

## **YPLA Shadow Organisation**

### **A Proposal for Joint Assurance Arrangements Between Local Authorities, the YPLA and the SFA**

#### **Summary**

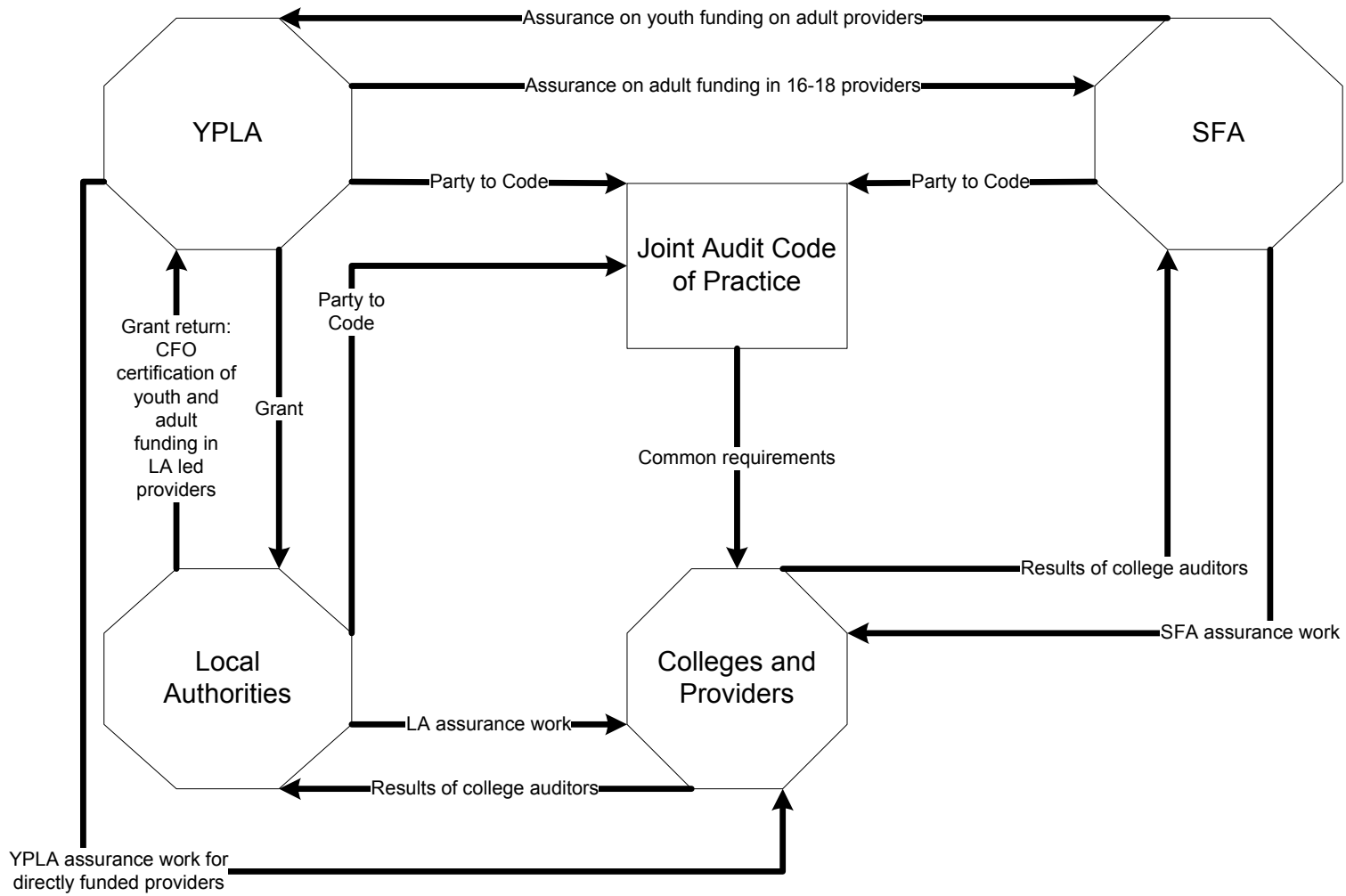
1. The proposal for assurance over use of funds paid to colleges and providers by LAs, the YPLA and SFA is that:

- LAs will perform assurance work on all funding, youth and adult, received by colleges and providers the LAs host
- The SFA will perform assurance work on all funding, youth and adult, received by colleges and providers the SFA hosts
- LAs will give assurance to the YPLA on all funding, youth and adult, received by colleges and providers the LAs host through their chief financial officers' grant returns to the YPLA
- YPLA will give assurance, through an exchange of accounting officer letters, to the SFA on all adult funding received by colleges and providers for which the YPLA or LAs are the host
- SFA will give assurance, through an exchange of accounting officer letters, to the YPLA on all youth funding received by colleges and providers for which the SFA is the host.

