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Cylchlythyr

Circular

Revised Financial Memorandum and Audit Code of Practice

Date: 19 November 2008
Reference: W08/36HE
To: Heads of higher education institutions in Wales
Principals of directly-funded further education colleges in
Wales
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This Circular attaches the revised Financial Memorandum between HEFCW and institutions and the revised Audit Code of Practice, each of which takes effect retrospectively from 1 August 2008.

This document is available online, in large print, Braille, on CD and on audio CD and cassette. Should you or someone you know require this in an alternative format, please contact us on (029) 2068 2280 or email info@hefcw.ac.uk.

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Introduction

1. In May 2008 we issued for consultation a revised Financial Memorandum between HEFCW and institutions and also a revised Audit Code of Practice (Circular W08/18HE refers). Feedback was received from six HE institutions, the Wales Audit Office and auditors RSM Bentley Jennison.
2. The finalised versions of the two documents, taking on board as appropriate responses to the consultation, are attached at Annex A and Annex B.

Financial Memorandum

3. The key changes made to the Financial Memorandum (Annex A) are as follows:
 - Paragraph 11 emphasises that the governing body must have appropriate arrangements for internal control (the previous version of the Financial Memorandum simply referred to financial management and accounting).
 - Paragraph 16 makes it mandatory that the head of the institution is appointed as the 'designated officer'.
 - Paragraph 22 introduces a requirement that the institution must notify the Council of any event which is likely to have a material adverse impact on the financial position of the institution. This includes any significant and immediate threats to the HEIs financial position, significant fraud or major accounting breakdown (this point also is reinforced in the Audit Code of Practice, Paragraph 26).
 - Paragraph 30 emphasises the institution's responsibility for effective risk management.
 - Paragraph 32 reinforces the institution's responsibility for any funds they pass on to other bodies. It emphasises that the institution is responsible for ensuring it retains sufficient oversight of the provision if it passes funds to another body *unless* the body to which it is passing funds is also an HEI funded in Wales.

We would like to remind institutions in this context of HEFCW guidance issued in 2006 on partnership arrangements between HIM and FE institutions (Circular W06/11HE). In particular, institutions should note the reference at paragraph 5.4 of that guidance to the need to include in franchise agreements clauses which set out the HEI's responsibilities for financial accountability to HEFCW.

- Paragraphs 44 and 45, which relate to property acquisition and disposal of land and buildings, are a direct repeat of what is in the Financial

Memorandum between the Welsh Assembly Government and the Council, and therefore we did not think that it would be appropriate to amend them. When the Financial Memorandum between the Welsh Assembly Government and the Council is next updated we will see whether the paragraphs can be revised. In the meantime, HEFCW officers will be happy to discuss the impact of these paragraphs with any institution which is considering undertaking a capital development and believes the requirements might apply.

- Paragraph 48 removes a requirement for an institution to seek Council approval if its annual service cost of capital finance exceeded the lower of 4% of total income or half the surplus. Instead it focuses only on the 4% threshold.
- Paragraph 55 has been updated to reflect the current approach to full economic costing.
- No changes are proposed to Part 2 of the Financial Memorandum, the annual schedule of funds and conditions relating to each institution, apart from the need to update a few references in that document to Part 1 of the Financial Memorandum (see paragraph 6. below).

Audit Code of Practice

4. The key changes made to the Audit Code of Practice (Annex B) are as follows:
 - Paragraph 8 clarifies that the requirements of the Code apply not only to HEIs themselves but also to their related companies and other bodies which, indirectly, receive HEFCW funding.
 - Best practice documents on corporate governance and audit practices, such as the CUC Code of Practice, are used as reference material to replace guidance and procedures previously prescribed in the Code (e.g. Paragraphs 16, 35, 44, and 48)
 - Paragraph 27 increases the financial threshold to be used in determining the 'significance' of a fraud or financial irregularity from £10k to £20k.
 - Paragraph 37 removes the prohibition of cross-membership (except in the case of chairs) between institutions' audit and finance committees. Instead it highlights the risks and potential conflicts of interest that can arise with such cross membership.
 - Paragraphs 42 and 88 amend the deadline for audit returns to the end of January.

- Paragraph 44 references guidance provided in HEFCW's data audit circular (W07/27HE) that each HEI's audit committee should include reference in its annual report to the reports and assurances that it has received during the year in respect of the controls in place to manage the quality of data returns made by the HEI for funding purposes.
- Paragraph 63 states that institutions should consider market testing their internal audit provision at least every seven years. Paragraph 92 suggests the same minimum period of review for external audit provision.
- Paragraph 109 introduces as a new mandatory requirement the submission by each HEI's designated officer of an annual assurance return by the end of January (Annex B to the Code)
- We have removed the section in the previous version of the Code on the internal audit provision for HEFCW itself.

Individualised Financial Memorandum

5. Each institution will be issued separately with a copy of their individualised Financial Memorandum, which will include the institution's name at the appropriate places in paragraphs 1 and 68. The designated officer of each institution will be required to return to HEFCW a signed and dated copy of the Financial Memorandum for their institution.

Timing of implementation

6. The revised Financial Memorandum (Part 1) and the Audit Code of Practice take effect retrospectively from 1 August 2008. There are no major changes proposed to Part 2 of the Financial Memorandum, the annual schedule of funds and conditions relating to each institution. However, HE institutions should note that the following amendments will apply to the Financial Memorandum annual schedule for 2008/09:
 - The final sentence of paragraph 2 is amended to:

“These are set out in the revised Financial Memorandum circulated to institutions on 19 November 2008 via Circular W08/36HE.”
 - The second bullet of paragraph 3 is amended to:

“discloses the total emoluments of the Vice-Chancellor, Principal or higher paid employees in audited financial statements, as specified in HEFCW's current *Accounts Direction to Higher Education Institutions* Circular.”
 - The fourth bullet of paragraph 3 is amended to:

“provides the Council, or agents acting on its behalf, with whatever information the Council requires to exercise its functions under the 1992 Further and Higher Education Act (paragraph 24 of the revised Financial Memorandum refers) “

Further information

7. For further information, contact Dale Hall (Tel 029 2068 2280; email dale.hall@hefcw.ac.uk).

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Appendix

Introduction

General

1. This memorandum sets out the terms and conditions for the payment by the Higher Education Funding Council for Wales (HEFCW) of funds to the governing body of **(name of institution)**, out of funds made available by the Minister for Children, Education, Lifelong Learning and Skills.

Definitions

2. In this memorandum, the following definitions apply.

academic year: the 12 months from 1 August to 31 July;

accounting period: the period covered by the institution's audited financial statements, usually the 12 months from 1 August to 31 July;

capital expenditure: expenditure used to create or purchase a new asset, replace an existing asset, or refurbish or remodel an existing asset, whether or not that asset is subsequently capitalised;

Council: the Higher Education Funding Council for Wales (HEFCW). See also 'predecessor Council';

CUC: Committee of University Chairmen;

deficit: the historical costs deficit as given in the 'Note of historical cost surpluses and deficits' in the Statement of Recommended Practice (SORP): 'Accounting for further and higher education' (July 2007);

Designated officer: head of an institution responsible and accountable to HEFCW (and ultimately to the National Assembly for Wales) for ensuring that the institution uses HEFCW funds in ways that are consistent with the purposes for which those funds were given, and complies with the conditions attached to them. These include the conditions set out in the Further and Higher Education Act 1992 and in this financial memorandum;

Exchequer funds: Government grant or grant-in-aid. In the context of this Memorandum, the definition of such funds encompasses grant or grant-in-aid paid by the Council and its predecessor funding bodies, the Research Councils, and the Welsh Office to former voluntary and direct grant colleges, but not including funds provided by a local authority;

Exchequer interest: the contingent interest in the institution held by HEFCW, arising in accordance with HEFCW guidance from the use of exchequer funds in the form of specific capital funds. Such interest may create an obligation upon the institution to repay grant, or recognise a liability, on the occurrence of certain exceptional circumstances;

FRS: Financial Reporting Standard;

GAAP: Generally accepted accounting principles;

governing body: the university council, board of governors or other body ultimately responsible for the management and administration of the institution's revenue and property, and the conduct of its affairs;

