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

<table>
<thead>
<tr>
<th>Section</th>
<th>Paragraph</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary</td>
<td>1</td>
</tr>
<tr>
<td>Using this Guide</td>
<td>4</td>
</tr>
<tr>
<td>Regularity audit opinion</td>
<td>6</td>
</tr>
<tr>
<td>Indicative audit procedures</td>
<td>16</td>
</tr>
<tr>
<td><strong>Annex</strong></td>
<td></td>
</tr>
<tr>
<td>Indicative Audit Procedures</td>
<td></td>
</tr>
<tr>
<td>Appendix to Annex: References</td>
<td></td>
</tr>
</tbody>
</table>
Audit Programme Guide for College Regularity Auditors

Summary

1 The Learning and Skills Council (LSC) funds further education (FE) colleges through a Financial Memorandum. The Financial Memorandum requires colleges to make audit arrangements in accordance with the LSC’s Audit Code of Practice (LSC, 2004; published as Supplement A to Circular 04/07) (the Code) (for details of this publication and other bibliographic and website references, please see the Regularity Audit Framework, which is the main document of which this Supplement is a part). The Code has been revised for the funding year 2004/05 and issued as LSC Circular 04/07.

2 Under the Code, for 2004/05 onwards the LSC has removed its requirement that most colleges are subject to an annual funding audit. The LSC is however requiring all colleges to appoint their financial statements auditors to give a revised opinion to the LSC and to colleges on the regularity of colleges’ expenditure. This framework sets out the LSC’s expectations of colleges and their financial statements auditors, acting as regularity auditors, in giving this regularity opinion.

3 The framework is in two parts:

- a regularity self-assessment and information summary to be completed by colleges. The self-assessment and information summary are issued as Supplement A to the Regularity Audit Framework 2004/05

- a regularity audit programme guide recommended by the LSC for the use of regularity auditors in giving their opinion (this document).
Using this Guide

4 This guide is intended for FE colleges and their regularity auditors. The LSC has issued this audit programme guide to support regularity auditors in their work. It should be read alongside the overview of the regularity audit framework and the college self-assessment. The audit programme guide is not intended to prevent regularity auditors carrying out additional or different work that in their professional judgement they consider necessary to give their opinions.

5 As the regularity testing will be integrated into existing true and fair audit procedures rather than being designed to stand alone, the audit framework outlined within this document seeks to provide an approach to auditing each regularity area rather than prescribing a detailed audit approach.

Regularity audit opinion

6 The format for the regularity audit interim opinion will be issued annually and for 2004/05 is appended to this document at Supplement C. The final regularity audit opinion will form part of the opinion on colleges’ financial statements.

Evidence to inform the regularity audit opinion

7 The evidence needed to inform the regularity opinion will usually involve normal sources of audit evidence including:

- analytical review
- review of minutes of committee and corporation meetings
- records of discussions with staff
- formal representations from the corporation where the terms of a particular funding stream require certain outputs to be delivered which are non-financial and therefore cannot be readily checked by the regularity auditor
- as part of the planning process, records of discussions with local LSC(s), and also taking account of the views of Provider Financial Assurance (PFA).

8 The regularity auditor may also perform work on:

- review of the regularity self-assessment completed by the college. The self-assessment affects all aspects of regularity
- assessment and testing of the general control environment of the college
- assessment and testing of the specific control environment of the regularity of a particular activity
- substantive testing of the regularity of transactions within a particular activity.

9 Substantive testing can be divided into two types:
• **as additional testing:** where the transactions fall outside the scope of normal ‘true and fair’

• **as an extension to existing work:** where a review of transactions would be expected to take place as part of a ‘true and fair’ audit of the financial statements, for example the testing of the cut-off and matching of income and expenditure on a capital project within the financial statements. The regularity testing would be an extension of this work to confirm spending was in line with the funding body’s terms and conditions.

**Reliance on other auditors and agencies**

10 Many colleges receive funding from very diverse sources apart from the LSC. Some of these funding streams are subject to audit by organisations other than the LSC, in accordance with these organisations’ own terms and conditions of funding of the college.

11 There are some areas of college funding from the LSC, principally work-based learning, Entry to Employment (E2E) and European Social Fund (ESF) where the LSC performs, or contracts with other auditors to perform, audits of that funding.

12 The regularity audit covers the spending in relation to these other sources of funding. However, regularity auditors should seek to take assurance from the work of other auditors in respect of the use of those funds in line with the detailed conditions attached to that area of funding.

