide.

The reporting accountant's report is prepared on the following basis:

- that DfE has no right by virtue of the regularity engagement to place reliance on the work of the reporting accountant in their role as

external auditor of the corporation and the opinion they form in respect of their audit of the annual accounts of the corporation

- the reporting accountant's report is prepared solely for the use of the corporation and DfE, and solely for the purpose of submission to DfE in connection with the requirements of the Framework and Guide. It may not be relied upon by the corporation or DfE for any other purpose.
- neither the corporation, DfE nor others may rely on any oral or draft reports the reporting accountant provides. Exceptionally and upon request by the corporation or DfE, the reporting accountant may provide a letter or report on interim findings or specific regularity matters, based on findings to date and without prejudice to any conclusions contained in the final signed report. Such reports or letters will be subject to a variation of, or addendum to, these terms, agreed with the corporation and DfE. Otherwise, the reporting accountant accepts responsibility to the corporation and DfE for the reporting accountant's final signed reports only.
- to the fullest extent permitted by law, except for the corporation and DfE, the firm of reporting accountants, its partners and staff neither owe nor accept any duty to any person or entity (including, without limitation, any person or entity who may use or refer to any of DfE's publications), and shall not be liable for any loss, damage or expense of whatever nature which is caused by any person's or entity's reliance on representations in the reporting accountant's reports.

5 Liability provisions

The reporting accountant will perform the engagement with reasonable skill and care and accepts responsibility to the corporation and DfE for losses, damages, costs or expenses (losses) caused by its breach of contract, negligence or wilful default, subject to the following provisions:

- the reporting accountant will not be responsible or liable if such losses are due to the provision of false, misleading or incomplete information or documentation or due to the acts or omissions of any person other than the reporting accountant, except where, on the basis of the enquiries normally undertaken by reporting accountants within the scope set out in these terms of engagement, it would have been reasonable for the reporting accountant to discover such defects

- the reporting accountant accepts liability without limit for the consequences of its own fraud and for any other liability which it is not permitted by law to limit or exclude.
- subject to the previous paragraph, the reporting accountant must discuss any proposal to limit their liability, whether to the corporation or to DfE, arising on any basis; whether in contract, tort (including negligence) or otherwise, arising from or in any way connected with this engagement (including any addition or variation to the work) with the audit committee and DfE in advance of approval by the corporation. This is on the basis that the corporation and DfE agree that any such limitation to the reporting accountant's liability will apply in aggregate to the reporting accountant's liability to the corporation and DfE. Any such limit applies to each period for which the reporting accountant is providing their report.

The corporation and DfE agree that they will not bring any claims or proceedings against any individual partners, members, directors or employees of the reporting accountant. This clause is intended to benefit such partners, members, directors and employees who may enforce this clause pursuant to the [Contracts \(Rights of Third Parties\) Act 1999](#) (the Act). Notwithstanding any benefits or rights conferred by this agreement on any third party by virtue of the Act, the parties to this agreement may agree to vary or rescind this agreement without any third party's consent. Other than as expressly provided in these terms, the Act is excluded.

Any claims, whether in contract, negligence or otherwise, must be formally commenced within 2 years after the party bringing the claim becomes aware (or ought reasonably to have become aware) of the facts which give rise to the action, and in any event no later than six years after the relevant report was issued (or, if no report was issued, when the reporting accountant accepted the engagement in writing). This expressly overrides any statutory provision which would otherwise apply.

6 Fees

The reporting accountant's fees, together with VAT and out-of-pocket expenses, will be agreed with, and billed to, the corporation. DfE is not liable to pay these fees.

7 Quality of service

The reporting accountant will investigate all complaints. DfE or the corporation has the right to take any complaint to the professional supervisory body governing the reporting accountant.

8 Provision of Services Regulations 2009

The reporting accountant will not be prevented or restricted by virtue of the reporting accountant's relationship with the corporation or DfE, including anything in these terms of engagement, from providing services to other clients. The reporting accountant's standard internal procedures are designed to ensure that confidential information communicated to the reporting accountant, during the course of an assignment, will be maintained confidentially.

9 Freedom of Information Act 2000

If DfE receives a request under the [Freedom of Information Act 2000](#) for the disclosure of confidential information, it will inform the corporation promptly of such a request and ensure that any representations made by the corporation, or reporting accountant, within a reasonable period of time in relation to such a request, are fully taken into account when it responds to the request. However, the decision to release information rests with DfE.

10 Data protection

Each party shall act as an independent data controller and shall comply with data protection law when processing personal data concerning these standard terms of engagement.

11 Alteration to terms

Amendment to these standard terms of engagement may only be considered in very rare circumstances. All additions, amendments and variations to these terms of engagement shall be binding only if in writing and signed by the duly authorised representatives of the parties. These terms do not affect any separate agreement in writing between the corporation and the reporting accountant.