HEFCW: Higher Education Funding Council for Wales;

HEI: higher education institution;

HESA: Higher Education Statistics Agency;

the institution: (name of institution);

licence: any licence other than a licence of residential accommodation to a registered student;

Minister: the Minister for Children, Education, Lifelong Learning and Skills;

month: calendar month;

WAO: Wales Audit Office;

overseas activities: those activities taking place outside the United Kingdom of Great Britain and Northern Ireland;

PFI: Private Finance Initiative;

PPP: public-private partnership;

predecessor Council: the Universities Funding Council, including responsibilities inherited from the University Grants Committee under the Education Reform Act 1988;

providing body: the providing body of a former voluntary college directly funded by the Welsh Office;

QAA: Quality Assurance Agency for Higher Education;

SSAP: Statement of Standard Accounting Practice;

1992 Act: the Further and Higher Education Act 1992;

References to the **financial position, financial statements, financial commitments or borrowing of the institution** mean the consolidated financial position, financial statements, financial commitments or borrowing of the institution and its subsidiary undertakings, as defined in the Companies Act 1985 and revised by the Companies Act 1989, and in accordance with generally accepted accounting principles. **Shall** and **must** denote mandatory requirements, and **should** denotes the Council's view of good practice.

Application

3. This memorandum is in two parts. Part 1 (this document) sets out the terms and conditions which apply in common to all institutions. Part 2, the schedule for each institution issued each year, gives conditions specific to that institution, a schedule of funds available in the academic year, and the educational provision the institution has agreed to make in return for those funds. References to this memorandum embrace both Part 1 and Part 2.

4. Nothing in this memorandum shall require the institution to act in a manner which would cause it to lose its charitable status, or which would be inconsistent with its charter and statutes.

Scope

5. The terms and conditions in this memorandum apply to all HEIs in Wales.

Compliance with financial memorandum

6. The responsibility for ensuring that the institution complies with this memorandum and related guidance rests with the governing body of the institution.
7. In exercising its powers under this memorandum, the Council will act reasonably at all times.

Responsibilities of the Council

8. Payments to the institution by the Council are in support of activities specified in section 65(2) of the 1992 Act, namely:

For higher education institutions:
 - a. The provision of education and the undertaking of research;
 - b. The provision of any facilities, and the carrying on of any activities, which the governing body of the institution considers it necessary or desirable to provide or carry on for the purpose of, or in connection with, education or research.
9. Payments will be subject to the provisions of the 1992 Act, the conditions set out in this memorandum, and such terms and conditions as the Council may from time to time prescribe in accordance with the 1992 Act, and after the consultation required under section 66(1) of the Act. In accordance with section 65(3) of the 1992 Act, the payment of funds will be subject to such terms and conditions as the Council may impose, including those set out in this memorandum. However, in accordance with section 65(4) of the 1992 Act, these terms and conditions will not relate to the application by the institution of any funds not derived from the Council. In determining what funds to allocate to the institution, the Council does not wish to discourage the institution from maintaining and developing its funding from other sources, in accordance with section 66(2) of the 1992 Act.
10. The Chief Executive of the Council has been appointed as its Accounting Officer. As such he is responsible and accountable to the National

Assembly for Wales for ensuring that the funds received from the Minister for Children, Education, Lifelong Learning and Skills, or successor, are used for the purposes for which they were given, and in ways that comply with the conditions attached to them. The Chief Executive is also responsible for promoting good value for money through grants paid to institutions and associated guidance.

11. As part of these responsibilities the Chief Executive must be satisfied that the governing body of the institution has appropriate arrangements for internal control (including financial management and accounting), and that the Council's funds are used for the purposes for which they were given.
12. In his role as Accounting Officer, the Chief Executive of the Council shall inform the institution's governing body and/or its audit committee if he has serious concerns about the institution's financial affairs or system of internal controls.
13. In his role as Accounting Officer, the Chief Executive of the Council may suspend the payment of grant, either in whole or in part and either permanently or temporarily, if in his opinion it is appropriate and reasonable to do so in order to safeguard public funds.

Responsibilities of the institution

Stewardship

14. The governing body of the institution is responsible for ensuring that funds from the Council are used only in accordance with the 1992 Act, this memorandum and any other conditions that the Council may from time to time prescribe.
15. The governing body has a wide discretion over its use of public funds, and is ultimately responsible for the proper stewardship of those funds. Therefore it must ensure that it exercises its discretion reasonably, and takes into account any relevant guidance on accountability or propriety issued from time to time by the Council, the WAO or the Audit Committee of the National Assembly for Wales.

Designation of designated officer

16. The governing body shall appoint the head of the institution as the 'designated officer', and shall notify the Council whenever it designates such an officer. The designated officer will need to satisfy the governing body that the conditions in this memorandum are complied with, and may be required to appear before the Audit Committee of the National Assembly for Wales alongside the Chief Executive of the Council on matters relating to grants to the institution.

17. The designated officer shall advise the governing body if, at any time, any action or policy under consideration by the governing body appears to the designated officer to be incompatible with the terms of this memorandum. If the governing body decides nevertheless to proceed, the designated officer must immediately inform the Chief Executive of the Council in writing.

Financial management

18. The governing body of the institution must ensure that it has a sound system of internal management and control.
19. The governing body of the institution shall plan and conduct its financial and academic affairs to ensure that it remains solvent and that, taking one accounting period with another, its total expenditure is not greater than its total income.
20. In meeting the requirement in paragraph 19:
- a. The institution shall not have a historical cost deficit in two consecutive accounting periods unless there are sufficient discretionary reserves¹ to cover the deficit. A deficit of less than 0.5 per cent of total income as defined in the audited financial statements for the year in question, or £300,000, whichever is the lower, will not be taken into consideration for these purposes;
 - b. Negative discretionary reserves must be cleared by the end of the third accounting period after the year in which the deficit began to accumulate. (That is, negative discretionary reserves occurring by the end of year 1 must be cleared by the end of year 4.) An accumulated deficit will be regarded as cleared if it is less than 0.5 per cent of total income as recorded in the institution's financial statements for the latest accounting period, or £300,000, whichever is the lower.

For the purposes of paragraph 20 only, any pension scheme deficits included on an institution's balance sheet following the implementation of FRS 17 should be excluded. It is still expected that institutions will work towards improving any pension scheme deficits.

21. The Council may, at its discretion, waive these conditions and substitute others on written application from the institution.
22. The institution shall notify the Council of any event that has, or is likely to have, a material adverse impact on the financial position of the institution,

¹ Discretionary reserves comprise general (rather than specific) endowments and income and expenditure account reserves as defined in the Statement of Recommended Practice: 'Accounting for further and higher education' (July 2007).

as soon as this becomes apparent. It should also notify Council of any serious weakness, such as a significant and immediate threat to the HEI's financial position, significant fraud or major accounting breakdown.

Value for money

23. The governing body is responsible for delivering value for money from public funds. It should keep under review its arrangements for managing all the resources under its control, taking into account guidance on good practice issued from time to time by the Council, the Auditor General for Wales or the Audit Committee of the National Assembly for Wales.

Provision of information

24. The institution shall provide the Council, or agents acting on its behalf, with whatever information the Council requires to exercise its functions under the 1992 Act. This information shall be of a satisfactory quality and shall be provided at the times and in the formats specified by the Council or its agents.
25. The Council will act reasonably in its requests for information and will have regard to the costs of providing this information, and, where appropriate, to its confidentiality.
26. If the institution fails to return information required by the Council by the specified deadline, or that information is not of a satisfactory quality, the Council reserves the right to do either or both of the following:
- a. To carry out whatever investigations it deems necessary to collect the data. All or part of the cost of such investigations may, where circumstances warrant it, be deducted from the institution's recurrent grant;
 - b. To use its own reasonable estimates of data which it requires to exercise its functions under the Act.
27. If the institution is overpaid grant as a result of the Council using estimated data, the Council reserves the right to recover any overpaid grant, plus interest, in accordance with paragraph 38 below.
28. Institutions will, from time to time, be asked to provide data that they have collected to HEFCW or to other bodies acting on the Council's behalf. At present, HESA acts as an agent both for the institution and for the Council in collecting information required by the Council and passing that information to the Council and/or to the Welsh Assembly Government on behalf of the Council. These data will often contain personal details for students and/or staff. To ensure that institutions and the Council can fulfil

their duties under the Data Protection Act 1998 (including advising data subjects about what data will be processed and the purpose), institutions should satisfy themselves when collecting data that students and/or staff are aware of these possible requirements and have given their consent. The institution will co-operate with the Council as reasonably necessary to ensure that the Council and HESA, or any other agents of the Council, are able to comply with the Data Protection Act 1998 in processing information supplied by the institution. It is for each institution to decide what they tell students and/or staff based on good practice and guidance, such as HESA model collection notices.

