



Skills Funding
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Regularity Audit Framework

This Regularity Audit Framework sets out the context, responsibilities and requirements for the regularity audit required at colleges under the Joint Audit Code of Practice Part 2.

August 2014

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

INTRODUCTION

Purpose

1. The Skills Funding Agency and Education Funding Agency (the funding bodies) published the Joint Audit Code of Practice (JACOP) Part 2 in July 2013. JACOP Part 2 sets out the requirements of the Secretary of State for Education acting through the Education Funding Agency and the Chief Executive of Skills Funding for colleges' accountability and audit arrangements and the broad framework in which they should operate. The provisions of JACOP Part 2 came into effect on 1 August 2013.

2. Paragraph 39 of JACOP Part 2 sets out the requirement for an audit of regularity based upon a framework set by the funding bodies. We provide this framework here as an Appendix to JACOP Part 2 and it is also applicable from 1 August 2013. It is therefore relevant to college audits for the year ended 31 July 2014. Please read it alongside [JACOP Parts 1 and 2](#) and the [Accounts Direction for 2013 to 2014 Financial Statements](#) (the Accounts Direction) published by the funding bodies in May 2014. The framework does not repeat all of the requirements and guidance set out in those documents.

3. The purpose of this framework is to achieve a common standard in the provision of assurance on regularity, so that corporations can be clear about the assurance they receive and the funding bodies can rely on the assurance for their own purposes.

Background

4. The requirement for colleges to have a regularity audit is longstanding and familiar to colleges and auditors. It was originally introduced by the Learning and Skills Council (LSC) in the financial year 2004 to 2005 to provide assurance to the LSC and to colleges on the regularity of colleges' expenditure. The LSC's guidance remained in place from 2004 but this framework now supersedes it.

5. The framework for providing assurance over regularity needed updating to reflect changes to:

- professional auditing and assurance standards (UK and Ireland) issued by the Financial Reporting Council ('FRC') and the International Audit and Assurance Standards Board (IAASB)
- developments in corporate governance
- the regulatory environment within which colleges operate

The implementation of the Education Act 2011 made changes to the mandatory content of the Instrument and Articles of Government and required updated terms and conditions of funding, reflecting the new freedoms and flexibilities awarded to colleges. Part of these changes included the increase in delegated authorities to colleges and the removal of the mandatory requirement for an independent internal audit function. As a result, colleges are no longer classified as public sector bodies, although they remain in receipt of significant public funds, over which the funding bodies require assurance.

Changes to the framework

6. The main components of the LSC framework remain in that:

- colleges will still gather evidence of compliance with regularity requirements through a self-assessment
- auditors will still provide reasonable assurance over the regularity of all expenditure disbursed and income received, regardless of source

7. The main changes in the framework are some different terminology to reflect the changes in auditing and assurance standards referred to above and the requirement for college corporations to provide in their Corporate Governance and Internal Control Statement a formal statement on regularity, propriety and compliance with the terms and conditions of funding. This requirement is set out in the Accounts Direction. We provide the model wording for the statement at Appendix 1 of this document and guidance for corporations in making this statement at Appendix 2. It is important to note that this statement does not confer new responsibilities on corporations; it is merely a formal statement that existing responsibilities have been met.

Review of the framework

8. Paragraph 4 of JACOP Part 2 indicates that the funding bodies will keep the requirements for college accountability under review. Therefore we will update this framework annually and we anticipate further significant amendments for the year ending 31 July 2015.

REGULARITY FRAMEWORK

Definitions

9. Definitions of 'regularity' and 'propriety' appear in paragraphs 36 to 38 of JACOP Part 2.

10. Paragraph 40 of JACOP Part 2 requires the financial statements auditor to undertake the regularity audit. The framework refers to the financial statements and regularity auditor as the 'independent auditor'.

The corporation's responsibilities regarding regularity

11. The relevant responsibilities of college corporations are set out in a number of documents including:

- the Further and Higher Education Act 1992 (updated for changes in subsequent legislation, such as the Apprenticeships, Skills, Children and Learning Act 2009 and Education Act 2011)
- charity law
- companies legislation
- Instrument and Articles of Government
- the funding agreement/financial memorandum with the funding bodies
- JACOP Parts 1 and 2
- the Accounts Direction
- specific terms and conditions from other sources of funding

12. The funding bodies' expectation is that, as independent corporate bodies, colleges will take full control of their own financial affairs and implement and operate rigorous

corporate governance arrangements. The Association of Colleges (AoC) supports this approach. The AoC developed an 'Audit and Accountability Annex' to the English Colleges' 'Foundation Code of Governance'. Each year, the AoC also issues detailed guidance on compliance with the Accounts Direction in an Accounts Direction Handbook

13. Paragraph 11 of JACOP Part 2 requires colleges to publish an evaluation of their corporate governance arrangements within the Statement of Corporate Governance and Internal Control within their audited accounts. Further guidance on this is given within the Accounts Direction.