13 As is currently the case, where the regularity auditor wishes to rely upon the work of the college’s internal audit services for the provision of information to assist in his or her decisions about the regularity opinion, then as at present, the guidance in SAS 500 *Considering the Work of Internal Audit* is relevant.

14 The regularity auditor should ensure that other auditors have not identified any regularity matters in these areas that could impact upon the financial statements. Reliance on the work of other auditors and agencies may provide evidence to support any part of the regularity auditor’s assessment.

**Summary of coverage**

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

<table>
<thead>
<tr>
<th>Materiality level</th>
<th>General control environment</th>
<th>Specific control environment</th>
<th>Regularity testing in relation to true and fair (T&amp;F) work</th>
</tr>
</thead>
<tbody>
<tr>
<td>College activities are within statutory powers</td>
<td>Financial statements materiality</td>
<td>Yes</td>
<td>not applicable</td>
</tr>
<tr>
<td>Financial Memorandum compliance</td>
<td>Financial statements materiality level unless specific level within financial memorandum or determined by LSC</td>
<td>Yes</td>
<td>No*</td>
</tr>
<tr>
<td>LSC other funding</td>
<td>Financial statements materiality unless specific level set by LSC for an individual funding stream</td>
<td>Yes</td>
<td>For certain funding streams determined by the LSC</td>
</tr>
<tr>
<td>Non-LSC funding</td>
<td>Financial statements materiality</td>
<td>Yes</td>
<td>Auditor's judgment dependent upon materiality of funding stream, work of others (for example, college internal audit)</td>
</tr>
<tr>
<td>Propriety of activities</td>
<td>not applicable</td>
<td>No**</td>
<td>No, unless issue identified by the college or its other auditors as part of normal audit process</td>
</tr>
<tr>
<td>Fraud</td>
<td>Financial statements materiality</td>
<td>Yes, in accordance with Auditing Standards</td>
<td>In accordance with Auditing Standards</td>
</tr>
</tbody>
</table>

*No specific additional work unless potential issue identified through feedback from LSC, college, internal audit and so on.
Expected the college and/or college internal audit will consider the areas highlighted within self-assessment as part of risk management.
Indicative audit procedures

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

- **Column 2** identifies an area of interest.
- **Column 3** cross-refers to the relevant self-assessment question (SAQ) (Supplement A).
- **Column 4** refers to the relevant SAQ (Supplement A).
- **Column 5** refers to the requirement leading to the area of interest.
- **Column 6** sets out inherent risks to specific to each area of interest. Note that this does not consider general risks that should be considered for all areas such as:
  
  i. change in personnel in the area
  
  ii. changes in the external environment, for example legislative changes
  
  iii. complexity of the area

- **Column 7** sets out the risks and controls to consider in the area of interest. Auditors may obtain assurance over the controls through review of the work of the college’s internal audit service or other auditors or agencies, through original testing by the regularity auditor or a mix of these. This column also states where testing of the controls is also recommended.

- **Column 8** sets out indicative substantive procedures, which could be carried out in each area. How much testing is done will depend on the auditor’s assessment of the control environment, the size and nature of transactions within the area and the prescribed materiality level. For most areas of interest, this column states that substantive testing is strongly recommended. For some areas of interest, this column also indicates what these tests should be.
## Annex: Indicative Audit Procedures