12 Applicable law and jurisdiction

This agreement shall be governed by, interpreted, and construed in accordance with English law.

The corporation, DfE and the reporting accountant irrevocably agree that the courts of England shall have exclusive jurisdiction to settle any dispute (including claims for set-off and counterclaims) which may arise on any basis in connection with the validity, effect, interpretation or performance of, or the legal relationship established by, this agreement or otherwise arising in connection with this agreement.

13 Definition

In these terms of engagement, the 'reporting accountant' refers to the reporting accountant appointed by the corporation, the same person as the external auditor.

Annex C: Tests and evidence to support conclusion on regularity

This annex assists reporting accountants in determining the types of tests that can be used to provide evidence for their regularity reporting. The list of tests below is not exhaustive and is given as guidance only.

Governance

In relation to governance, consider whether:

- the board of governors has appointed the senior executive leader as accounting officer and has also appointed a chief financial officer
- the college has adopted a suitable governance code
- the college has had an external governance review within the last 3 years
- the college has conducted an annual governance self-assessment (except in the year of an external governance review)
- there is a written scheme of delegation of the board's financial powers that maintains robust internal controls
- the board ensures that appropriate action is being taken to maintain financial viability including addressing variances between the budget and actual income and expenditure
- there is a risk register in place
- there is board oversight of capital expenditure and funding, ensuring it is used appropriately for capital purposes
- the college has established an audit committee whose activities are underpinned by written terms of reference
- provision for independent internal review or internal audit is in place
- the audit committee has received reports on the effectiveness of internal control
- the college has adopted a remuneration code
- there are whistleblowing procedures approved by the board
- board and committee papers, including management accounts, have been reviewed for indications of any irregular transactions

Internal controls

In relation to internal controls, consider whether:

- delegated financial authorities are complied with
- appropriate segregation of duties is in place

- assets are under proper control to prevent loss or misuse
- gifts and hospitality and other benefits, are given and received in line with the college's policies
- the use of expense claims or credit cards adheres to internal control principles (and is supported by receipts) and are not for personal benefit

Procurement

In relation to procurement, consider whether:

- tendering policies and procedures have been adhered to, including whether:
 - goods and services have been procured in an open and transparent manner in accordance with [Annex 4.6 of Managing Public Money](#)
 - tendering procedures have been administered through Find a Tender where appropriate, in accordance with PPN 08/20 [Introduction to Find a Tender](#)
 - any governors or staff have personally benefitted from any transaction
- the scheme of delegation has been adhered to
- formal contracts are in place, where required
- there is effective oversight of any sub-contracted learning provision so that it meets quality requirements and does not pose reputational or financial risks to the college.

Transactions with related parties

In accordance with the College Financial Handbook, consider whether:

- declarations of business and financial interests have been completed by governors and senior employees
- contracts with related parties have been procured following the college's procurement and tendering process
- no related party gains from their position by receiving payments under terms that are preferential.

Delegated authorities

Part 5 of the College Financial Handbook details the freedoms colleges have. As such, consider whether evidence of prior approval from the Secretary of State for Education is available for:

- special payments (including staff severance, compensation, ex-gratia, extra-contractual, extra-statutory and extra-regulatory payments) beyond the delegated limits set out in the College Financial Handbook
- write-offs and entering into liabilities, beyond the delegated limits set out in the College Financial Handbook
- use of the proceeds of asset disposals where required by the College Financial Handbook
- any novel, contentious or repercussive transaction.

If a college has made special severance payments to staff, consider whether there has been compliance with the following:

- prior approval has been sought for:
 - non-statutory or non-contractual elements of £50,000 or more
 - non-statutory or non-contractual elements of 3 months' salary or more
 - an exit package which includes a special severance payment, and is at, or above, £100,000
 - an exit package paid to an employee who earns over £150,000
- payments are not used as a substitute for taking appropriate action under the college's misconduct or performance management procedures

Consider whether the college has complied with the requirements concerning senior pay controls as summarised in part 2 of the College Financial Handbook.

Consider whether the college has borrowings (in the form of loans or overdraft facilities) which have not received DfE consent.

Income

Consider the conditions associated with income and whether it has been spent on the purposes intended. Points to consider:

- whether grants have been used in accordance with funding conditions
- whether the proceeds of asset disposal have been applied in accordance with the requirements of the College Financial Handbook
- whether the college has controls in place to ensure that the ILR is complete, accurate and up to date
- where conditions of grant require unspent funds to be declared or repaid to DfE, consider whether this has been done (for example, undistributed bursary funding)

Fraud and cyber ransoms

Whether the college has complied with the requirements set out in the College Financial Handbook relating to fraud reporting and cyber ransoms.