14. Paragraph 35 of JACOP Part 2 states that 'the funding bodies fund colleges under grant-in-aid, a specific form of funding agreement that the government uses. Grant-in-aid funding comes with the explicit requirement that recipients use these funds with 'regularity' and 'propriety'.

15. The Accounts Direction introduced a requirement for college corporations to provide in their Corporate Governance and Internal Control Statement a formal statement on regularity, propriety and compliance with the terms and conditions of funding. Please refer to the model wording for the statement at Appendix 1 and guidance for corporations in making this statement at Appendix 2. It is important to note that this statement does not confer new responsibilities on corporations but is merely a formal statement that they have met their existing responsibilities. This reflects the reliance placed on college's own corporate governance arrangements.

16. JACOP Part 2 also requires corporations to appoint external auditors to audit the accounts in respect of each financial year (paragraph 27) and also appoint its financial statements auditors to undertake the regularity audit (paragraph 40). The provisions set out in Appendix A of JACOP Part 2 must be incorporated into letters of engagement with financial statements auditors (paragraph 42).

17. The LSC regularity audit framework contained a self-assessment that colleges completed to assess their compliance with regularity requirements and to inform the direction and shape of the auditor's work. We have retained this aspect of the framework, but have reduced the self-assessment to reflect the greater freedoms and flexibilities that colleges now have. Please refer to the self-assessment at Appendix 3; colleges should

complete this to a timescale agreed with their independent auditors. The accounting officer and the Chair to the corporation must complete, sign and date the self-assessment.

18. The self-assessment will inform the corporation's statement on regularity, propriety and compliance with the terms and conditions of funding and also inform the work of the independent auditors.

19. Where the corporation has concerns about its ability to identify any material irregular or improper use of funds it should notify its independent auditor in the first instance and, if necessary, consult with the relevant funding body.

The independent auditor's responsibilities regarding regularity

20. JACOP Part 2 paragraph 40 requires the independent auditor to accept and acknowledge that they owe the funding bodies a duty of care for the work undertaken in accordance with the regularity audit framework. They must also discuss any proposal to limit their liability for regularity work with the audit committee and relevant funding body in advance of approval by the corporation.

21. JACOP Part 2 paragraph 39 requires the scope of regularity audit to include all college expenditure and income received, regardless of source and whether these are consistent with statutory and other regulatory requirements. As such the report is in respect of the college and any subsidiaries or joint venture arrangements to the extent that they are included as part of the consolidated annual financial statements submitted to the funding bodies. Paragraph 39 also states that independent auditors are expected to apply professional judgement and not be restricted by a rigid set of rules.

Independent auditor's report on regularity

22. The model report is available in this document at Appendix 4.

23. Where the independent auditor identifies potential irregularities they should discuss these with the college's accounting officer and corporation. The potential irregularities should be considered individually and in aggregate in terms of whether they represent a material irregularity, whether by value or nature. The independent auditor should also revisit their risk assessment.

24. Where the independent auditor identifies matters of irregularity they should consider whether these matters also represent a propriety issue. If they do represent a propriety issue the independent auditor may need to undertake further work, before concluding on the report.

25. The regularity report has due regard to propriety; however, propriety is concerned with conduct and behaviour rather than compliance with a framework of authorities and it is therefore not readily susceptible to objective verification. When issues of propriety come to light the independent auditor should consider the guidance on materiality of propriety issues given below. The independent auditor should report any potential weaknesses, failure or issues in their management letter.

26. Where the independent auditor identifies a regularity issue that could result in a qualification of the report, they should consult with the appropriate funding body in advance.

27. When the independent auditor concludes that there are matters of material irregularity, by virtue of value or nature, either individually or in aggregate of transactions underlying the financial statements, this will lead to a modified report including full disclosure of those matters within the report. Where irregularity is identified but the independent auditor concludes it is not material by virtue of value or nature, either individually or in aggregate, or does not relate to transactions underlying the financial statements, the issue will be reported in the independent auditor's management letter.

28. Where the independent auditor is unable to obtain sufficient, appropriate evidence to reach a conclusion on regularity, the regularity report will be qualified on the grounds of a limitation in audit scope. The independent auditor will need to consider the impact of any regularity issue on the audit of the financial statements as a whole.

Approach to providing assurance over regularity

29. The independent auditor should have regard to Audit Practice Board (APB) Practice Note 10 (PN10), which refers to an 'audit' of regularity. The work represents a reasonable assurance engagement carried out in parallel and reported with the audit of a public sector body's financial statements. PN10 identifies certain aspects that will be relevant to any

engagement which requires that assurance is provided over the regularity of income and expenditure:

- obtaining a sufficient understanding of the framework of authorities
- testing to obtain sufficient appropriate audit evidence over regularity
- reporting on regularity

Understanding the framework of authorities

30. The independent auditor's report refers to the authorities which govern the college. Understanding the framework of authorities relevant to the conduct of the activities of a college will assist the independent auditor in planning their work and identifying risk of potential material irregularities in the financial statements.