<table>
<thead>
<tr>
<th>Area</th>
<th>SAQ</th>
<th>Source ref</th>
<th>Inherent risks</th>
<th>Control environment</th>
<th>Substantive approach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regularity – LSC</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>General activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 All activities (and transactions) within the power of the college</td>
<td>1</td>
<td>Principal powers contained within s18 F&amp;HE Act 1992 and supplementary powers within s19</td>
<td>no review undertaken • extensive ‘commercial’ activities • overall operating loss position • poor cost information.</td>
<td>clear budgets and contribution monitoring for all activities with appropriate allocation of costs • monitoring of each material discrete activity within management accounts • authorisation and clear financial appraisal of any new activities.</td>
<td>Review management accounts and financial forecast for contribution performance of commercial and other discrete non-teaching activities. Substantive testing is strongly recommended.</td>
</tr>
<tr>
<td>2 College must have effective governance and management arrangements over its investments (subsidiaries, associates, joint ventures, trusts and foundations)</td>
<td>2</td>
<td>Circular 99/14 and, in the case of activities carried out through subsidiary companies, Circular 02/12</td>
<td>informal relationships • lack of legal advice • lack of monitoring or awareness at corporation level • lack of knowledge of legislative environment of body (for example charities sector, Companies Act 1989 requirements).</td>
<td>college internal audit review, financial statements auditors’ consideration of control arrangements over such bodies (for example monitoring, corporation representation, conflicts of interest and so on), effective memorandum of understanding in place • compliance by body with financial regulations (and so on) of college.</td>
<td>Review corporation or company minutes and so on, audit of each entity (company, joint venture and so on). Substantive testing is strongly recommended.</td>
</tr>
<tr>
<td>3 College cannot acquire shares or securities in company to run the college through it nor to provide education funded wholly or partly by LSC funds without prior consent</td>
<td>3</td>
<td>Circular 02/12 and L&amp;S Act 2000</td>
<td>new companies, investments or change in trade of companies</td>
<td>not applicable</td>
<td>Review activities of each subsidiary, associate or joint venture against requirement. Substantive testing is strongly recommended.</td>
</tr>
<tr>
<td>Area</td>
<td>SAQ</td>
<td>Source ref</td>
<td>Inherent risks</td>
<td>Control environment</td>
<td>Substantive approach</td>
</tr>
<tr>
<td>----------------------------------------------------</td>
<td>-----</td>
<td>----------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>---------------------</td>
</tr>
</tbody>
</table>
• Where expenses are payable, ensure these are for reasonable items (for example, not remuneration for time).  
Control testing is strongly recommended. | • Review a sample of expenses to ensure in line with the policy.  
Substantive testing is strongly recommended. |
| College has clear policy of payment to governors and does not provide remuneration | 4   | Section 19(4)(c) and 19(5) F&HE Act 1992, Paragraphs 27 to 30 Circular 99/48 Financial Memorandum and paragraphs 8--11 of explanatory notes appended to Circular 99/48 | not applicable                                                                  | • Ensure the college has obtained prior written consent for any secured or unsecured borrowings by itself or its subsidiaries except where: a) 5% of annual revenue is borrowed on an unsecured basis; b) a maximum of £1m or 5% of annual revenue, whichever is the lower, may be borrowed on a secured basis in order to finance the construction or purchase of buildings, provided that only those buildings are offered as security.  
Substantive testing is strongly recommended. |                                                                                 |
| Compliance with consent requirements over secured and unsecured borrowing limits and leasing of freehold and leasehold land and buildings | 5   | Para. 10 Circular 99/48 Financial Memorandum                                | sudden decision to sell, purchase or build land and buildings                    | • Review the production of management accounts and the basis on which they are prepared.  
Substantive testing is strongly recommended. | • Review corporation minutes.  
Substantive testing is strongly recommended. |
| Obtain LSC consent for land and building transactions where total cost exceeds lower of £1m or 5% annual revenue | 7   |                                                                                  |                                                                                  | • If the college has acquired or disposed of land or buildings during the year involving capital sums greater than £1m or 5% of annual income (excluding releases of deferred capital grant (DCG) and any s6 (5) income), whichever is the lower, ensure the college has obtained LSC approval as described in Circular 99/48. For example, if an Exchequer-funded fixed asset is disposed of, then the college may potentially have to repay proceeds to the LSC if conditions are breached.  