Legislative requirements

29. Institutions should have due regard for all legislative requirements placed upon them and their governing bodies. In the area of equality and diversity, specific requirements are in place in relation to race, disability and gender, including having regard to the need to eliminate discrimination and promote equality of opportunity and good relations between all sections of society. Legislation also covers discrimination on the grounds of age, religion/belief and sexual orientation. These requirements reflect the legislative obligations placed upon the Council itself, and will help inform the Council's risk assessment of institutions.

Risk management

30. The institution must ensure that it has an effective policy of risk management (incorporating appropriate insurance arrangements). Risk management arrangements should consider the key principles set out in the HEFCW's Accounts Direction to HEIs, which notes that effective risk management:
- covers all risks – governance, management, quality, reputational and financial. However it is focused on the most important key risks;
 - produces a balanced portfolio of risk exposure;
 - is based on a clearly articulated policy and approach;
 - requires regular monitoring and review, giving rise to action where appropriate;
 - needs to be managed by an identified individual and involve the demonstrable commitment of governors, academics and officers;
 - is integrated into normal business processes and aligned to the strategic objectives of the organisation.

Allocation and payment of funds

31. The Council will determine the amount of funds to be allocated to the institution in any year and may, in its allocations, distinguish between recurrent and capital funds. The Council may also, in its capital

allocations, distinguish between formula capital funds and project capital funds.

32. The institution shall only use Council funds for the activities eligible for funding as specified in sub-sections 65(2)(a), (b) and (c) of the 1992 Act. This condition also applies where the HEI passes on a part of its HEFCW grant to another legally distinct entity for provision of an activity which is eligible for funding. That includes passing on grant to colleges in the further education sector.
 - a. The HEI remains accountable for the funds and must retain sufficient oversight such that it can ensure that the funds are used for qualifying purposes under the Act. This oversight should cover, among other areas, both financial accountability and quality assurance. A written statement of the arrangements should be agreed by both parties. This statement should ensure that the chain of accountability for the use of Council funds is not broken, and that the relevant parts of the financial memorandum apply to the eventual user of the funding.
 - b. This applies except in cases where the body to which the HEI passes funds is also an HEI funded in Wales.
33. The institution shall use any funds which the Council has earmarked or provided for specific recurrent or capital purposes, solely for those purposes.
34. If any Council funds which were earmarked or provided for specific purposes are used for other purposes, the institution must report such use to the Council as soon as it becomes aware of it.
35. The Council will normally pay formula funds to the institution in monthly instalments, in accordance with a funding profile for the academic year which takes account of expected need within the higher education sector as a whole, and receipts of tuition fees from students and the Student Loans Company.
36. The Council will also be prepared, on written application from the institution, to consider making exceptional or ad hoc payments from an institution's existing overall grant allocation. However such payments will not be made in advance of the institution's need to spend the money.
37. The main allocations for teaching and research will be notified to the institution as soon as possible in advance of the academic year to which the funds relate. Other grants will be announced as and when they are determined by the Council.

Repayment

38. Under section 65(4) of the 1992 Act the Council may require repayment by the institution, in whole or in part, of funds received from the Council if the institution fails to comply with any terms and conditions attached by the Council to the payment of funds.
39. The Council has a statutory responsibility to secure that assessment is made of the quality of provision it funds, and reserves the right to impose financial sanctions and/or withdraw funding from an institution where the Council considers the quality of provision to be unsatisfactory.
40. The Council also reserves the right to require the institution to pay interest, at 2 per cent over the Bank of England base rate, in respect of any period during which a sum due to the Council under this or any other condition remains unpaid.

Estate management

41. The institution shall manage and develop its estate with regard to the guidance issued from time to time by the Council on estate procedures.
42. The institution shall keep its holdings of land and buildings under review, with the objective of rationalising and disposing of those which it considers, in light of its estate strategy, to be no longer needed.
43. The institution shall maintain its estate in accordance with a maintenance plan, covering its long-term and routine maintenance requirements.

Property Acquisition and Disposal of Land and Buildings

General

44. If grant from the Council is used by the institution to acquire an interest in or to develop any land or buildings, to pay rent or to repay debts or to pay interest on any outstanding debt in respect of land or buildings:
 - 44.1 No transaction significantly affecting the value or ownership of the property shall be entered into by the institution without the written consent of the Council;
 - 44.2 If the property or any interest in it is disposed of the institution shall pay to the Council:
 - 1) In cases where the property or interest was acquired or developed wholly with the aid of grant from the Council or its predecessors, all the proceeds of the transaction

Model financial memorandum between HEFCW and institutions

(including any element in respect of intangible assets disposed of as part of the transaction) after deduction of the expenses of the transaction: or;

- 2) In cases where an outstanding debt was repaid or interest thereon paid wholly or in part with the aid of grant, that proportion of the proceeds (after deduction of the expenses of the transaction) which corresponds to the proportion of the sum of the grant payments to the aggregate cost of the acquisition of the property: or;
- 3) In other cases the proportion of the proceeds (after deduction of the expenses of the transaction) which corresponds to the proportion of the aggregate cost of the acquisition or development which was discharged out of the payment from the Council or its predecessors.

44.3 If the property is leased for use for activities other than vacation lettings or those eligible for funding by the Council under section 65(2) of the 1992 Act, then rent or an appropriate proportion thereof (after deduction of any ground rent or other charges, administration costs and any expenditure necessary to keep the property in a state to command that rent) shall be paid to the Council.

45. The Minister for Children, Education, Lifelong Learning and Skills may, after consultation with the Council, specify conditions under which s/he would waive the application of paragraph 44. The present policy on waivers is set out in the appendix to this memorandum. If, pursuant to such a waiver, the institution uses proceeds of sale or rent to acquire an interest in, or to develop, any land or buildings, the conditions in paragraph 44 will apply to the funds so used. Conditions similar to those of paragraph 44 have normally been imposed in the past as conditions on the provision of Exchequer funds otherwise than through the Council for the acquisition of an interest in the development of any land or buildings, to pay rent or to repay debts, including associated interest payments, in respect of any land or buildings. Under section 69(4) of the 1992 Act, the Minister for Children, Education, Lifelong Learning and Skills has directed the Council to be her/his agent in enforcing conditions similar to those in paragraph 44 relating to the disposal or leasing of assets acquired with grant paid by her/his predecessors.

Financial commitments

46. It is the Council's responsibility to protect the public investment in institutions. To help fulfil this responsibility, and in its role of monitoring the financial health of the sector, the Council will require the institution to satisfy certain conditions relating to long-term and short-term financial commitments. These conditions are set out below. These conditions are no more than the Council would expect the institution to be able to demonstrate in all cases, irrespective of whether Council consent is being sought

Long-term financial commitments

47. The conditions that the Council requires to be satisfied when an institution undertakes any long-term financial commitment are:
- 47.1 Any new investment should be consistent with the institution's strategic plan and estate strategy and should represent the best value option;
 - 47.2 Any new financial commitment, or refinancing arrangement, should be consistent with the institution's financial strategy and represent best value;
 - 47.3 The institution must be able to meet its financial commitments without recourse to additional grant from the Council, and its ability to maintain financial and academic viability must not be impaired as a result of its financial commitments;
 - 47.4 The institution's governing body has taken an informed decision regarding any new investment and any new financial commitment or refinancing arrangement.
48. The institution shall obtain written Council consent before it undertakes such a level of financial commitment that the annualised servicing costs of all long-term financial commitments exceed a threshold of 4 per cent of total income, as reported in the latest audited financial statements, or the estimated amount of total income for the current year if that is lower.
49. The annualised servicing costs of the financial commitments consist of the costs of capital repayments and total interest costs spread evenly over the period of the financial commitments. If there is an option (as opposed to a commitment) to extend any borrowing to a longer term, then the annualised servicing costs will still be measured on the original term.