31. Much of the work required to understand the activities and relevant framework of authorities will already have been considered within the audit of the financial statements through the satisfaction of requirements within International Standard on Auditing (UK and Ireland) 315 and International Standard on Auditing (UK and Ireland) 250A. In making their regularity report the independent auditor will need to further understand and assess how the corporation 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. The college's statement on regularity, propriety and compliance with the terms and conditions of funding and underpinning self-assessment will further inform the independent auditor's work by demonstrating how the requirements are met. Many independent auditors will already have detailed knowledge of the college's systems, procedures and controls from previous years' audit work.

Materiality and risk

32. The independent auditor's report refers to materiality. The independent auditor's assessment of what is material with regard to regularity is a matter of judgement and includes both quantitative (value) and qualitative (nature) considerations. Materiality affects both the way in which the independent auditor plans and designs their work on regularity and how they evaluate and report the results of that work. Depending on the outcomes of their testing and their evaluation and reporting of outcomes, the independent auditor should revisit their assessment of the risk of material irregularity.

33. For the testing of transactions as to whether they are regular, or have been used in accordance with the terms of grant, a materiality level similar to that applied to the financial statements may be appropriate. However, when assessing materiality in the context of propriety, a lower materiality level will need to be considered. For example, the reimbursement of governors' expenses may be appropriate in terms of value, but if those expenses were extravagant in that they included the hire of a limousine and chauffeur, this might be considered improper and material by its nature.

34. The auditor must use their professional judgement as to whether propriety issues result in a qualification of the regularity report. It is not possible to specify a lower limit of value because of the range in turnover of college corporations. However, we reiterate that with regard to fraud JACOP Part 2 (paragraph 51) defines 'significant' as:

- there is likely to be great public interest because of the nature of the fraud or the people involved
- the sums of money are in excess of £10,000
- the particulars of the fraud are novel or complex

35. As set out above, issues of irregularity and impropriety which the independent auditor concludes are not material by virtue of value or nature, either individually or in aggregate, or do not relate to transactions underlying the financial statements, will be reported in the independent auditor's management letter.

36. The judgement of materiality will also need to take into account the number of issues identified, again with regard to both quantitative (value) and qualitative (nature) considerations. A number of issues which might not be material in isolation may, taken together, be material, and these in turn will need to be reported within the independent auditor's management letter and regularity report as appropriate.

37. The independent auditor's assessment of the risk of material irregularity at the planning testing, evaluation and reporting stages will determine overall the amount of work required to provide sufficient appropriate evidence to support the independent auditor's regularity report.

Testing for regularity

38. Usually, audit procedures designed to test regularity would comprise a mix of tests of controls and substantive procedures. The nature and extent of testing is a matter for the professional judgement of the independent auditor, although it is anticipated that testing will be based primarily on the college's statement on regularity, propriety and compliance with the terms and conditions of funding and self-assessment of compliance. However, the independent auditor must review the college's response to the propriety element of the self-assessment and obtain sufficient appropriate evidence to support the responses.

39. For most, if not all college audits, it will be most efficient to undertake regularity audit 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 independent auditor may then undertake extended testing of a single sample of transactions to support both the 'true and fair' audit and the regularity report.

40. The funding bodies have accepted responsibility for obtaining direct assurance over the college's main funding grants generated through the Individualised Learner Record (ILR) returns. The college remains responsible for the accuracy of these returns; however, regularity testing of the completion of these returns is excluded from this framework. Similarly, the funding bodies have accepted responsibility for the regularity of partner organisations delivering provision through these data returns on behalf of a college. The independent auditor is therefore limited to ensuring payments are made in line with any contractual terms and in accordance with the college's financial regulations.

41. The funding bodies expect that if any potential regularity matters associated with ILR returns and associated claims come to the independent auditor's attention during their work, they will notify the corporation and funding bodies.

42. Upon request by the independent auditor the funding bodies will provide a summary of any potential regularity matters that they are aware of, such as fraud and whistleblowing, providing a 'Nil response' as a minimum.

43. The independent auditor should consider whether they can rely on the work of a third party (such as Internal Audit) who has undertaken assurance reviews relevant to the objective of the regularity reporting engagement in year. It is a matter of professional

judgement as to the level of assurance that an independent auditor may wish to place on this work.

Documenting the independent auditor's work and access to working papers

44. The funding bodies do not require independent auditors to maintain separate audit files in respect of the statutory 'true and fair' audit and regularity work. As mentioned above, they can incorporate regularity sampling into the 'true and fair' audit; however, they will need to document clearly the objectives, method and conclusion. Financial statements auditors may of course choose to maintain separate files.