Substantive testing is strongly recommended. |                                                                                 |
<table>
<thead>
<tr>
<th>Area</th>
<th>SAQ</th>
<th>Source ref</th>
<th>Inherent risks</th>
<th>Control environment</th>
<th>Substantive approach</th>
</tr>
</thead>
</table>
| Operating within investment powers | 8 | Specific power of investment contained in s19(4)(d) F&HE Act 1992, must be exercised in accordance with the Trustee Act 2000 | • unclear college treasury management policy  
• existence of higher risk investments (for example, derivatives and so on). | • monitoring of investments in line with approved college treasury management policy. | • Review investments and confirm in line with policy.  
Substantive testing is strongly recommended. |
| Restrictions on redundancy and/or severance payments to staff | 9 | Paras 1-7 of explanatory notes to Circular 99/48 Financial Memorandum. For staff eligible to join TPS or LGPS, Teachers Pension Scheme Regulations 1997 as amended 2001; Teachers (Compensation for Redundancy and Premature Retirement) Regulations 1997, and local government equivalent | • no legal advice taken  
• payments rushed through at year-end  
• inadequate approval process for policy  
• inadequate approval of individual cases. | • authorisation at each stage of the process (policy through to payments)  
• appropriate advice taken as relevant (legal, pensions and so on). | • Ensure each stage of the redundancy and severance arrangement (policy through to payment) has been appropriately authorised.  
• Ensure legal advice has been taken.  
• Review payments to ensure they have all been paid in accordance with the approved policy and there are no 'unusual' payments.  
• Ensure payments have been made in line with relevant pension fund advice where relevant.  
• Ensure the college does not intend to re-employ any of the staff being made redundant in a similar capacity to their previous role.  
Substantive testing is strongly recommended. |
| Consent to retain or repay exchequer funding attached to disposed assets | 10 | Para. 24 Circular 99/48 Financial Memorandum | sudden disposal, inadequate tracking of assets that have been funded by the Exchequer within the fixed-asset register | not applicable | • Review disposals within the year to identify whether any assets were funded or part-funded by Exchequer funding.  
• Ensure appropriate consent has been obtained from the LSC.  
Substantive testing is strongly recommended. |
| Monitoring subsequent investment of sales proceeds in accordance with agreement with LSC | 11 | Para. 25 Circular 99/48 Financial Memorandum | no clear plan of how unspent proceeds are being or have been applied | • monitoring through management accounts and/or other reports of unspent proceeds with clear link in to capital budget, cashflows and purposes for which proceeds have been retained. | • Review spending against proceeds and ensure this is in line with correspondence with LSC agreeing how monies should be applied.  
• Ensure unspent balance is clearly disclosed within the financial statements at the year-end.  
• Where the unspent balance represents a significant proportion of the college's working capital, consider the impact of this on future financial projections and going concern.  
Substantive testing is strongly recommended. |
<table>
<thead>
<tr>
<th>Area</th>
<th>SAQ</th>
<th>Source ref</th>
<th>Inherent risks</th>
<th>Control environment</th>
<th>Substantive approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>Notify LSC of any significant deterioration in financial position</td>
<td>Para. 33 Circular 99/48 Financial Memorandum, and para. 17 of Appendix to Circular 99/48</td>
<td>management accounts and financial forecasts highlight deterioration in financial position that could result in the college becoming reliant on LSC or other third party support to continue trading</td>
<td>timely management accounts with rolling 12-month cashflow monitored by corporation.</td>
<td>Review management accounts to identify any deterioration in the financial position of the college. Where there has been or is forecasted to be a significant deterioration, ensure through review of LSC correspondence that the position is being discussed. Compare forecast to actual out-turn for the year under review (interim and final) to identify accuracy of budgeting and forecasting process. Where significant differences raise with management and audit committee.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>repeated in para. 17 of Appendix to Circular 99/48</td>
<td>untimely management information and history of poor forecasting.</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>College or auditors should report significant cases of fraud or irregularity to the LSC (serious weaknesses, significant frauds, major accounting or other breakdowns, frauds over £10,000 where complex and/or in public interest)</td>