50. In assessing total long-term financial commitments and total income, all inherited debt and lease payments which are fully reimbursed by the Council, and all such reimbursements, shall be ignored.
51. For the purposes of paragraphs 47 to 49, capital finance includes borrowing, finance and operating leases, and other schemes, such as Private Finance Initiative (PFI) or Public/Private Partnership (PPP) projects, where the substance of the transaction is akin to borrowing, in line with the principles of Financial Reporting Standard (FRS) 5 – ‘Reporting the Substance of Transactions’. If a PFI/PPP project is not recognised in the balance sheet because, for example, sufficient risk is transferred or ownership of the asset does not revert to the institution, then the Council must be informed where the agreement is of a duration greater than five years and the amount payable per annum is more than 5% of total annual income, or £1 million, whichever is the lower.
52. Under Section 69(4) of the Act, the Minister has directed the Council to exercise on his/her behalf his/her functions in respect of an interest in or development of any land, building or other asset which was acquired by the institution using funds provided by him/her and where those funds were provided subject to a condition which has the effect of requiring the institution to obtain the Minister’s consent before raising capital finance on the security of those assets. In exercising its functions under this provision the Council will require the institution to obtain prior written consent from the Council where the institution wishes to grant security over such an asset. In seeking such approval from the Council the institution should demonstrate to the Council in writing its compliance with the conditions set out in paragraph 47.

Short-term financial commitments

53. The conditions that the Council requires to be satisfied when an institution undertakes any short-term financial commitment are:
- a. That short-term financing is the most appropriate solution;
 - b. The proposed financing arrangement is consistent with the institution’s financial strategy;
 - c. The institution’s governing body has taken an informed decision regarding the short-term financing arrangements.
54. The institution shall obtain written Council consent before its negative net cash – as determined on a cash book basis and as defined in FRS 1 (revised 1996): ‘Cash Flow Statements’ – exceeds the lower of 5 per cent of total income or £2m, for more than 30 consecutive calendar days.

Costing and pricing of activities

55. As part of ensuring its long-term viability, an institution should know the full cost of its activities and use this information in making decisions. If it does not seek to recover the full cost, this should be the result of a clear policy set by the governing body and included in the financial strategy, and should not put the institution in financial difficulty. HEFCW funds should not be used to subsidise non-public activities.

Financial statements

56. The institution shall keep proper accounting records and shall prepare financial statements in respect of each accounting period. The institution shall provide the Council with three copies of its audited financial statements for the accounting period by 31 December following the end of the accounting period. The institution shall make reasonable arrangements to make copies of the financial statements publicly available.
57. The institution shall ensure its financial statements comply with the Accounts Direction issued from time to time by the Council. The Accounts Direction will cover what information is to be in the financial statements, how they are to be presented, and the methods and principles for preparing them in accordance with Generally Accepted Accounting Principles.
58. The financial statements shall be signed by the designated officer and by the chairman or one other member of the governing body as appointed by the governing body. If the institution is a company, the requirements of the Companies Act 1985 (as revised by the Companies Act 1989) for signatories to the financial statements shall apply.

Audit

59. The governing body of the institution shall appoint an audit committee, and arrange to provide for internal and external audit, in accordance with the Audit Code of Practice and any other directions drawn up and published by the Council in consultation with institutions. Any requirements mandatory under the Audit Code of Practice shall be a condition of grant under this memorandum.
60. The Council's Assurance Service will, from time to time, evaluate the institution's risk management, control and governance arrangements.
61. It may also carry out any additional investigations that it considers necessary. All or part of the cost of such additional investigations may,

where circumstances warrant it, be deducted from the institution's recurrent grant.

62. The institution shall provide the Council's Assurance Service with access to all books, records, information and assets. The Assurance Service can require any officer to give any explanation which it considers necessary to fulfil its responsibilities. The books and records of the institution shall also be open to inspection by the Auditor General for Wales.
63. The Council may carry out reviews designed to improve economy, efficiency and effectiveness in the management or operation of the institution, including value for money studies. The Auditor General for Wales may also carry out value for money studies of the institution's use of resources.
64. Welsh Assembly Government's internal auditors and/or the WAO may accompany the Council's Assurance Service on their visits to the institution. On such visits the Welsh Assembly Government's and/or WAO's auditors will be concerned only with the way the Council's Assurance Service are carrying out tasks, and will not themselves audit arrangements within the institution.

Other matters

Revision

65. After consultation with the institution, and such bodies representing the institution as the Council considers appropriate, the Council may from time to time revise, revoke or add to any of the conditions in Part 1 of this memorandum. The institution may itself make proposals to the Council for such changes.

Interpretation

66. Questions on the interpretation of any statement in this memorandum shall be resolved by the Council after consultation with the institution, and such bodies representing the institution as the Council considers appropriate.

Effective date

67. This memorandum shall take effect from 1 August 2008.

Signature of the designated officer

68. The designated officer of (**name of institution**) should signify below that they have received the financial memorandum, which sets out the terms and conditions for payment by the Higher Education Funding Council for Wales of funds to the governing body of (**name of institution**), out of funds made available by the Minister for Children, Education, Lifelong Learning and Skills.

Signed.....

Dated

Appendix

Circumstances under which an institution may retain proceeds of sale or rental income (paragraph 44)

- 1 Notwithstanding the provision of paragraph 44, the institution may retain proceeds of sale or rental income in the circumstances set out below.

Proceeds of sale

- 2 Where an institution, with the Council's approval, disposes of land or buildings (including leases for a term of 25 years or more) the institution may retain up to £200,000 of the proceeds of sale (or any premium payable on the grant of the lease) on the condition that;
 - a) the Council is told how the institution proposes to use such proceeds; and
 - b) such proceeds are used within three years of their receipt by the institution on building or adaptation work, long term maintenance, or the acquisition of property. Such proceeds may also be used for projects related to institution/industry collaboration, subject to the approval of the Minister for Children, Education, Lifelong Learning and Skills.
- 3 Where the institution disposes of land or buildings for which the proceeds are more than £400,000 the institution may, as an alternative to paragraph 2 and with the approval of the Council, retain up to half the proceeds for the purposes and on the conditions described in paragraph 2b above.
- 4 The institution may, with the Council's approval, retain up to 100 per cent of such proceeds where they are to be used within three years for the replacement of existing facilities in line with the institution's estates strategy.

Rental income

- 5 The Council may waive repayments of rental income where:
 - a) the property is in commercial use of benefit to the institution or to the academic community over and above the purely financial benefit of receiving an income.
 - b) the property is used to accommodate tenants displaced from other property acquired and developed for the institution's use; or
 - c) some different arrangement has been approved exceptionally by the Council in particular circumstances.

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Executive summary

Purpose

1. This Audit Code of Practice (the Code) sets out the Higher Education Funding Council for Wales' (HEFCW's) requirements for higher education institutions' (HEIs or institutions) accountability and audit arrangements and the broad framework in which they should operate. Compliance with the mandatory requirements of this Code is a requirement of the financial memorandum between HEFCW and HEIs in Wales and is therefore a condition of grant.

Key points

2. This Code replaces the 1999 version of the Code and the supplementary circular ARL/HE/9 issued in November 2002, with effect from 1 August 2008.
3. The Code has been streamlined to focus on the mandatory reporting requirements which institutions need to comply with. It now gives less detailed specifications for how audit arrangements in institutions should operate, and instead points readers to established and authoritative sources of guidance both specific to the sector, such as the Committee of University Chairs (CUC) guide for members of HEIs, the CUC Governance Code of Practice and handbook for members of Audit Committees in HEIs, and general auditing guidance and standards published by recognised professional bodies.
4. There has been considerable change in the funding of institutions since the previous version of the Code. Whilst public investment in the sector has risen so has investment from other sources including full-time undergraduate students who now pay higher fees. Whoever is paying for HE, they all expect accountability. There is also an expectation that HEFCW and other public bodies will work together to optimise regulatory interventions and operate as efficiently as possible. To achieve the best possible balance between accountability and autonomy governors, managers and auditors in institutions need to meet their obligations under this Code.