45. The funding bodies have a right of access to any working papers or information which they consider necessary to fulfil their responsibilities. This requirement is set out in JACOP Part 2 (paragraphs 48 to 49) and in the standard terms applicable to the funding bodies in the independent auditor's letter of engagement.

Fraud

46. The auditor's consideration of fraud and risk of material irregularity resulting should cover both fraud perpetrated internally and externally to the college. Where fraudulent transactions are identified they cannot, by definition, be regular since they are without proper authority and are improper, by the inherent nature of deception to result in financial or personal gain.

47. This additional requirement to report fraud as a breach of regularity does not alter, reduce or replace in any way the standard reporting requirements for fraud and the role of the Money Laundering Reporting Officer, as set out in JACOP Part 2 (paragraphs 50 to 54) and the independent auditor's letter of engagement.

APPENDIX 1: MODEL STATEMENT ON REGULARITY, PROPRIETY AND COMPLIANCE WITH THE TERMS AND CONDITIONS OF FUNDING FOR COLLEGE CORPORATIONS (FOR INCLUSION IN COLLEGE CORPORATION STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL)

The Corporation has considered its responsibility to notify the [Skills Funding Agency/ Education Funding Agency] of material irregularity, impropriety and non-compliance with the [Skills Funding Agency/ Education Funding Agency] terms and conditions of funding, under the [financial memorandum/funding agreement] in place between the College and the [Skills Funding Agency/ Education Funding Agency]. As part of its consideration the Corporation has had due regard to the requirements of the [financial memorandum/funding agreement].

We confirm on behalf of the Corporation that, to the best of our knowledge, we believe we are able to identify any material irregular or improper use of funds by the College, or material non-compliance with the [Skills Funding Agency/Education Funding Agency]'s terms and conditions of funding under the College's [financial memorandum/funding agreement]. We further confirm that any instances of material irregularity, impropriety or funding non-compliance discovered to date have been notified to the [Skills Funding Agency/Education Funding Agency].

APPENDIX 2: GUIDANCE TO SUPPORT COLLEGE CORPORATION STATEMENT ON REGULARITY, PROPRIETY AND COMPLIANCE WITH THE TERMS AND CONDITIONS OF FUNDING

1. This guidance is for college corporations and accounting officers to support the Statement on Regularity, Propriety and Compliance with the Terms and Conditions of Funding that must be included in the corporation's Corporate Governance and Internal Control Statement. It is also of use to college independent auditors in providing reports on regularity.
2. This guidance does not provide an exhaustive list for corporations of all matters that they should consider in support of their statement. The funding bodies expect that as independent corporate bodies, colleges will take full control of their own financial affairs and implement and operate rigorous corporate governance arrangements. The AoC supports this approach; it developed an 'Audit and Accountability Annex' to the English Colleges' 'Foundation Code of Governance' to support this. The guidance provides an update of some of the key requirements that should be considered when providing assurance to the corporation and funding bodies and the authorities attached to them.
3. To further support the provision of assurance, Appendix 3 provides a self-assessment that the accounting officer and Chair of the corporation must sign and complete. This provides further clarity over the propriety framework applicable to colleges as public interest entities in receipt of grant-in-aid public funding and it is based on 'Managing Public Money' and the funding bodies' interpretation of the key requirements and the type of evidence that should be considered.

4. The guidance references the Financial Memorandum issued by the Skills Funding Agency and the Funding Agreement issued by the Education Funding Agency. These documents are similar in most regards but there are some differences in wording. In the event of doubt, please refer to the document specific to the college.