<td>Para. 41 Circular 99/48 Financial Memorandum; paras 97-101 Audit Code of Practice (LSC, 2004); IAASB (February 2004) ISA 240 The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements</td>
<td>new management and control environment; dispersed operations; poor segregation of duties in key areas; extravagant lifestyles and so on.</td>
<td>clear fraud policy statement and clear documented assessment by management and/or governors of likely areas of fraud and/or irregularity and controls in place; testing in these areas by college internal audit over cycle of reviews.</td>
<td>Discuss any identified potential fraud and/or irregularities with management and review action taken and correspondence with LSC if amounts involved are potentially over £10,000. Review college assessment of areas susceptible to fraud and/or irregularity and adequacy of arrangements in place to prevent and detect such irregularities. (Consider requirements of SAS 110 and ISA 240).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Substantive testing is strongly recommended.</td>
</tr>
<tr>
<td>14</td>
<td>Appointing, grading, suspending, dismissing and determining pay of principal and senior post-holders (including severance payments and any changes to contractual terms)</td>
<td>Financial Memorandum paragraph 10 (Circular 99/48) and paragraphs 1-7 of Appendix, Circular 03/08, PAC report (Swansea Institute) re inappropriate contractual terms (pension rights, notice periods)</td>
<td>poor governor monitoring and approval over senior staff employment and severance arrangements; large severance payments made where the college has severe financial difficulties; changes to senior post-holder contracts of employment shortly before staff restructuring.</td>
<td>effective, monitored and authorised governance process over all aspects of remuneration and severance with appropriate independent advice.</td>
<td>Review remuneration committee minutes (or equivalent) to ensure that all principal and senior management team appointments, suspensions, pay determinations and severance arrangements have been approved by the governors at each stage of the process. Review the adequacy of independent advice at each stage. Ensure there have been no recent changes in contractual terms and conditions (for example notice periods) designed to enhance the level of severance payments. Ensure appropriate disclosures are made within the financial statements for the basis and levels of pay awards and severance arrangements as required by the latest LSC Accounts Circular.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Substantive testing is strongly recommended.</td>
</tr>
<tr>
<td>Area</td>
<td>SAQ</td>
<td>Source ref</td>
<td>Inherent risks</td>
<td>Control environment</td>
<td>Substantive approach</td>
</tr>
<tr>
<td>------</td>
<td>-----</td>
<td>------------</td>
<td>----------------</td>
<td>---------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>15</td>
<td>College not to give any guarantees, letters of comfort or indemnities incurring contingent liabilities other than in the normal course of commercial business dealings</td>
<td>Para. 39 Circular 99/48 Financial Memorandum</td>
<td></td>
<td></td>
<td>* Review guarantees, letters of comfort or indemnities incurring contingent liabilities and determine whether given in the normal course of business. * Review bank letter and solicitors' letter to ensure there are no other items disclosed. Substantive testing is strongly recommended.</td>
</tr>
<tr>
<td>16</td>
<td>Complying with any specific requirements laid down by the LSC in Part B of the Financial Memorandum</td>
<td>Part B of Financial Memorandum (annual funding agreement)</td>
<td>not applicable</td>
<td>not applicable</td>
<td>* Review any specific requirements and ensure through appropriate testing that specific terms of funding have been complied with. Substantive testing is strongly recommended.</td>
</tr>
<tr>
<td>17</td>
<td>Using funds for political or campaigning purposes not permitted by charity law</td>
<td>Charity law requirements common law and Charity Commission CC9 (Charity Commission, 2004)</td>
<td>unauthorised political or charitable donations.</td>
<td>clear authorisation processes for any such donations.</td>
<td>* Review any political or campaign payments for compliance with charity law (see CC9 (Charity Commission, 2004). Substantive testing is strongly recommended.</td>
</tr>
<tr>
<td>18</td>
<td>Restrictions on governors holding interests in matters relating to the college and that college must maintain a register of governors’ interests</td>
<td>Instrument &amp; Articles and charity law requirements (common law but note draft Charities Bill), Charity Commission CC11 and CC37 (Charity Commission, 2003; 2004) also give advice to trustees who wish to enter into contracts to supply goods and services to public bodies</td>
<td>infrequent updating of register * no formal assessment of the context in which governor disclosures are made (for example, cross-checking to supplier activity).</td>
<td>clear guidance and returns process for governors covering all potential relationships (close family and so on) * regular updating of register * formal checking of scale of potentially conflicting activity in the context of college activities (for example turnover with a related supplier).</td>