New requirements

5. The only additional requirement in this new Code is that we are seeking an annual assurance return from the designated officer in the form set out at Annex B to the Code. The purpose of the return is to confirm that the institution has met its obligations to HEFCW under the Code.

HEFCW chief executive

6. The HEFCW chief executive is its accounting officer. He is responsible for ensuring the proper and efficient use of public funds by HEFCW, by HEIs and by others who receive HEFCW funds, and for ensuring that Welsh Assembly Government (the Assembly Government) and relevant Treasury guidance is observed. The financial memorandum between the Assembly Government and HEFCW requires the issue of an audit code of practice for institutions. This is that Code.

Background

7. This Code states how effective accountability and audit coverage should be achieved. It sets out HEFCW's minimum requirements for the reporting of institutions' risk management, control and governance arrangements, internal and external audit arrangements. The Code also sets out the role and responsibilities of the HEFCW assurance service in relation to institutions. The Code's mandatory requirements are conditions of funding under the financial memorandum. These mandatory requirements are set out in Annex A.
8. The Code applies to the relationship between HEFCW and all HEIs in Wales – and in principle to their related companies (being any legal entities where the institution has control over or exercises a significant degree of influence over their activities) and other bodies which, indirectly, receive HEFCW funding. These include, for instance, subsidiary entities of HEIs – such as subsidiary companies, student unions and charitable funds – and they should pay appropriate regard to the Code. We also fund a small number of connected institutions through HEIs, which are also subject, indirectly, to this Code. Related companies guidance for higher education institutions was published by the UK funding bodies in December 2005 and can be found in the 'Finance and Assurance' section of HEFCW's website , www.hefcw.ac.uk.
9. Within the Code, 'must' and 'will' denote mandatory requirements and 'should' denotes HEFCW's view of good practice which it will look to institutions to follow.
10. We assess institutions' performance against this Code in two ways. Firstly, every report and return required under this Code, from each institution, is scrutinised on an annual basis by the HEFCW assurance service. Where institutions fail to report as required it is classed as non-compliance with conditions of grant. Secondly, each institution is subject to a brief three-yearly review to assess the extent to which its accountability performance can be relied on. The current three year cycle of reviews will be completed by the HEFCW assurance service in September 2009.

11. The Code is primarily for the use of institutions' governing bodies, audit committees, internal and external auditors and senior management. It may also be of interest to other stakeholders. More detailed advice on any aspect of the Code is available from the HEFCW assurance service.
12. The Code is not intended to be a manual. Institutions should develop their own audit manuals which detail specific arrangements and procedures for audit related matters.
13. It may be necessary, from time to time, for the Code to be updated. HEFCW intends to keep the operation of the Code under review and will consult interested parties before making any significant amendments, particularly where they affect mandatory requirements.
14. A glossary of terms used throughout this code is included as Annex C.
15. Where an institution receives funds from both HEFCW and the Welsh Assembly Government (for the provision of further education in accordance with the Learning and Skills Act 2000) the Code which will apply will be that derived from the body providing the greater proportion of funds to the institution. In this Code, references to funds received from HEFCW should also be taken to include any funds received from the Welsh Assembly Government for the provision of further education.

Corporate governance

16. The corporate governance arrangements of an HEI are the means by which strategy is set and monitored, the executive is held to account, risks are managed, stewardship responsibilities are discharged and sustainability is ensured. A more complete description of corporate governance in a HEI can be found in the guide produced by the Committee of University Chairs (CUC) – 'Guide for Members of Higher Education Governing Bodies in the UK'. Further details on this and other corporate governance documents and guidance can be found in the 'Finance and Assurance' section of HEFCW's website, www.hefcw.ac.uk. The responsibilities of a governing body as to conditions of HEFCW funding can be found in the financial memorandum.
17. The CUC Guide includes a Governance Code of Practice which CUC and all the UK Funding Councils, including HEFCW, commend institutions to evaluate themselves against. The principle should be that institutions 'comply or explain' and the outcome of each periodic evaluation should be published, ideally in the Corporate Governance Statement or Statement on Internal Control in the published financial statements.

The role of audit in the higher education sector in Wales

18. In accordance with the financial memorandum, HEIs must have effective risk management, control and governance arrangements to ensure public funds are safeguarded and used for the purposes for which they are provided. Other public bodies also have an interest in these control arrangements, including the Welsh Assembly Government, the Assembly Government's Department for Children, Education, Lifelong Learning and Skills (DCELLS), the National Assembly for Wales, Parliament and the UK Research Councils.
19. Each of these bodies makes appropriate arrangements to safeguard its interest. Each has its own auditors; however in practice there are only two groups engaged in regular audit investigation of an institution's systems and records – an institution's internal and external auditors. This is the same level of activity that is common in the private sector.

Parliament

20. Parliament's interest is to see that public funds are properly applied and accounted for and are used economically, effectively and efficiently by recipients. This role is formally discharged through the work of the Committee of Public Accounts. The Government of Wales Act 1998 provided for the appointment of an Auditor General for Wales and an Audit Committee which may take evidence on behalf of the House of Commons Public Accounts Committee if requested by that Committee.

The National Assembly for Wales

21. The Auditor General for Wales, head of the Wales Audit Office (WAO), is the external auditor of both the Welsh Assembly Government and HEFCW. He has the right to inspect the accounts of any institution that receives HEFCW grant or Assembly Government funding and to carry out value for money investigations. The Auditor General for Wales is selective in his use of inspection rights; most of his financial audit work can be undertaken at HEFCW and value for money studies normally involve only a sample of institutions at any one time. The Auditor General for Wales reports the results of his audit examinations to the National Assembly for Wales. His reports are considered by the Assembly's Audit Committee.

The Welsh Assembly Government and the Department for Children, Education, Lifelong Learning and Skills (DCELLS)

22. Public funds are channelled through DCELLS and the Principal Accounting Officer of the Welsh Assembly Government is accountable to the National Assembly for Wales for the funds which are issued to the Welsh Assembly Government. The HEFCW chief executive, as accounting officer for the public funds paid to the HE sector in Wales, must be satisfied that proper arrangements are being made to safeguard public funds. This is achieved through the financial memorandum between the Welsh Assembly Government and HEFCW, which requires HEFCW to have an audit service and appropriate accounting systems. The work of HEFCW auditors is examined by the Welsh Assembly Government's internal audit service, which may observe it at work in HEIs but does not audit HEIs itself.

HEFCW

23. Under the financial memorandum with the Welsh Assembly Government, HEFCW's chief executive is accounting officer for the funds received from DCELLS and is accountable to the audit committee of the National Assembly for Wales for them. This applies both to money we spend directly on our own operation, and to money spent by the HEIs and other entities that receive HEFCW funds. The HEFCW assurance service accordingly provides both the internal audit function within HEFCW, and assurance to the HEFCW chief executive on the arrangements within HEIs and other HEFCW-funded entities. This Code is principally concerned with the latter part of the service, namely arrangements in HEIs and other HEFCW-funded entities. However, the internal audit of HEFCW's arrangements is carried out in accordance with these same standards. In common with the arrangements in HEIs, there is an audit committee to assist the HEFCW chief executive and Council in discharging its accountability and audit responsibilities, in respect of both HEFCW, and HEIs and other HEFCW funded entities.

Institutions

24. The governing body of an institution is responsible for ensuring that funds from HEFCW are used only in accordance with the Further and Higher Education Act 1992, the financial memorandum, and any other conditions as prescribed by HEFCW from time to time. It is also responsible for ensuring that the financial and management controls established by the institution are sufficient to safeguard funds from HEFCW and ensure that those funds are used in accordance with the conditions under which they have been made available. In addition, institutions are responsible for

securing the economic, efficient and effective management of their resources and expenditure.