Objectives	Requirements and guidance
<p>Compliant with legislative and contractual obligations:</p> <p>Financial memorandum/funding agreement</p> <ul style="list-style-type: none"> The corporation is free to spend its funding as it sees fit, provided it fulfils the conditions of funding imposed.¹ The corporation must appoint an accounting officer and notify the relevant funding body of their name and position. The corporation must ensure that the college's funds are used only in accordance with their powers, statutory duties and other obligations. The corporation is responsible for ensuring the solvency of the college and informing the relevant funding body where financial viability is jeopardised. The corporation shall demonstrate that payments in respect of termination of employment are regular and secure value for money. Additional terms may be applied through a Notice of Concern that should be considered as part of this review. <p>Extract from Education Act 2011, specifically relating to 'Part 2 of Schedule 4' as revised from the Further and Higher Education Act 1992:</p> <ul style="list-style-type: none"> 'The effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their 	<p>Corporations should consider how they are able to demonstrate the discharging of their responsibilities to ensure solvency and safeguard the college's assets.</p> <p>Corporations should be able to demonstrate due consideration of decisions made over the operation and direction of a college's activities in the context of risk to the college's financial health.</p> <p>Policies and procedures should be in place that set powers of authorisation and situations where corporation approval is required compared against day-to-day management.</p> <p>Corporations need to be aware of and be able to demonstrate the discharging of their responsibilities as charitable trustees. The Charity Commission has issued some guidance that corporations may find useful – <i>'The Essential Trustee'</i>.</p> <p>Where activity or an investment, whether capital, use of a subsidiary company, acquisition/disposal of assets/business/operation, procurement of material contracts (including partnership/subcontracting arrangements), or any other is planned that may give rise to a risk to the college's assets then there is an expectation that the corporation would be able to demonstrate its agreement to the actions taken.</p> <ul style="list-style-type: none"> Subsidiary companies/overseas operations/joint ventures/complex arrangements/investments/non-primary activities and so on can be undertaken but corporations should justify the investment and operate a prudent attitude towards risky activity as part of their charitable responsibilities. Where operations are loss making there is an expectation that the corporation would be aware of and consider the continued support of such operations in view of the overall objective of the organisation. <p>Corporation minutes should demonstrate evidence in respect of:</p> <ul style="list-style-type: none"> Does the corporation periodically review the profile of its activities to ensure they are within its powers? Is the corporation satisfied in monitoring the financial performance of any non-core activities that they are not being materially subsidised from public funding? Has the corporation established appropriate arrangements for each subsidiary and/or associate and/or joint venture to enable it to discharge its accountability responsibilities which include: <ul style="list-style-type: none"> appropriate representation by governors on the boards arrangements for regular reporting of performance to the corporation

¹ Funding Agreement paragraph 6.1 and Financial Memorandum, paragraph 6.2.

assets.'

- 'An instrument must prohibit the body from making changes to the instrument of government or articles of government that would result in the body ceasing to be a charity.'

Basic charitable principle:

- Act in good faith for the benefit of the college.

Extract from the Essential Trustee:

- 'Trustees have and must accept ultimate responsibility for directing the affairs of a charity, and ensuring that it is solvent, well-run, and delivering the charitable outcomes for the benefit of the public for which it has been set up.'
- 'Avoid undertaking activities that might place the charity's endowment, funds, assets or reputation at undue risk.'

- a clear memorandum of understanding in place?

The corporation shall only make payments to employees on the termination of their employment for the purpose of meeting contractual obligations. The corporation shall demonstrate that payments in respect of termination are regular and secure value for money and avoid spending funds on settlements where disciplinary action would have been more appropriate.

- Where the corporation is considering entering into an agreement to settle any employment claims brought by a senior postholder, it should take appropriate professional advice and the terms of any final agreement should be approved by the corporation. All settlements shall be brought to the attention of the corporation's independent auditors.
- Documentation demonstrating board consideration and appropriate professional/legal advice.

Property

Financial memorandum/funding agreement and funding body capital guidance:

'The corporation shall properly manage and develop its property with regard to good practice guidance in the further education sector and ensure that it maintains premises which are properly equipped in order to deliver the education and training for which it is funded by the FE Funding Bodies.' (paragraph 22 of Skills Funding Agency Financial Memorandum, paragraph 5.2 Education Funding Agency Funding Agreement)

Where the corporation proposes to dispose of, lease or rent land and/or buildings which have been acquired, developed and/or refurbished or modernised with the help of capital grants from the FE funding bodies, then the corporation should notify the funding bodies in writing of such transactions, as they may reserve the right to require repayment of some, or all, of the associated grant.

Use of Funds

- Compliance with any specific terms and conditions of revenue grants/income/donations (from

The funding agencies' funding rules for the academic year 2013 to 2014 provide general requirements however some funds may have specific terms and conditions attached, for example: learner support funds (such as Discretionary Support Funds and 16 to 19 Bursary), European funds, Higher Education Funding Council for England funding, material donations.

There are extended requirements with regards to monitoring subcontracted provision. A college is required

whatever source) including where the college acts in the capacity as agent.

- Compliance with any specific terms and conditions of capital grants/income/donations (from whatever source)

to follow its procurement processes when selecting and managing subcontract arrangements as well as ensuring that the subcontractor meets the performance objectives throughout the course of the contract. Where a college is entering into subcontracting arrangements for the first time it may be required to undertake additional procedures as set out by the respective funding bodies.

The corporation should review the college's profile of activities and how they are delivered. For each funding stream, grant and income from whatever source it should ensure that it has approved policies and procedures to ensure compliance with any specific terms and conditions. It should ensure that the policies and procedures are operating in practice. The corporation should ensure that any related funding claims/returns have been completed and returned.

Propriety

In accordance with Practice Note 10:

"Whereas regularity is concerned with compliance with appropriate authorities, propriety is concerned more with standards of conduct, behaviour and corporate governance. It includes matters such as fairness, integrity, the avoidance of personal profit from public business, even-handedness in the appointment of staff, open competition in the letting of contracts and the avoidance of waste and extravagance. In central government, propriety is defined in Managing Public Money."