2. The YPLA, LAs and SFA will be parties to a Joint Audit Code of Practice (JACOP) that sets out the above. The JACOP will also:

- Describe parallel requirements on colleges and schools to have financial statements audit, regularity audit and internal audit as appropriate
- Set out common expectations of assurance coverage of colleges' and providers' use of funds by the YPLA, LAs and the SFA
- Cover other matters such as access by the DCSF, DBIS, the Audit Commission, the National Audit Office, the European Commission and others
- Set out the responsibilities of the departments' and agencies' accounting officers, of LAs' chief financial officers, and of college and providers' accounting officers as appropriate

- Give best practice and guidance to colleges and providers on selection and performance management of auditors they appoint and on the establishment and operation of audit committees where appropriate.
3. The arrangements are summarised in the diagram below.



## **Background**

4. From April 2010 local authorities (LAs), the Young Persons' Learning Agency (YPLA) and the Skills Funding Agency (SFA) will take over funding of further education from the Learning and Skills Council. Each of the successor bodies has clear financial accountabilities for this funding that must be discharged. Often, government bodies go their own way in securing financial accountability leading to overlapping and duplicated arrangements.

5. Each of the successor bodies is committed to avoiding this happening as part of the forthcoming changes. This commitment is captured in the principle of one provider, one audit whereby each learning provider should only have to deal with one of the successor bodies securing financial assurance on behalf of all.

6. Learning providers clearly benefit in that they will work with a successor funding body team with continuity of knowledge and an understanding of the entire funding relationship. Funding bodies will benefit in that they will need to do fewer audits requiring less resource and equally have a better understanding of the whole provider.

7. The difficulties in operating this principle between LAs, the YPLA and SFA should not be under stated. It might be that there is simply no precedent for central government accepting assurance from local government and vice versa. The SFA is likely to continue to have to account for the value of what providers have earned, whereas the YPLA and LAs can look more to certification of spending. The audit approach to evidence gathering that supports earning and spending accountability are significantly different. Making the model work will require enduring trust and goodwill on all sides.

### **YPLA Funding of LAs**

8. The YPLA will no longer fund sixth form colleges and most business and charitable providers of 16-19 learning. Instead, it will fund LAs that will fund these providers. YPLA funding will then be more like current LSC funding of schools with sixth forms for which the LSC holds schools to account for the value of schools' delivery of learning. Historically, assurance on LSC funding of schools has come from LSC direct audits of school pupil number returns bypassing the local authorities.

This approach accords to LSC assurance on other learning that is subject to direct funding audit.

9. YPLA funding of LAs will also resemble DCSF funding of pre-16 learning in LA maintained schools for which DCSF holds LAs to account for schools' spending of DCSF grant.

10. It is proposed that the YPLA adopt the DCSF assurance model. Under this model, local authority chief financial officers will, on notification of allocation, sign a statement confirming the proposed deployment of YPLA grant in the authority's budget. The chief financial officer will also certify actual spending of YPLA grant in a return to the YPLA. DCSF arrangements have proven acceptable to the National Audit Office (NAO). This is although DCSF do reconcile schools' allocations to actual performance based on the January school census and subject to tolerance adjust schools' allocations in June over the remainder of the DCSF financial year to March.

11. Secondary schools are obliged to comply with the Financial Management Standard in Schools (FMSiS). Chief financial officers are required to certify to DCSF the degree of their secondary schools' compliance with FMSiS and the YPLA will rely on DCSF receipt and monitoring of this certification.

12. Local authorities are also required to report in their annual financial statements on the authority's internal control. Authorities should consider their arrangements for allocating YPLA grant to schools including procedures for ensuring the robustness of pupil data.

13. Authorities should further be able to provide evidence, if required to by their internal auditors or financial statement auditors that demonstrates that the authority has effective procedures for forecasting pupil numbers at each school. The YPLA will rely on existing the DCSF requirement for this.

14. The Audit Commission is the auditor of LAs' annual financial statements. LAs' spending of and accounting for YPLA grant fall within scope of the Commission's

work. The YPLA will not ask for separate certification by the Commission of LAs' spending of YPLA grant.

15. LAs may however be asked to make a grant return to YPLA as part of year end accounting. The YPLA intends to recover the total of providers' under performances against allocation and also the total of errors arising from assurance. A return, even if not certified, may be needed.

16. The above arrangements represent a significant shift in the basis of YPLA assurance, from directly generated evidence to acceptance of LA statements.

### **SFA Assurance over Adult Funding in Youth Providers**

17. The SFA will continue to directly fund a large number of providers for adult learning. It is assumed that the SFA will continue to seek assurance from direct audit of these providers, as the LSC does now.

