



Adult Education Budget (AEB) Provider Audit Update

To: Audit and Governance Committee

Meeting Date: 25 June 2021

Public report: Public Report

From: Janet Warren
Commissioner – Adult Education

Recommendations: The Audit and Governance Committee is recommended to:

a) Note the update being provided, to the Combined Authority's approach to auditing of providers, funded by the devolved Adult Education Budget.

Voting arrangements: No vote, noting item.

1. Purpose

- 1.1 To provide an update on the audit approach for the Adult Education Budget (AEB).
- 1.2 Updating the committee of the outcome of the two remaining external provider funding audits as discussed at the last committee meeting.

2. Background

- 2.1 Following the devolution of AEB to the Mayoral Combined Authorities and the Greater London Authority in August 2019, an agreement was made that the Education and Skills Funding Agency (ESFA) would undertake a funding assurance review on a sample of providers in receipt of AEB devolved funds for the funding year 2019 to 2020 (Year 1).
- 2.2 For Cambridgeshire and Peterborough Combined Authority (CPCA) this meant three providers out of fifteen were audited. The below assurance reviews were part of that sample.
- 2.2 Following the previous Audit and Governance Committee meeting both remaining funding audits have been completed, and we await the final audit report for just one. The update to the Committee is as follows:

2019 to 2020 Funding Year (Year 1) – Funding Assurance Review Results

| | |
|----------------------------------|---|
| 1. West Suffolk College | <p>Audit firm: Price Waterhouse Coopers Status: Completed 01 February 2021 Results: £0 funding errors identified, and satisfactory conclusion on the use of funds</p> <p>No action required.</p> |
| 2. Cambridgeshire County Council | <p>Audit firm: Mazars Status: Completed 20 April 2021 Results: £3,889 overclaim Error rate: 2.02% = satisfactory conclusion on the use of funds</p> <p>We have recovered the funding owed through offsetting monthly profiled payments due to the provider.</p> |
| 3. TCHC Group | <p>Audit firm: Mazars Status: Incomplete due to continued provider delays Results: £7,343 overclaim Error rate: 20.00% = unsatisfactory conclusion on the use of funds</p> <p>Awaiting final report however we intend to make a full recovery of the funds identified in the report.</p> |

Please Note that conclusion is based on sample error rate; 5% or above results in conclusion of unsatisfactory, otherwise the result is considered satisfactory.

2020 to 2021 Funding Year (Year 2) – Funding Assurance Approach

- 2.3 The Combined Authority intends to start the 2020/21 funding audits in July 2021, and we expect to receive the outcome reports in August 2021. We shall create our own audit working papers updated with our own funding guidance, to allow for full compliance testing against our funding and performance management rules.
- 2.4 Using a risk-based approach we have identified four of our AEB providers for planned funding audits for the current 2021/22 academic year. We are required to give four weeks' notice of the audit to providers.
- 2.5 The audits shall take place within the current academic year, so that any funding errors can be corrected in-year via the Individualised Learner Record (ILR), which is the data record for adult education and main mechanism by which funding is claimed. Clawback of funding, arising from errors identified at audit will be recovered by 'offsetting' against future payments to providers.

Value for Money Review

- 2.5 Given that we have not commenced the Year Two Audit Plan, it is too early to start the value for money review. However, when comparing costs from another external audit firm, they have quoted £2,000 more compared with the contracted auditor's figure of £6,300. We have been advised that since our engagement, our chosen audit firms' costs have increased, however they have honoured an earlier quote with the lower rate.

Post-16 Audit Code of Practice 2021-21

- 2.6 The ESFA have made changes to the Post-16 Audit Code of Practice, whereby they now require all external auditors to conduct a funding audit before signing off the annual college financial statements. In previous years external auditors signed off college accounts without checking accuracy of income claims received through the Individualised Learner Record (ILR) data returns. Until now the ESFA provided assurance over use of funds by using auditors to check that providers evidence supported the data and the claims.
- 2.7 The implication of this change is that external auditors will now have to carry out more work than anticipated this summer to ensure all providers are compliant with the respective funding rules, and even though there are plenty of audit firms available – only four are able to complete the required funding assurance reviews.
- 2.8 The Combined Authority have not yet decided if we are going to follow suit.

2021 to 2022 Funding Year (Year 3) – Funding Assurance Approach

- 2.9 The start of the next Academic Year commences on 1st August 2021 and runs to 31st July 2022, the audit approach as described above for Year Two shall come to an end and the Combined Authority shall be required to implement a longer-term solution to providing Audit and Assurance over the use of AEB funds.
- 2.10 The Combined Authority will have the option to invite all four audit firms to tender for a Framework procurement for the Year Three audits and beyond, this is the approach that the ESFA has taken, and their new Framework begins next year. We intend to commence work on this with our in-house procurement team later this year to explore all options open to us.

Significant Implications

- 2.11 As described above, only four audit firms can conduct the required funding assurance reviews. The Combined Authority will need to ensure coverage with at least three of these firms should we decide that we require full assurance on all 15 providers each year, this is also to avoid conflict of interests where the external auditor is also appointed as the providers internal auditor. We could decide to audit fewer providers, this would keep costs down, and we would continue to monitor providers risk and seek assurance in other ways such as annual controls testing.
- 2.12 The Combined Authority has plenty of time to work through this and consider all options before deciding on our future audit work.

3. Financial Implications

- 3.1 During this academic year it has been necessary for the Combined Authority to seek its own assurance as to the effectiveness of providers' eligible spend on Adult Education. To fund our own audits of up to four providers per year, the likely cost would be £40,000 based upon applying similar resources for each audit as the ESFA regime and including the costs of producing our own working papers and assurance approach.
- 3.2 The costs of audit have been budgeted from the 3.4 per cent, AEB top slice that is used to facilitate the administration costs of the programme and will therefore have no effect on the wider Combined Authority budget.

4. Legal Implications

- 4.1 The Cambridgeshire and Peterborough Combined Authority (Adult Education Functions) Order 2018 conferred specified adult education functions of the Secretary of State onto the Combined Authority.

5. Other Significant Implications

- 5.1 NA

6. Appendices

- 6.1 NA