Financial memorandum/funding agreement

(EFA Funding Agreement paragraph 2.2, Skills Funding Agency Financial Memorandum, paragraph 3.2)

Corporate governance: the corporation should ensure that it has approved policies and procedures to ensure:

- mitigation against corruption and fraud (in addition to register of interests) for example policies on acceptance of gifts and/or hospitality taking account of requirements set out within relevant legislation such as the Bribery Act 2010 and Proceeds of Crime Act 2002;
- conflicts of interest and related parties are properly dealt with and registers of interests are in place;
- whistleblowing procedures are in place;
- expense claims and use of college credit cards, particularly by senior staff, are properly monitored and controlled
- financial regulations are appropriate

Value for money: the corporation is required to ensure value for money in all transactions involving public funds. The corporation should be able to demonstrate consideration and approval of:

- value for money, especially for public interest activity and expenditure, such as overseas activity, termination payments, investments and so on, and where necessary consideration/documentation of cost against benefit
- clear documentation to consider not just can the college do something but should it and why
- justification for activity/expenditure that does not appear to benefit the college, directly or indirectly
- consideration of return on investment/good use of public funds
- clear policy and monitoring of overseas travel expenses and related activity against the returns received, whether actual income (through activity or student recruitment) or reputational gain
- even-handedness on appointment of staff, particularly higher-paid staff

APPENDIX 3: SELF-ASSESSMENT OF COMPLIANCE WITH REGULARITY AND PROPRIETY REQUIREMENTS

1. This self-assessment questionnaire is for college corporations and accounting officers to support the Statement on Regularity, Propriety and Compliance with the Terms and Conditions of Funding that must be included in the corporation's Corporate Governance and Internal Control Statement. The college must complete this and the accounting officer and the Chair of Governors must sign it to a timetable agreed with the independent auditors.
2. This self-assessment will form the basis of regularity testing for the independent auditor and is the minimum basis on which their regularity report will be based. This does not preclude additional work that the auditor may undertake, as the extent of regularity work is determined by the professional judgement of the independent auditor, informed by their assessment of the risk of material irregularity, impropriety and non-compliance.
3. Please note references to 'the corporation' may be taken to mean 'the corporation and its committees'. Also, some of the matters referred to below refer to specific events that may not have occurred at every college in the financial year 2013 to 2014 and answers of 'not applicable' may be appropriate to some questions.

SELF-ASSESSMENT OF COMPLIANCE WITH REGULARITY AND PROPRIETY REQUIREMENTS

I confirm that the answers included in this regularity self-assessment are correct to the best of my knowledge and belief.

Signed

.....
Accounting Officer Date

.....
Chair of Governors Date

Area	Source ref.	Questions	College response	Supporting evidence
Regular				
Financial memorandum/funding agreement		Can the corporation demonstrate that:		The corporation should be able to demonstrate these matters through papers received and due consideration and decision making through corporation and committee minutes.
<ul style="list-style-type: none"> The corporation is free to spend its funding as it sees fit, provided it fulfils the conditions of funding imposed. Additional terms may be applied through a Notice of Concern/Financial Notice to Improve that should be considered as part of this review. 	Extract from Education Act 2011, specifically relating to 'Part 2 of Schedule 4' as revised from the Further and Higher Education Act 1992:	<ul style="list-style-type: none"> it is discharging its responsibilities to safeguard the college's assets? due consideration of decisions made over the operation and direction of a college's activities in the context of risk to the college's financial health? policies and procedures are in place that set powers of authorisation and situations where corporation approval is required compared against day-to-day management members of the corporation are discharging their responsibilities as charitable trustees? it periodically reviews the profile of its activities to ensure they are within its powers? it is satisfied in monitoring the financial performance of any non-core activities that they are not being materially 		
<ul style="list-style-type: none"> 'The effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets' 'An instrument must prohibit the body from making changes to the instrument of government or articles of government that would result in the body ceasing to be a charity' 				