25. The financial memorandum requires the governing body to appoint the head of the institution as the 'designated officer'. The designated officer must satisfy the governing body that there is compliance with the terms and conditions of the financial memorandum. The designated officer may be required to appear before the National Assembly Audit Committee, or exceptionally the Public Accounts Committee of the House of Commons, alongside HEFCW's chief executive, on matters relating to the use of HEFCW funds.

Financial irregularities

26. In the event of any serious weakness, such as a significant and immediate threat to the HEI's financial position, significant fraud or major accounting breakdown, the designated officer must inform, without delay, the chair of the HEI's audit committee, the chair of the HEI's governing body, the HEI's head of internal audit and the HEFCW chief executive. On receiving any such notification, the chief executive will discuss what response to make with the HEI's governing body or designated officer, including any action to be taken. If a matter requiring report is discovered by external or internal auditors in the normal course of their work and the designated officer refuses to make a report, the auditors must report directly to the chair of the HEI's audit committee, the chair of the HEI's governing body and the HEFCW chief executive. This is to ensure that the HEI has taken appropriate action.
27. In this Code, such a 'serious weakness' includes one that has resulted in an attempted, suspected or actual significant fraud or irregularity. Significant fraud or irregularity is usually where one or more of the following apply:
- the sums of money involved are, or potentially are, in excess of £20,000
 - the particulars of the fraud or irregularity are novel, unusual or complex
 - there is likely to be public interest because of the nature of the fraud or irregularity, or the people involved.
28. There may be cases of serious weakness that fall outside this definition. In these cases or any others, HEIs can seek advice or clarification from the HEFCW assurance service. In view of the public interest, HEIs should normally notify the police of suspected or actual fraud. Where the police are not notified, management should advise the institution's audit committee of the reason. The HEFCE publication "Fighting fraud in Higher Education" (HEFCE 99/65) provides further guidance for preventing, detecting and investigating fraud.

General principles for internal and external auditors

29. These general principles for auditors are intended to supplement, not replace, those issued by the recognised professional bodies (including the Ethical Standards issued by the Auditing Practices Board), which we expect auditors to also follow. The principles set out our requirements for the standards for HEIs' internal and external auditors, and are the standards to which our own auditors operate, in recognition of the high level of probity demanded where public funds are involved.

Objectivity

30. Auditors should ensure that the HEI's audit committee is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence. In particular, auditors should avoid the following:
- a. Official, professional and personal relationships which might cause the auditor to limit the extent or character of the audit.
 - b. Any responsibility for the executive management of the HEI.
 - c. Any interest, financial or non-financial, direct or indirect, in the HEI (other than the normal employee or contractor relationship, or the funding of any prize, scholarship or academic appointment).
31. Notwithstanding the need for objectivity, the external and the internal auditors of an HEI should aim to ensure that their work programmes complement each other to optimise the effectiveness of their services.

Dual appointments

32. Provision of both internal audit and external audit services to an HEI by the same firm or provider is not permitted under this Code, as this compromises auditors' objectivity. External auditors need to form a view on the quality and coverage of the internal auditors' work, to determine the extent to which they can rely on this to underpin their own work. It is not acceptable for a firm to provide an opinion as external auditor about the same firm's work as internal auditor. Governors and managers need such opinions to be objective and independent. It is also useful to governors and managers to obtain two independent views on risk management, control and governance, reflecting the different perspectives of internal and external auditors.

Due professional care

33. Internal and external auditors are expected to exercise due professional care in their work and should refer to the published standards of their professional bodies (ICAEW, ACCA, CIPFA, IIA) for further guidance.

Audit committees in higher education institutions

Scope

34. The governing body of an HEI must ensure that it is fulfilling its responsibilities for adequate and effective risk management, control and governance, and for the economy, efficiency and effectiveness (or value for money (VFM)) of the HEI's activities. To assist in this, the financial memorandum requires the governing body to establish an audit committee.

Operation

35. The way an audit committee in an HEI should operate and be constituted is set down in the guidance handbook for members of audit committees of HEIs published by the CUC in February 2008. Further details on this and other corporate governance documents and guidance can be found in the 'Finance and Assurance' section of HEFCW's website, www.hefcw.ac.uk.)
36. HEFCW's position is that governing bodies and audit committees should conduct themselves in line with the CUC's principles and practices, and that where they differ then this should be explained and made public. Overall we aim to be content to rely on the accountability provided by an audit committee following CUC practice and by a governing body able to exercise accountability on behalf of external investors. We therefore support the principle of an external majority on a HEI governing body.
37. Audit committee members should not be members of a finance committee or its equivalent. This creates the potential for a conflict of interest when the audit committee is considering decisions involving the finance committee. If an HEI's governing body determines that a minimal (no more than one) cross-representation is essential, this should be the subject of an explicit, recorded resolution – but it should not be an option for the chair of either committee. The chair of the governing body should not be a member of the audit committee.
38. The clerk to the governing body, or some other independent officer, should normally be the clerk to the audit committee. Where the clerk has significant responsibilities at senior management level within the institution, the governing body should consider whether the independence of the clerk's position is compromised and whether the role should be transferred to someone else or whether sufficient safeguards can be built into existing arrangements.
39. The audit committee must have explicit authority to investigate any matters within its terms of reference and full access to information and personnel.

40. The audit committee is responsible for establishing effective audit arrangements for the institution and these should include:
- advising the governing body on the scope of audit coverage;
 - reviewing the mechanisms for the assessment and management of risk;
 - reviewing assurance mechanisms for ensuring compliance with corporate governance requirements;
 - consideration of significant audit findings, conclusions and opinions;
 - monitoring of responses to all audit recommendations to ensure effective action is taken;
 - monitoring the performance of the institution's auditors; and
 - consideration and approval of the institution's value for money strategy and reports on the arrangements in place for securing value for money.
41. Further guidance on the duties of the audit committee is provided in the CUC handbook for members of audit committees of HEIs

Reporting

42. The audit committee must produce an annual report for the governing body and the designated officer. The audit committee annual report must cover the financial year and include any significant issues up to the date of preparation of the report. The audit committee annual report should normally be submitted to the governing body before the members' responsibility statement in the annual financial statements is signed. The internal auditor's annual report as well as the audit committee report must be submitted to the HEFCW assurance service by the end of January. This informs our risk assessment of institutions. Where an institution's financial position is categorised by HEFCW as unsatisfactory (category D), copies of all internal audit reports must be sent to the HEFCW assurance service.
43. The audit committee annual report must include the committee's opinion on the extent to which the governing body, in discharging its responsibilities, may rely on the institution's risk management, control and governance processes. The risk management element includes the accuracy of the statement of internal control included with the annual financial statements. The opinion should be based on the information presented to the committee.

44. The report should also record the work of the committee, and consider the following:
- the external auditors' communication with those charged with governance and the management letter
 - the internal auditors' annual report
 - audit reports and assurances received during the year in respect of the controls in place to manage the quality of data returns made by the institution for funding purposes (see HEFCW circular W07/27HE)
 - value for money work
 - any HEFCW assurance service or other relevant evaluation.
45. The report should highlight significant weaknesses identified and also any key issues for the institution arising out of its activity over the year Further guidance on the content of an audit committee's annual report is provided in the CUC audit handbook for members of audit committees of HEIs.

Internal audit arrangements in higher education institutions

46. Each institution is required, in accordance with the financial memorandum with HEFCW, to have an internal audit function.
47. The introduction of risk management in the sector, following the adoption of the revised Combined Code and associated principles from other sectors, has brought considerable change in the approach to governance, management and internal audit – moving away from a purely systems-based approach to one which primarily reflects inherent and perceived risk.
48. HEFCW guidance on internal audit practice in HEIs is that we endorse the approach set out in the Code of Ethics and International Standards (2006) of the Institute of Internal Auditors (IIA) and that organisation's Position Statement on Risk Based Internal Auditing (August 2003). Both of these documents are available from the IIA (www.ia.org.uk). Accordingly, we do not include in this Code detailed guidance on the practice of internal audit.
49. Within the HE sector the prime responsibility of the internal audit service is to provide the governing body, the designated officer and the other managers of the HEI with assurance on the adequacy and effectiveness of risk management, control and governance arrangements. Responsibility for these arrangements remains fully with management, who should recognise that internal audit can only provide 'reasonable assurance' and cannot provide any guarantee against material errors, loss or fraud. Internal audit also plays a valuable role in helping management to improve risk

management, control and governance, thereby reducing the effects of any significant adverse risks faced by the HEI.