<td>* Review the register of interests and identify any instances where governors hold an interest in matters relating to the college. * Consider disclosures under SAS 460. Substantive testing is strongly recommended.</td>
</tr>
<tr>
<td>19</td>
<td>Restrictions over types of fundraising activities charities can undertake</td>
<td>Charity law requirements</td>
<td>not applicable</td>
<td></td>
<td>* Review the fundraising activities undertaken by the college and review these against Charity Commission publication CC20 (Charity Commission, 2002). Substantive testing is strongly recommended.</td>
</tr>
<tr>
<td>Area</td>
<td>SAQ</td>
<td>Source ref</td>
<td>Inherent risks</td>
<td>Control environment</td>
<td>Substantive approach</td>
</tr>
<tr>
<td>------</td>
<td>-----</td>
<td>------------</td>
<td>---------------</td>
<td>---------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>LSC (other funding)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Adult bursary pilots - bursaries to over 19s on means-tested basis</td>
<td></td>
<td>significant growth in funding.</td>
<td>policies, procedures, training, monitoring and so on.</td>
<td>sample of claims as per LSF. Substantive testing is strongly recommended.</td>
</tr>
<tr>
<td>21</td>
<td>Compliance with terms and condition of discrete revenue funding: LSC learner support funds (LSF)</td>
<td>18</td>
<td>Funding Guidance for Further Education in 2004/05 (LSC, 2004)</td>
<td>Review the college’s written policy for compliance with the LSC and DfES requirements. Ensure policies have been approved by governors and are widely available. Review the college’s record-keeping to ensure that it records the applications, separately records each payment, identifies unspent funds and identifies funds unspent at the end of the year. For a sample of payments, ensure the claim form has been authorised in accordance with the college procedures. Control testing is strongly recommended.</td>
<td>Review the return submitted to the LSC to ensure that funding received agrees to allocation letter, expenditure agrees to the supporting records, admin costs do not exceed 5% of the total allocation and reasonable interest has been added the fund. Check that the return has been submitted by the deadline. Select any individual payments in excess of 2.5% of the LSF funds and ensure these have been paid in compliance with the requirements of the Circular and, subject to the assessment of the control environment, select a judgemental sample of further payments to confirm they have been authorised and learner meets the eligibility requirements set out in the guidance. Substantive testing is strongly recommended.</td>
</tr>
<tr>
<td>22</td>
<td>Compliance with terms and conditions of discrete revenue funding (LSC FE childcare places)</td>
<td>19</td>
<td>Circular 01/12</td>
<td>Review the procedures for monitoring expenditure against the approved bid.</td>
<td>Review grant agreement to confirm terms. Review correspondence with LSC. Vouch sample of expenditure (any items in excess of 2.5% of funding and further judgemental sample) to ensure in line with terms. Check cut-off and matching of funding and spend within the financial statements. Obtain management representation regarding delivery of outputs (where non-financial). Substantive testing is strongly recommended.</td>
</tr>
<tr>
<td>23</td>
<td>Compliance with terms and conditions of LSC discrete capital grant funding: FE capital buildings (including disability access); ILT funding</td>
<td>20</td>
<td>Circular 03/05</td>
<td>approval process for capital spend and grants (at each stage from bid) separate monitoring and reporting of spend and progress in complying with grant terms college internal audit or other external review.</td>
<td></td>
</tr>
<tr>
<td>Area</td>
<td>SAQ</td>
<td>Source ref.</td>
<td>Inherent risks</td>
<td>Control environment</td>
<td>Substantive approach</td>
</tr>
<tr>
<td>------</td>
<td>-----</td>
<td>------------</td>
<td>----------------</td>
<td>---------------------</td>
<td>---------------------</td>
</tr>
</tbody>
</table>
| 24 Compliance with terms and conditions of discrete grant funding: CoVE (capital and revenue) | 21 | Circular 03/05 | • large capital developments  
• inexperience of dealing with grant funding bodies  
• complex terms of funding  
• history of disputes with funding bodies  
• history of clawback of funding  
• history of late returns. | • approval process for capital spend and grants (at each stage from bid)  
• separate monitoring and reporting of spend  
• progress in complying with grant terms, college internal audit or other external review. | • Review grant agreement to confirm terms.  
• Review correspondence with funding body.  
• Review the latest financial report submitted to the LSC.  
• Vouch sample of expenditure (any items in excess of 2.5% of funding and further sample) for any items not covered by the latest financial return to the local LSC to ensure in line with terms.  
• Check cut-off and matching of funding and spend within the financial statements.  
• Obtain management representation regarding delivery of outputs (where non-financial).  