		subsidised from public funding? <ul style="list-style-type: none"> it has established appropriate arrangements for each subsidiary and/or associate and/or joint venture to enable it to discharge its accountability responsibilities? 		
	The corporation shall only make payments to employees on the termination of their employment for the purpose of meeting contractual obligations. The corporation shall demonstrate that payments in respect of termination are regular and secure value for money and avoid spending Funds on settlements where disciplinary action would have been more appropriate.	Where the corporation has considered entering into an agreement to settle any employment claims brought by a senior postholder, has it: <ul style="list-style-type: none"> taken appropriate professional advice? approved the terms of any final agreement? brought all settlements to the attention of the independent auditor? 		The corporation should be able to demonstrate these matters through advice received, minutes of consideration and notification to independent auditor.
	The corporation shall properly manage and develop its property with regard to good practice guidance in the further education sector and ensure that it maintains premises which are properly equipped in order to deliver the education and training for which it is funded by the FE Funding Bodies.	Has the corporation agreed a property strategy? Where the corporation has considered such disposals, has the funding body been notified?		Notification to funding body
	Use of funds			
	Compliance with any specific terms and conditions of revenue grants/income/donations (from whatever source) including where the college acts in the capacity as agent. Compliance with any specific terms and conditions of capital grants/income/donations (from whatever source)	Has the corporation approved policies and procedures operating during the year for each funding stream that has specific terms attached? Do the policies and procedures comply with the terms and conditions for the application of such funds? Has the college completed and returned any related funding claims/returns and reconciled this to specific eligible costs/activities		Minutes demonstrating corporation consideration and approvals. College policies and procedures College funding claims/returns and reconciliations

		incurred/delivered? Has the college complied with the funding requirements around managing subcontracting provision?		College actions taken
Propriety – follow Nolan principles and the specific corporate governance codes adopted by the corporation (the Financial Reporting Council’s UK Corporate Governance Code 2010 or the English Colleges’ Foundation Code of Governance and its Audit and Accountability Annex code) avoiding personal benefit				
Area	Source ref.	Questions	College response	Supporting evidence (suggested in brackets)
Clear protocols to mitigate against corruption (in addition to register of interests) for example policies on acceptance of gifts and/or hospitality	Bribery Act 2010 Proceeds of Crime Act 2002 Basic charitable principle: Act in good faith for the benefit of the college 'The Essential Trustee'	<ul style="list-style-type: none"> Does the college have a policy for personal gifts and/or hospitality? Does the college have a register of personal interests which extends to staff in relevant position of trust (for example, procurement officer, partnership contract managers and so on)? Is the procurement process clearly documented in college financial regulations or financial procedures? 		<p>Gifts and hospitality policy</p> <p>Register of interests</p> <p>Minutes</p> <p>Financial regulations and procedures</p>
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, partner / associate operatives and project heads)	PAC guidance	<ul style="list-style-type: none"> Does the clerk maintain a register of personal interests in accordance with the instrument of government, and is this register available to any person wishing to inspect it? Does it cover all governors and key staff with significant financial and decision making responsibility? 		<p>Register of interests and access arrangements/requests</p> <p>Staff structure with names of key staff in a position of authority</p> <p>Summary of potential conflicts and actions taken to mitigate</p>
Clear whistleblowing procedures		<ul style="list-style-type: none"> Has the corporation approved a procedure for handling whistleblowing that enables concerns to be raised confidentially inside, and, if necessary, outside, the college? 		<p>Whistleblowing policy.</p> <p>Details of any on-going whistleblowing</p>

			<ul style="list-style-type: none"> Is the college aware of any ongoing whistleblowing allegations or investigations? 		allegations or investigations'
Safeguarding assets	Financial memorandum		<ul style="list-style-type: none"> What procedures does the college have to safeguard the assets from fire and theft (for example physical security and compliance with fire regulations)? Has the college experienced any such occurrences in the current year? If yes, please provide details. Is insurance cover regularly reviewed for adequacy in this area? Can the corporation demonstrate even-handedness on appointment of staff? 		<p>Details of approved terms and conditions that are different to the standard terms applied to all staff.</p> <p>Relevant policies and procedures.</p> <p>Evidence of physical asset checks.</p> <p>Evidence of insurance cover.</p>
Safeguarding assets - Investment in subsidiary, joint ventures or similar arrangements	Basic charitable principle: Act in good faith for the benefit of the college 'The Essential Trustee'		<ul style="list-style-type: none"> Has the college entered into any subsidiary, joint ventures or similar arrangements? Are regular reports provided to governors on performance? Has a cost/benefit analysis been prepared and approved by the corporation (or other relevant committee)? 		Corporation papers and minutes of consideration and approvals.
Clear protocols to mitigate against inappropriate disposal of assets (property and other)	Public Accounts Committee (PAC) guidance Financial Memorandum		<ul style="list-style-type: none"> Do the financial regulations detail procedures for the disposal of assets? Have there been any fixed asset disposals in the year? 		Financial regulations and details of any asset disposals.
Controls and monitoring over expense claims (particularly senior management team expenses and all overseas expenses) and use of college credit cards	PAC guidance		<ul style="list-style-type: none"> Does the college have policies and procedures for personal expenses claims that are regularly reviewed and include the authorisation process of personal expense claims for senior management? What was the level of travel and subsistence expenditure on overseas trips in the year to date? If this is significant, does it fit with the charitable objects or relate to a strategy for overseas activities approved by the 		<p>Expense claim policies and procedures Example claims for senior management.</p> <p>Evidence of control and monitoring.</p> <p>Evidence of fit with charitable objects and strategy for overseas activities.</p> <p>Reports to corporation and minutes of</p>