50. Internal audit can also provide independent and objective consultancy advice specifically to help management improve risk management, control and governance, thereby contributing to the achievement of corporate objectives. Such advisory work contributes to the opinion which internal audit provides on risk management, control and governance.

Role and scope

51. An institution is required to ensure that it has effective risk management, control and governance arrangements. These help to ensure:
- that the institution's objectives are achieved and that associated risks are managed;
 - that there is adherence to management's policies, directives and established procedures, and compliance with any relevant laws and regulations including charities legislation;
 - that the economic, efficient and effective use of resources is promoted;
 - that the institution's assets and interests are safeguarded from losses of all kinds, including those arising from fraud, irregularity or corruption; and
 - that the integrity and reliability of accounting records, other information and data including internal and external reporting and accountability processes are maintained.
52. The scope of the internal audit service must embrace the whole of the HEI's risk management, control and governance arrangements including all its operations, resources, staff, services and responsibilities for other bodies. It should cover all activities associated with the institution, including those not funded by HEFCW. For example, it should consider controls that protect the HEI in its dealings with any subsidiary or associated company or student union, or any other activity in which the HEI has an interest.
53. Internal auditors should also assess the adequacy of the arrangements to prevent and detect irregularities, fraud and corruption. However, the primary responsibility for preventing and detecting corruption, fraud and irregularities rests with management, who should institute adequate systems of internal control, including clear objectives, segregation of duties and proper authorisation procedures. The internal auditors should be informed of all suspected or detected fraud to enable the adequacy of the relevant controls and any impact on the opinion on risk management, control and governance to be considered.

54. Internal auditors may carry out additional work at the request of management, including investigations, provided such work does not compromise the objectivity of the audit service or the achievement of the audit plan. Accordingly, each HEI's audit committee should satisfy itself that the objectivity of the internal audit service has not been affected by the extent and nature of other work carried out. Internal audit services should not have any management responsibilities other than for internal audit.
55. Internal audit should be seen to have sufficient status, respect and support within the HEI. To be effective, the head of internal audit – or equivalent where the service is provided on a contract basis – must have direct access to the HEI's designated officer and to the governing body (normally through the chair of the audit committee), and, if necessary, to the chair of the governing body. Whether provided internally or externally, day to day line management and overall reporting arrangements for the internal audit service should be such as to preserve its objectivity by avoiding concentration of responsibility and reporting with any one senior person within the HEI. Internal auditors must also have unrestricted access to all records, assets, personnel and premises, and be authorised to obtain whatever information and explanations are considered necessary by the head of the internal audit service.
56. As an integral part of its responsibility to evaluate the internal control system, internal audit will examine the controls established by management to secure value for money. In addition to this, the audit committee may consider it appropriate to use the services of the internal auditors to undertake specific value for money studies. The use of internal audit resources in this way should be included in the assessment of the institution's audit needs and in the plans derived therefrom, to ensure that an adequate basis exists for the provision of assurance on the risk management, control and governance arrangements.
57. When planning value for money studies, care must be taken to ensure that the independence of internal audit is not compromised. Further guidance on value for money is provided in the audit handbook for audit committee members in HEIs published by the CUC.

Reporting

58. The reporting requirements for any internal audit service are discussed in Government Internal Audit Standards (GIAS) and in IIA standards. It is a mandatory requirement of this Code that the internal audit service produce an annual report of its activities. The internal audit annual report must relate to the financial year, and include any significant issues up to the date of preparing the report which affect the opinion. This should be addressed to

the governing body and the designated officer, and should be considered by the audit committee. The audit committee may forward the report to the governing body with its own report. The report must be submitted to the HEFCW assurance service after it has been considered by the HEI's audit committee.

59. The internal audit annual report should include the internal auditor's opinion on the adequacy and effectiveness of the HEI's arrangements for risk management, control and governance. This opinion should be placed into its proper context: that is, the work undertaken has been based on the agreed audit strategy and on the areas reviewed in the year, as well as incorporating knowledge of areas audited in previous years (including from a previous auditor). Internal audit performance measures should be provided, including stating coverage achieved against the original audit plan. It should also draw attention to any significant audit recommendations which the internal audit service considers have not received adequate management attention.

Provision of service

60. There are a variety of ways to acquire an internal audit service, and we do not favour one approach above the others. One option is to appoint a head of internal audit and staff as necessary. An 'in-house' team may also be supplemented at a variety of levels by external consultants or contractors, under the direction of the head of internal audit, for instance to meet peaks in workload or to provide specialist skills.
61. Another option is to form a consortium with one or more HEIs, on a geographical or common interest basis. A consortium may be organised in-house, be provided externally or as a mixture of the two. A number of HEIs in the UK have set up such consortium arrangements.
62. A third option is to contract directly with an external provider, such as another HEI or an accountancy firm.
63. Each HEI, advised by its audit committee, should establish which is the most suitable and cost-effective way of obtaining internal audit services. However, every seven years at least it should consider market testing internal audit services since this provides a powerful incentive to maintain quality and cost effectiveness. Where internal audit is an in-house service, there should be periodic consideration of whether this continues to be the appropriate type of provision for the institution. Advice on market testing can be obtained from the HEFCW assurance service.

Performance and quality measurement

64. In all cases the audit committee should implement measures whereby the effectiveness of the internal audit service can be monitored on an ongoing basis. In addition, in order to discharge their responsibility for monitoring internal audit, the audit committee should review the effectiveness of internal audit and its compliance with relevant policies and standards. The audit committee should consider the performance measures used by internal audit. The external auditor should indicate the extent to which it has been able to rely on the work of the internal auditor and also draw to the attention of the designated officer and audit committee any significant weaknesses in their operation. The audit committee should use this information to contribute towards their annual assessment of the performance of the internal audit service.
65. Where the internal audit service is provided in-house, the audit committee chair should be consulted on the annual performance appraisal of the head of internal audit. This appraisal process is the responsibility of management.

Removal or resignation of auditors

66. Subject to normal staffing arrangements (for 'in-house' auditors) and any contractual arrangements in place, only the governing body (or the audit committee where delegated authority exists) may pass a resolution to remove the internal auditors before the end of their term of office if serious shortcomings are identified.
67. Where internal auditors cease to hold office for any reason, they should provide the governing body with either a statement of any circumstances connected with their removal which they consider should be brought to the governing body's attention, or a statement that there are no such circumstances. The internal auditors may also request an extraordinary general meeting of the governing body to consider the statement. Any such statements should also be sent to the HEFCW assurance service by the HEI – or, if it fails to do so, by the outgoing internal auditors.
68. Where possible, a change in internal auditors should be planned to coincide with the completion of a cycle of work and the submission of an annual report to the audit committee.
69. The governing body must inform HEFCW's assurance service without delay of the removal or resignation of the internal auditors and of the reasons.

Restriction of auditors' liability

70. Where the internal audit service is provided through a contractual arrangement with an external provider, the provider may ask the HEI to agree to a restriction in the auditors' liability arising from any default by the auditors. Normally such liability should be without limit. However, HEIs may negotiate a restriction in liability so long as the decision is made on an informed basis. The governing body, through the audit committee, should be specifically notified of and approve any request for a liability restriction.

Fraud

71. The work of the internal audit service, in reviewing the adequacy and effectiveness of the internal control system, should help management to prevent and detect fraud. The internal audit service should ensure that it has the right to review, appraise and report on the extent to which assets and interests are safeguarded from fraud. When internal auditors suspect fraud, or are carrying out a fraud investigation, it is important to safeguard evidence. They should assess the extent of complicity to minimise the risk of information being provided to those involved, and the risk of misleading information being obtained from them.
72. The HEI should ensure that the internal auditor is informed, as soon as possible, of all attempted, suspected or actual fraud or irregularity. The internal auditor should consider any implications in relation to the internal control system, and make recommendations to management, as appropriate, to strengthen the systems and controls.

