



Education
Funding
Agency



Education Funding Agency

**Consultation Outcome on
Rationalisation of Audit
Arrangements for Sixth Form
Colleges from 2012/13**

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Introduction

1. In May 2012 the Education Funding Agency (EFA) invited governors, principals and senior managers of Sixth Form Colleges (SFCs), and other interested parties, to consider proposals to remove the requirement on SFCs to have an Internal Audit Service and to make an annual Financial Management and Control Evaluation (FMCE) return from 1 August 2012.
2. The consultation was administered on behalf of the EFA by the Sixth Form Colleges Forum (SFCF) and RSM Tenon and the EFA is grateful for their ongoing support in this matter.
3. This report summarises the outcome of that consultation and informs the sector on what additional steps are planned to address the concerns raised during the consultation.

Background

4. The consultation recognised that the Department for Education (DfE) and EFA are fully committed to properly accounting for public funds and that both organisations fully support the Government's commitment to cutting red tape for SFCs. SFCs are recognised as being mature organisations with a history of financial stability and have demonstrated their commitment to properly accounting for the receipt and use of public funds. We do not expect the changes outlined here to lead to any reduction in SFCs' safeguarding of public funds, nor do they diminish Governing Bodies' legislative and other responsibilities and accountabilities for the proper oversight of an SFC's operations.

Applicability

5. The changes outlined herein are aimed solely at SFCs for whom the EFA take lead responsibility for assurance matters. They do not apply to other Further Education Colleges, Academies, schools and other learning providers that the EFA funds.

Focus of the consultation

6. The consultation put forward proposals only in relation to the arrangements for internal audit and FMCE returns for SFCs, with the changes to be applicable from 1st August 2012. No changes were proposed in respect of the other two core aspects of the audit arrangements currently applicable to SFCs, being Financial Statements audit and Regularity audit. This situation has not changed as a result of the consultation.

Consultation Outcome

7. In total, 108 responses were received to the consultation. Responses were submitted by Chairs of Governing Bodies, Chairs of Audit Committees, Principals, Vice Principals (and equivalents with responsibility for Finance), Clerks, Audit firms and a small number of other individuals.
8. The consultation was broadly welcomed by respondents. The following are typical of the sentiments expressed by many, and reflect also the rationale underpinning the consultation:

"We recognise the importance of audit but it has to be a reasonable burden in proportion to risk, cost effective and practical. A review of the current arrangements is welcome."

"This will enable us to have internal audit in areas that adds value..."

“The recommendations reflect the mature institutions that most sixth form colleges have become. Retaining the financial and regularity audits is an important message about accountability for public funds, so this decision is fully supported...”

9. The result of the consultation was announced by Lord Hill of Oareford, Parliamentary Under-Secretary of State for Schools, at the SFCF conference on 22 June 2012. This was then formally confirmed to the sector on 29 June 2012 through *e-bulletin 6* from the Department of Education.
10. For the 2 key questions asked as part of the consultation, the responses were as follows:

	Yes	No
Do you agree with the EFA’s proposal to remove the mandatory requirement for internal audit for SFCs?	90 (83%)	18 (17%)
Do you agree with the EFA’s proposal to remove the requirement for SFCs to complete and submit FMCE returns annually?	103 (95%)	5 (5%)

11. The responses to all five questions posed in the consultation are summarised in Appendix A, together with some of the concerns and queries raised by respondents. More detail is provided below, including some of the proposed ‘next steps’ in providing additional guidance to SFCs to address the concerns raised.

Internal Audit

12. At the SFCF conference on 22 June Lord Hill announced - with effect from 1 August 2012 - the removal of the requirements for SFCs to appoint a separate internal auditor and to submit an annual internal audit report to the EFA.
13. In removing this requirement, and to reiterate a previous point, the EFA and Ministers are recognising SFCs as being mature organisations with a history of financial stability and probity. To inform an SFC’s decision on whether or not to retain an internal audit service, the EFA anticipates that the audit committee will have considered the SFCs overall assurance needs for 2012/13 and advised the Board accordingly. The EFA also anticipates that audit committees’ will review these assurance needs annually and advise the Board accordingly.
14. In line with the responses to the consultation, the EFA can confirm also that, again with effect from 1st August 2012, the EFA’s prohibition on one firm providing external audit, internal audit and other assurance services is removed. In removing this prohibition, the EFA still expects SFCs and audit providers to be mindful of professional and ethical considerations regarding conflicts of interest, and for these to be managed appropriately.

Financial Management and Control Evaluation (FMCE) returns

15. Lord Hill confirmed also on 22 June 2012 that the EFA has removed, with immediate effect, the requirement for SFCs to submit an annual FMCE return.
16. The FMCE return has required all providers to self-assess, evaluate and grade their financial management and control arrangements. In completing this self-assessment, colleges have recognised that these arrangements are there to:
 - support the delivery of high quality learning provision;

- contribute to effective self-assessment, quality improvement and corporate governance;
 - give assurance to stakeholders (including the EFA); and
 - demonstrate value for money.
17. Although we are removing the requirement for the FMCE return to be submitted annually, we still expect college Corporations to continue to hold management to account for ensuring these aims are achieved.