			<p>corporation, and is the corporation informed of this expenditure?</p> <ul style="list-style-type: none"> • Does the college operate a credit card and if so describe the authorisation process. 		consideration and approval.
	Lack of project appraisal and monitoring or lack of control over discrete projects and initiatives, including non-core activities	PAC guidance	<ul style="list-style-type: none"> • Does the corporation (or other relevant committee) receive separate reports on the progress of any significant projects and initiatives from their inception (including risk and financial assessment) through to completion and subsequent post-implementation review? • Does this extend to capital and revenue projects? • Is this requirement embodied within the college financial regulations? 		<p>Corporation papers and minutes of consideration and approval.</p> <p>Financial regulations.</p>
	<p>Reasonableness of procurement policies (for example, limits for purchase of individual purchase without recourse to governors and so on).</p> <p>Unnecessary extravagance in purchases (for example, refurbishments, equipment and so on)</p>	PAC guidance	Has the corporation approved expenditure levels above which formal quotations are required and further approval levels operate to ensure the college is receiving value for money through its procurement processes?		<p>Corporation papers and minutes of consideration and approval:</p> <p>Financial regulations.</p>

APPENDIX 4: INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report on Regularity to the Corporation of ABC College and the [Chief Executive of Skills Funding/Secretary of State for Education acting through the Education Funding Agency]

This report is produced in accordance with the terms of our engagement letter dated [x] for the purpose of reporting on the College's Statement of Regularity, Propriety and Compliance in respect of whether the transactions underlying the College's financial statements for the year ended 31 July 2014 are regular as defined by and in accordance with the [Financial Memorandum with the Chief Executive of Skills Funding/Funding Agreement with Secretary of State for Education acting through the Education Funding Agency], in accordance with the authorities that govern them.

The regularity assurance framework that has been applied is set out in the Joint Audit Code of Practice and the Regularity Audit Framework published by the Skills Funding Agency and the Education Funding Agency.

Our review has been undertaken so that we might state to the Corporation of ABC College and the [Chief Executive of Skills Funding/Secretary of State for Education acting through the Education Funding Agency] those matters we are required to state to them in a report and for no other purpose. This report is made solely to the Corporation of ABC College and the [Chief Executive of Skills Funding/Secretary of State for Education acting through the Education Funding Agency] in accordance with the terms of our engagement letter. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the corporation of ABC College and the [Chief Executive of Skills Funding/Secretary of State for Education acting through the Education Funding Agency], for our review work, for this report, or for the opinion we have formed.

Responsibilities of the Corporation of ABC College

The Corporation of ABC College is responsible under the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations and guidance, for ensuring that financial transactions are in accordance with the framework of authorities

which govern them and that transactions underlying the financial statements for the year ended 31 July 2014 are regular.

The Corporation of ABC College is also responsible, under the requirements of the Accounts Direction 2013/14 published by the Skills Funding Agency and the Education Funding Agency for the preparation of the Statement on Regularity, Propriety and Compliance. The Statement confirms that, to the best of its knowledge, the Corporation believes it is able to identify any material, irregular or improper use of funds by the College, or material non-compliance with the [Skills Funding Agency/Education Funding Agency]'s terms and conditions of funding under the College's [financial memorandum/funding agreement]. It further confirms that any instances of material irregularity, impropriety or funding non-compliance discovered in the year to 31 July 2014 have been notified to the [Skills Funding Agency/Education Funding Agency].

Auditor's responsibilities

Our responsibility is to express a reasonable assurance opinion in respect of whether the transactions underlying the College's financial statements for the year ended 31 July 2014 are in all material respects regular, based on the procedures that we have performed and the evidence we have obtained. Our reasonable assurance engagement was undertaken in accordance with the Joint Audit Code of Practice, the Regularity Audit Framework and our engagement letter dated [date]. The International Standards on Auditing (UK and Ireland) and Joint Audit Code of Practice require that we plan and perform this engagement to obtain reasonable assurance in respect of the Assertion that the transactions underlying the financial statements are in all material respects regular.

Basis of opinion

We have performed procedures on a sample basis so as to obtain information and explanations which we consider necessary in order to provide us with sufficient appropriate evidence to express reasonable assurance that the College's Statement of Regularity, Propriety and Compliance is fairly stated in respect of whether the transactions underlying the College's financial statements are in all material respects regular for the year ended 31 July 2014.

Opinion

In our opinion [except for the matters listed below] the College's Statement of Regularity, Propriety and Compliance is fairly stated in respect of whether the transactions underlying the College's financial statements are in all material respects regular for the year ended 31 July 2014.

- Matter 1
- Matter 2

Date