Substantive testing is strongly recommended. |
| 25 Compliance with terms and conditions of other discrete revenue LSC funding where the LSC does not perform its own detailed audits (for example, increased flexibility for 14-16 year olds, LfD funding) | 22 | Circular 03/05 | • many funding streams and lack of guidance on their use. | • clear cost centre accountability for monitoring of spending. | • Vouch a sample of expenditure items to supporting documentation and verify the spending is in accordance with funding condition.  
• Obtain management representation that non-financial outputs have been achieved.  

Substantive testing is strongly recommended. |
<table>
<thead>
<tr>
<th>Area</th>
<th>SAQ</th>
<th>Source ref.</th>
<th>Inherent risks</th>
<th>Control environment</th>
<th>Substantive approach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-LSC funding</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 26   | Compliance with terms and condition of discrete revenue funding (HEFCE teaching funding) | 23 | • data issues identified  
• general concerns raised by HEFCE. | • No specific additional work as assurance drawn from work in other areas and overall assessment of general control environment and review of overall activities. | not applicable unless issues identified through review of correspondence |
| 27   | Compliance with terms and condition of discrete revenue funding (ESF traditional) | 24 | Audit requirements set out in ESF guidance issued by DWP (www.esf.gov.uk) | • rapid growth  
• lack of experience in dealing with ESF  
• change in personnel, involvement of multi-partners  
• poor costing environment  
• concerns raised by college internal audit, financial statements audit or Government Office. | Monitoring by college internal audit and financial statements audit requirements over such projects should give assurance over compliance with ESF regulations and control environment if funding is material.  
• Review accountants report by financial statements auditors where work has been undertaken. Where there is no accountants report and figures are material, undertake testing in line with scope of work for ESF audit.  
• Note that as the financial statements auditor will generally be carrying out both the regularity and ESF grant claim audits, undertaking work during the year should not result in any overlap or duplication of resource. Reliance on college internal audit work in the area may reduce or negate the need for detailed work at the interim stage if projects have not been subject to individual audits.  
Substantive testing is strongly recommended. |
| 28   | Compliance with terms and condition of discrete revenue funding (other grants (for example RDA), activity being funded within general teaching activity and no funding body requirement to track expenditure separately, that is, output driven) | 25 | not applicable | • independent monitoring of progress on each project, authorisation and review of returns to funding body  
• checks that requirements of the project are being met (for example through independent check, college internal audit review, review by funding body and so on). | • Review each material grant agreement to identify terms.  
• Review correspondence with funding body.  
• Vouch sample of expenditure to ensure this is in line with terms.  
• Check cut-off and matching of funding with progress on delivery of outputs within the financial statements. Where material, consider obtaining management representation regarding delivery of outputs (where non-financial).  
Substantive testing is strongly recommended. |
<table>
<thead>
<tr>
<th>Area</th>
<th>SAQ</th>
<th>Source ref.</th>
<th>Inherent risks</th>
<th>Control environment</th>
<th>Substantive approach</th>
</tr>
</thead>
</table>
| Compliance with terms and condition of   | 26  | not applicable | • inexperience of dealing with particular funding source  
• significant growth in activity  
• change in staff administering project  
• concerns expressed through college internal audit or review by funding body. | • independent monitoring of progress on each project, authorisation and review of returns to funding body  
• checks that requirements of the project are being met (for example through independent check, college internal audit review, review by funding body and so on). | • Review each material grant agreement to identify terms.  
• Review correspondence with funding body.  
• Vouch sample of expenditure to ensure this is in line with terms.  
• Check cut-off and matching of funding and spend within the financial statements. Where material, consider obtaining management representation regarding delivery of outputs (where non-financial).  
Substantive testing is strongly recommended. |
| discrete revenue funding (other grants for example RDA), expenditure separately tracked and outputs monitored |     |             |                                                                                                 |                                                                                                           |                                                                                                                                                                      |
| Compliance with terms and conditions of   | 27  | not applicable | • large capital developments  
• inexperience of dealing with grant funding bodies  
• complex terms of funding  
• history of disputes with funding bodies  
• history of clawback of funding. | • approval process for capital spending and grants (at each stage of bid)  
• separate monitoring and reporting to relevant committee of spend and progress in complying with grant terms  
• college internal audit or other external reviews by the funding body and so on. | • Review each material grant agreement to identify terms, review correspondence with funding body.  
• Vouch sample of expenditure to ensure this is in line with terms.  
• Check cut-off and matching of funding and spend within the financial statements. Where material, consider obtaining management representation regarding delivery of outputs (where non-financial).  
Substantive testing is strongly recommended. |
| discrete non-LSC capital grant funding     |     |             |                                                                                                 |                                                                                                           |                                                                                                                                                                      |
| Complying with terms and conditions of    | 28  | relevant trust terms |                                                                                                 | • monitoring and approval of spend out of donation or trust funds. | • Sample check of spending against term(s) of trust or donation.  
• Ensure income is appropriately accrued to trust investment balances.  
Substantive testing is strongly recommended. |
| specific donations and/or trusts and so on |     |             |                                                                                                 |                                                                                                           |                                                                                                                                                                      |
| Propriety                                 |     |             |                                                                                                 |                                                                                                           |                                                                                                                                                                      |
| Clear protocols to mitigate against       | 29  | Public Audit Forum guidance | • poor segregation of duties  
• poor procurement controls  
• no clear policy on or register of gifts, hospitality and so on  
• extravagant lifestyles and so on. | • clear procurement procedures, for example particularly when accepting tender which is not the cheapest  
• clear policies which are part of employment arrangements and so on. | • Review minutes to ensure that interests are noted when making decisions.  
• Review a sample of purchases to verify that financial regulations have been followed. |