Annex D: Reporting accountant's report on regularity

Independent reporting accountant's report on regularity to the corporation of [name] and the Secretary of State for Education

In accordance with the terms of our engagement letter dated [x] and further to the requirements of Department for Education (DfE), as included in the extant Framework and Guide for External Auditors and Reporting Accountants of Colleges, we have carried out an engagement to obtain limited assurance about whether anything has come to our attention that would suggest, in all material respects, the expenditure disbursed and income received by [name of corporation] during the period 1 August 20XX to 31 July 20XX have not been applied to the purposes intended by Parliament or the financial transactions do not conform to the authorities which govern them.

This report is made solely to the corporation of [name of corporation] and the Secretary of State for Education in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the corporation of [name of corporation] and the Secretary of State those matters we are required to state in a report and for no other purpose. To the fullest extent permitted by law, we do not accept, or assume, responsibility to anyone other than the corporation of [name of corporation] and the Secretary of State for Education for our work, for this report, or for the conclusion we have formed.

Respective responsibilities of the accounting officer of [name of college corporation] and the reporting accountant

The accounting officer is responsible, under the requirements of the corporation's accountability agreement with the Secretary of State for Education and the College Financial Handbook, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament, and that the financial transactions conform to the authorities which govern them.

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the extant Framework and Guide for External Auditors and Reporting Accountants of Colleges. We report to you whether anything has come to our attention in carrying out our work, which suggests that in all material respects, expenditure disbursed and income received during the

period 1 August 20XX to 31 July 20XX have not been applied for the purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Approach

We conducted our engagement in accordance with the Framework and Guide for External Auditors and Reporting Accountants of Colleges issued by DfE, which requires a limited assurance engagement, as set out in our engagement letter.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity. A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

Our engagement includes examination, on a test basis, of evidence relevant to the regularity and propriety of the corporation's income and expenditure.

The work undertaken to draw to our conclusion includes:

- [X]
- [X]

Conclusion

In the course of our work, [except for the matters listed below,] nothing has come to our attention which suggests that in all material respects, the expenditure disbursed and income received during the period 1 August 20XX to 31 July 20XX has not been applied for the purposes intended by Parliament, or that the financial transactions do not conform to the authorities which govern them.

- [Matter 1 - state the monetary amount if known]
- [Matter 2 - state the monetary amount if known]

[Signed]

Reporting accountant

[Firm name]

[Date]

Annex E: The reportable matters of material significance

(Extract from [Charity Commission Matters of Material Significance reportable to UK charity regulators Guidance April 2020](#))

Serial	Title	Each Matter is prefaced by the following statement - 'During the course of an audit/independent examination':
1	Dishonesty and Fraud	matters suggesting dishonesty or fraud involving a significant loss of, or a material risk to, charitable funds or assets.
2	Internal Controls and Governance	failure(s) of internal controls, including failure(s) in charity governance that resulted in, or could give rise to, a material loss or misappropriation of charitable funds, or which leads to significant charitable funds being put at major risk.
3	Money Laundering and Criminal Activity	knowledge or suspicion that the charity or charitable funds including the charity's bank account(s) have been used for money laundering or such funds are the proceeds of serious organised crime or that the charity is a conduit for criminal activity.
4	Support of Terrorism	matters leading to the knowledge or suspicion that the charity, its trustees, employees, or assets, have been involved in or used to support terrorism or proscribed organisations in the UK or outside of the UK, with the exception of matters related to a qualifying offence as defined by Section 3(7) of the Northern Ireland (Sentences) Act 1998.

Serial	Title	Each Matter is prefaced by the following statement - 'During the course of an audit/independent examination':
5	Risk to charity's beneficiaries	evidence suggesting that in the way the charity carries out its work relating to the care and welfare of beneficiaries, the charity's beneficiaries have been or were put at significant risk of abuse or mistreatment.
6	Breaches of law or the charity's trusts	single or recurring breach(es) of either a legislative requirement or of the charity's trusts leading to material charitable funds being misapplied.
7	Breach of an order or direction made by a charity regulator	evidence suggesting a deliberate or significant breach of an order or direction made by a charity regulator under statutory powers including suspending a charity trustee, prohibiting a particular transaction or activity, or granting consent on particular terms involving significant charitable assets or liabilities.
8	Modified audit opinion or qualified independent examiner's report	on making a modified audit opinion, emphasis of matter, material uncertainty related to going concern, or issuing of a qualified independent examiner's report identifying matters of concern to which attention is drawn, notification of the nature of the modification/qualification/emphasis of matter or concern with supporting reasons including notification of the action taken, if any, by the trustees subsequent to that audit opinion, emphasis of matter or material uncertainty identified /independent examiner's report.
9	Conflicts of interest and related party transactions	evidence that significant conflicts of interest have not been managed appropriately by the trustees and/or related party transactions have not been fully disclosed in all the respects required by the applicable SORP, or applicable regulations.



Department
for Education

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