18. Under the principle of Youth one audit per provider the SFA would look to LAs for assurance on adult funding the SFA pays to sixth form colleges and other providers where LAs are the lead funding body.

19. Many of these other providers will in fact be LAs themselves that currently receive significant LSC adult funding, mainly adult safeguarded learning (ASL). The LSC abandoned its requirement of LAs to make an audited return on ASL some years ago. This was as ASL is effectively a block grant not related to learning activity and the LSC considered existing LA accountability to be robust for ASL. By contrast where the LSC paid LAs by results, for example for employer responsive learning, the LSC has performed direct funding audit of LAs as for all other providers. It may not be enough for the SFA to wholly rely on existing LA accountability for funding paid by results.

20. The SFA might be able to accept LA assurances based upon SFA guidance to LAs as to the frequency of audit work and nature of audit testing done. LAs may find this difficult to accept in light of their independence and resources available to deliver assurance.

21. In practical terms the YPLA may have to act as so between the LAs and SFA. The SFA will not fund LAs directly for learning delivered by sixth form colleges and other non-LA providers. The SFA may need its expectations on LAs to be captured in YPLA requirements and guidance to LAs. Equally, LAs' assurance returns may need to be to the YPLA rather than the SFA. The YPLA's Accounting Officer could provide the SFA Accountable Officer with assurances based on LA returns to the YPLA.

### **LAs' Assurance Over Youth Funding in Adult Providers**

22. The largest element of YPLA funding of LAs will be 16-18 youth learner responsive delivery at general FE colleges. LAs will pay general FE colleges for this under LAs' contracts with general FE colleges. As noted above, the YPLA proposes to rely on LAs' existing accountability arrangements for YPLA funding of LAs.

23. These existing arrangements include LA internal audit work at schools. Coverage varies by LA but may be a visit every two years to test the validity of the schools' pupil number based returns. LAs may wish to extend this coverage to sixth form colleges and will have to find the resources to do so. LAs' further extending audit coverage to YLR at general FE colleges will be a very much bigger task. Most general FE colleges receive significantly more YLR than sixth form colleges. General FE colleges are also significantly more complex to audit.

24. LAs may therefore wish to consider looking to assurances from the SFA on YLR funding of general FE colleges and a small number of non-college providers the SFA may lead on. SFA would need to agree standards for this coverage and the YPLA may need to transmit assurances to individual LAs with which the YPLA has a direct general grant agreement that the SFA does not.

### **16-18 Apprenticeships**

25. 16-18 apprenticeships will be funded by the DCSF via the YPLA. The YPLA will however pay the National Apprenticeship Service (NAS) and NAS will procure and pay for 16-18 apprenticeships to secure LAs' commissions.

26. Despite this different approach, it should be possible for assurance on 16-18 apprenticeships to be generated by LAs at providers they lead for and by the SFA for their providers. This would avoid the SFA needing to audit sixth form colleges and other youth providers and breaching the one provider, one audit principle.

## **YPLA Oversight of Sixth Form Colleges' Financial Management**

27. Sixth form colleges stand apart from all other private sector 16-19 learning providers in that there is considerable public interest in these colleges. College financial difficulty or financial failure will be a continuing concern of government in a way that it is not for business and charitable providers.

28. Local authorities fund and performance will manage sixth form colleges, including ongoing monitoring of their financial health. However, local authorities will be ill placed to offer sixth form colleges any financial support beyond short term solvency support. This is as local authorities will not be able to accumulate reserves from under delivery by the 16-18 providers they fund.

29. Instead, local authorities will look to the YPLA and ultimately DCSF to fund sixth form colleges' financial recovery plans. YPLA will only offer funding on its acceptance of a robust business case proposed by the LA that leads for the college.

30. The YPLA will require some line of sight to sixth form colleges' financial management and governance as a condition of accepting responsibility as funder of last resort. It is proposed this line of sight is maintained by YPLA External Assurance reviewing sixth form colleges' financial management and governance in parallel with OfSTED and as part of a joint team with the lead local authority's internal audit team. Sixth form colleges are inspected by OfSTED every three years on average. A financial management and governance review might typically need eight days' resource for all stages of the review (planning, visit, reporting, follow up). Taken across all sixth form colleges thus would be around seven hundred days over three years of which local authorities might bear half the work. That would be an average of 0.7 days per authority per annum (in reality more for those authorities with more colleges).

31. Colleges themselves are long accustomed to these reviews. OfSTED in principle wish parallel working to continue. The reviews also form an important part of the validation of colleges' financial management, a key performance indicator under the Framework for Excellence.

32. Reports from these reviews would be issued and followed up by the LA with YPLA input.

Peter Newson

11 August 2009