Other Issues

18. Appendix A summarises some of the concerns and issues raised by respondents to the consultation. The EFA recognises that many of these matters will be of widespread interest to Governors and senior managers within SFCs. The EFA has therefore welcomed, and gratefully accepted, the offer from the SFCF to facilitate the drafting and dissemination of guidance on these issues. A small working party of EFA, SFCF representatives and SFC Finance Directors has therefore been convened with the intent that this guidance is available in time for those SFCs that have a September meeting of their audit committee already planned.
19. Key areas to be included in this guidance are expected to be as follows, though these may develop as the working party explore in more detail the reasons underpinning the issues:
- Prospective changes in the Corporate Governance Statement to be included in the annual Financial Statements, and hence what Governors are being asked to sign up to;
 - Board assurance frameworks, and how to determine an SFC's assurance needs;
 - Examples of changes to the role and remit of audit committees
 - Managing potential conflicts of interest where internal audit work is provided by an SFC's external auditors;
 - Impact on external audit procedures and costs where an SFC has no, or only a limited, internal audit service in place;
 - Retaining the benefit to the sector in providing an example of an FMCE equivalent which SFCs might wish to use internally (this would not be a requirement and SFCs would not need to share with EFA).
20. The EFA and SFCF would welcome comments and queries on any of the issues raised in this paper, including suggestions as to what should be included within the subsequent guidance referred to in paragraphs 18 and 19 above. Contact details for the EFA and SFCF are as follows:

Education Funding Agency:

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Sixth Form Colleges Forum

Policy Support Officer Victoria Platt; victoria.platt@local.gov.uk

APPENDIX A: Response to Consultation

	Consultation Questions	Yes	No
1	Do you agree with the EFA's proposal to remove the mandatory requirement for internal audit for SFCs?	90 (83%)	18 (17%)
	<p><i>Key issues raised by respondents:</i></p> <ul style="list-style-type: none"> • Still believe some assurance is good, but welcome flexibility to set the agenda and target the use of Internal Audit resources • Board still has responsibility for seeking assurance over systems of internal control, governance and risk management • Will place additional burden on the Audit Committee to ensure suitable assurance arrangements in place • Brings arrangements into line with Academies / Corporate sector. 		
2	Do you agree with the EFA's proposal that if a SFC determines not to have an Internal Audit Service this decision is taken by the Corporation, under advisement from its audit committee, which itself will have fully considered the SFC's overall audit needs, and for the Corporation to keep these audit needs under annual review?	107 (99%)	1 (1%)
	<p><i>Key issues raised by respondents:</i></p> <ul style="list-style-type: none"> • Should be annual agenda item to keep under review • Board needs to be comfortable that sufficient assurance mechanisms in place overall • Decision should also be taken in conjunction with management / Principal (as Accounting Officer). 		
3	Do you agree with the EFA's proposal that if a SFC decides to maintain an Internal Audit Service the prohibition on one firm providing both external and internal audit and other assurance services should be removed?	80 (74%)	28 (26%)
	<p><i>Key issues raised by respondents:</i></p> <ul style="list-style-type: none"> • Perceived conflict in roles and responsibilities if both internal and external audit undertaken by one firm • Separation led to additional costs through duplication, so flexibility to decide welcomed • Market for internal audit may decline such that some firms decide to pull out thereby reducing choice and/or sector expertise • Desire to cut red tape is impeding the need for clear and separate accountability • There will need to be guidance from the EFA and/or sector bodies on the role of audit committees in ensuring audit(or) independence and objectivity • Needs greater clarity / guidance on when, or at what level, internal audit work might be seen to compromise independence 		

	Consultation Questions	Yes	No
	<ul style="list-style-type: none"> Separation brings with it a wider range of expertise and professional opinion. 		
4	Do you agree with the EFA's proposal to remove the requirement for SFCs to complete and submit FMCE returns annually?	103 (95%)	5 (5%)
	<p><i>Key issues raised by respondents:</i></p> <ul style="list-style-type: none"> Still provides useful guidance as to what is considered best practice and would wish that the EFA maintain the pro forma questionnaire Need to clarify if still required as part of the Common Inspection Framework Completion is source of valuable assurance to audit committees and should be retained, but requirement to submit to the EFA should be removed Need to ensure that not replaced by an alternate layer of bureaucracy. 		
5	Do you agree with the proposal that the EFA and SFA will, in consultation with local authorities, conduct a full review of the need for and content of detailed provisions to be contained in Part 2 of the JACOP and consult during 2012/13 on the provisions, if any, to come into force for 2013/14?	104 (96%)	4 (4%)
	<p><i>Key issues raised by respondents:</i></p> <ul style="list-style-type: none"> Early sight of the proposals would be appreciated as they will need plenty of time for detailed consideration Would prefer that JACOP (Part 2) be implemented as soon as possible to give clarity of requirements and remove uncertainty Will need consistency between EFA and SFA arrangements and/or two separate codes to ensure clarity of applicability to different institutions. 		