<p>| corruption (in addition to register of     |     |             |                                                                                                 |                                                                                                           |                                                                                                                                                                      |
| interests) for example policies on         |     |             |                                                                                                 |                                                                                                           |                                                                                                                                                                      |
| acceptance of gifts and/or hospitality     |     |             |                                                                                                 |                                                                                                           |                                                                                                                                                                      |</p>
<table>
<thead>
<tr>
<th>Area</th>
<th>SAQ</th>
<th>Source ref.</th>
<th>Inherent risks</th>
<th>Control environment</th>
<th>Substantive approach</th>
</tr>
</thead>
</table>
| 33 Conflicts of interest and related parties. Clear framework and monitoring of such transactions must extend to all staff in significant procurement positions (for example, liaison with partners, franchise operatives and project heads) | 30  | PAC (1994; 1999; 2000) reports; Circular 03/08                               | • infrequent updating of register  
• no formal assessment of the context in which staff disclosures are made (for example cross-checking to supplier activity). | • clear guidance and returns process for staff covering all potential relationships (close family and so on)  
• regular updating of register  
• formal checking of scale of potentially conflicting activity in the context of college activities (for example turnover with a related supplier)  
• guidance on establishing preferred suppliers. | • Review the register of interest and identify any instances where staff hold an interest in matters relating to the college.  
• Consider disclosures under SAS 460.  
Substantive testing is strongly recommended. |
| 34 Dealing with staff concerns openly. Clear whistle-blowing procedures. | 31  | PAC (1998; 1999; 2000) reports; Circular 00/25                               | not applicable                                                                   | not applicable                                                                      | • Consider impact of any whistle-blowing allegations on the financial statements and regularity opinion. |
| 35 Safeguarding assets from theft and so on                          | 32  |                                                                               | • lack of inventory, physical verification, checking of assets.                  | not applicable                                                                      | not applicable unless any concerns become apparent from the self-assessment          |
| 36 Clear policy and monitoring of overseas travel expenses           | 33  | PAC (1999) report on Halton College; Circular 03/08                         | • large number of overseas trips  
• no clear framework for overseas travel.                                            | • financial regulations and so on  
• separate coding.                                                               | • Review overseas travel policy and reports to governors to ensure that these are adequate based on the level of overseas travel disclosed in the financial statements.  
• Sample check where necessary.  
Substantive testing is strongly recommended. |
| 37 Clear protocols to mitigate against inappropriate disposal of assets (property and other) | 34  | PAC guidance                                                                | • poor controls over disposal of assets  
• poor controls over assets (such as no physical verification of assets).         | • Review the controls in operation to identify fixed asset-disposals and procedures to ensure that appropriate authorisation is obtained. | • Review disposals and ensure that these have been approved in accordance with financial regulations. |
| 38 Controls and monitoring over expense claims (particularly SMT) and use of college credit cards | 35  | PAC (1999) report on Halton College                                          | • lack of policy and procedures  
• high level of individual expense claims.                                         | • financial regulations  
• periodic checks of overall expenses claim per person to identify unusual levels. | • sample checking of forms, overall expense levels per person.                        |
<table>
<thead>
<tr>
<th>Area</th>
<th>SAQ</th>
<th>Source ref.</th>
<th>Inherent risks</th>
<th>Control environment</th>
<th>Substantive approach</th>
</tr>
</thead>
</table>
| Lack of project appraisal and monitoring or lack of control over discrete projects and initiatives, including non-core activities | 36  | PAC (1998; 1999; 1999; 2000) reports on Swansea Institute, Halton College, Southampton Institute and Gwent Tertiary College | · loss-making non-core activities  
· issue arising unexpectedly on specific projects or grant-funding streams  
· concern from funding bodies. | · appraisal approach for new initiatives or projects  
· monitoring of performance (financial and non-financial), independent review (for example college internal audit). | See above sections. |
| Reasonableness of procurement policies (for example, limits for purchase of individual purchase without recourse to governors and so on) | 37  | PAC (1999) report on Halton College                                           | not applicable                                                                 | not applicable                                                                      | not applicable unless any concerns become apparent from the self-assessment        |
| Unnecessary extravagance in purchases (for example, refurbishments, equipment and so on) | 37  | PAC (1999) report on Halton College                                           | not applicable                                                                 | not applicable                                                                      | not applicable unless any concerns become apparent from the self-assessment        |
| Independence of the clerk                                            | 38  | Circular 99/48 paras 10, 16                                                   | not applicable                                                                 | not applicable                                                                      | not applicable unless any concerns become apparent from the self-assessment        |
| Ongoing review of corporation decision-making processes              | 39  | PAC (1999) report on Halton College                                           | not applicable                                                                 | not applicable                                                                      | not applicable unless any concerns become apparent from the self-assessment        |
Appendix to Annex: References

DFES publications

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

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

FEFC circulars
The following FEFC circulars can be obtained from http://lsc.wwt.co.uk/documents/circulars
99/14: Circular 99/14: College Companies, Joint Ventures and Overseas Operations
00/25: Circular 00/25: Complaints to the Council

LSC circulars
The following LSC circulars can be obtained from www.lsc.gov.uk/National/Documents/Series/Circulars/default.htm
01/12: Circular 01/12: Access to Learning: the FE childcare places grant programme 2001-02 to 2003-04
02/12: Circular 02/12: College Involvement in Companies
03/08: Circular 03/08: FE Colleges: Accounting Policies and Return of Audited Financial Statements
03/05: Circular 03/05: Capital Project Grant Support: New and updated arrangements for 2003-04 awards and consultation on the rate of grant support
04/07: Circular 04/07: Audit Code of Practice

Parliamentary Acts and statutory instruments

Other relevant publications