Relationships with other auditors

73. There should be regular liaison between internal auditors and the HEI's external auditors to optimise the service provided to the HEI. External auditors should be given access to the internal audit service's working papers and plans so that their work programmes can be adjusted accordingly, and so that the extent of their reliance on the work of the internal audit service can be determined.
74. Copies of the internal audit service's reports should be available to the external auditors. The internal audit service should also receive copies of the external auditors' plans and management letters, and any other relevant reports produced for the HEI by other agencies.
75. The HEFCW assurance service must be allowed unrestricted access to any work of the internal auditor, including the annual report, or correspondence between the internal and external auditors.

External audit arrangements in higher education institutions

76. External auditors in the sector are expected to follow the 'Statement of Recommended Practice: accounting for further and higher education' (SORP) and also the 'Accounts Direction to Higher Education Institutions' published as a Circular every year by HEFCW. The audit of public funds is different from audit in the commercial sector, since auditors must also be concerned with the requirements of HEFCW.
77. The primary role of external audit is to report on the financial statements of institutions and to carry out such an examination of the financial statements and underlying records and control systems as is necessary to form an opinion on the statements. Their report must state whether, in all material respects, funding received from HEFCW (and other bodies and restricted funds where appropriate) has been properly applied for the purposes provided and in accordance with the institution's financial memorandum with HEFCW.
78. We accept that we are not the direct client of the external auditor and that the auditor does not have a duty of care to us. However, we require that external audit engagements in the sector meet the requirements of this Code.

Qualification of external Auditors

79. The criteria required for eligibility as external auditors of higher education institutions are as set out in Schedule 8 of the Further and Higher Education Act 1992. Institutions must ensure that their auditors are eligible for appointment as external auditors under the provisions of the Companies Act 1985. Auditors must be registered with one of the appropriate professional bodies, and conform to that body's standards.

Selection Criteria and Procedures

80. The governing body is responsible for appointing the external auditors, although it will usually delegate the detail of the process to the audit committee. Selection criteria and procedures should be determined by the institution in advance of receiving proposals and should be endorsed by the audit committee.
81. The respective duties of an institution and its external auditors should be presented clearly in agreed terms of reference in the letter of engagement. Model terms of reference for external auditors are provided in the audit handbook for members of audit committees in HEIs published by the CUC.

The HEFCW assurance service should be notified of any material difference between this model letter and the auditors' letter.

Additional Services

82. Whether or not the external auditors provide additional services, beyond the scope of the audit of financial statements, is generally a matter for the institution. However, any additional work must not impair the independence of the audit function. Generally, it is a matter for HEIs and auditors to agree precise requirements, although the audit committee must be informed of all significant facts and matters that have a bearing on the auditors' objectivity and independence, related to the provision of non-audit services, including the safeguards put in place.
83. The audit committee has a key role to play where the auditors supply a substantial amount of non-audit services. The committee must keep the nature and extent of such services under review, seeking to balance independence and objectivity with the HEI's needs.
84. In order to help judge the relationship between an institution and its external auditors, the institution must disclose separately, by way of a note to its financial statements, the fees paid to its external auditors for other services. Each HEI's audit committee must review both the level of fees incurred and the future planned work, and satisfy itself that the extent and nature of other work does not affect the objectivity of the external audit.
85. An institution's external audit service provider cannot also be the provider of the internal audit service to that institution.

Management letter

86. External audit should report to the institution by way of a management letter which highlights any significant accounting and control issues arising from the audit. The HEI's management should provide written responses to any recommendations made or issues raised. The Code is not prescriptive about the format or title of a management letter, but it should enable the HEFCW assurance service to see what observations have been made about the internal control system and how management has responded.
87. External audit should also indicate in the letter whether, or to what extent, it is content to rely on the work of the internal auditors in support of external audit work. These statements will be based on work which should already be carried out for the purpose of external audit. They provide information which is useful to the audit committee and to us in informing our risk assessment of institutions.

88. The letter, with management responses, should be made available (in draft if necessary) to the HEI's audit committee in time to inform the committee's annual report, and in any event no later than two months after issuing an opinion on the financial statements. HEIs must send a copy of the final management letter (incorporating management responses) to the HEFCW assurance service by the last day of January. External auditors should attend audit committee and/or finance committee meetings at which the audited financial statements are discussed, and attend governing body and other meetings when appropriate.

Audit report

89. The external auditors will report whether in all material respects:

- the financial statements give a true and fair view of the state of the institution's affairs and of its income and expenditure, recognised gains and losses, and statement of cash flow for the year. They should take into account relevant statutory and other mandatory disclosure and accounting requirements and the requirements of HEFCW;
- the financial statements comply where appropriate with the 'Statement of Recommended Practice: accounting for further and higher education' (July 2007), and the Companies Acts where relevant and/or other legislative or regulatory requirements;
- funds from whatever source administered by the institution for specific purposes, have been properly applied to those purposes and managed in accordance with relevant legislation and any other terms and conditions attached to them; and
- funds provided by HEFCW have been applied in accordance with the financial memorandum and any other terms and conditions attached to them.

90. HEFCW publishes as a Circular an annual accounts direction and institutions and their external auditors are required to conform to it. The accounts direction summarises and updates HEFCW's financial reporting requirements.

91. External auditors have a duty to consider the statement of internal control with the annual financial statements and to comment if the statement is inconsistent with their knowledge of the HEI. It is for each HEI to decide whether it wishes its external auditors to do more than this required minimum. Each HEI needs to ensure that processes are in place – including work by internal auditors, external auditors and management – to provide assurance on the effectiveness of the arrangements underpinning the statement of internal control. External auditors may report privately to the governing body (through the audit committee) on the results of their work on this, or may make reference to this in the financial statements, either in their audit opinion report or through a separate report.

Re-appointment of external auditors

92. Institutions should re-appoint the external auditors formally each year. The audit committee should assess the auditors' work each year to ensure that the institution is receiving a service of sufficiently high standard and provides value for money. The committee should then make an appropriate recommendation to the governing body regarding the re-appointment of the auditors. Performance measures should be used as part of the assessment process. Provided that the service is satisfactory, it will not be necessary to repeat the full selection process each year. However, full market testing should be undertaken periodically in accordance with the institution's procurement policies. Full market testing should be undertaken at least every seven years and the length of the term of office of the assignment partner should not exceed seven continuous years.

Removal or resignation of auditors

93. The governing body may, by resolution, remove the external auditors before the end of their term of office, in the event of serious shortcomings being identified.
94. External auditors who have resigned, or been removed from office for whatever reason, will be entitled to attend, and make representations to, the general meeting of the governing body at which their term of office would have expired, or at which it is proposed to fill the vacancy caused by their resignation or removal. They are entitled to receive notices of, or other communications relating to the meeting, and to be heard on any part of the business which concerns them as former auditors of the institution at that meeting.

95. As with internal auditors the governing body is responsible for advising HEFCW where external auditors cease to hold office and the reasons for this. In addition, the HEFCW assurance service must be sent a copy of any statement provided to the governing body by the outgoing auditors.
96. In deciding whether or not to accept the appointment, anyone proposing to take up the office of external auditor should obtain the HEI's permission to communicate with the outgoing auditors. Outgoing auditors should also obtain permission from the HEI to discuss its affairs freely with the proposed auditors, and should disclose all information required by the proposed auditors that is relevant to the appointment. These provisions are analogous to those in the Guide to Professional Ethics of the Institute of Chartered Accountants in England and Wales (ICAEW).

Restriction of auditors' liability

97. HEIs must not agree to any restriction in external auditors' liability in respect of the external audit of their annual financial statements, unless a liability limitation agreement has been entered into under the terms of the Companies Act 2006 and the Limited Liability Partnerships Act 2000.
98. For other types of work performed by the external auditors the provider may ask the institution to agree to a restriction in the auditors' liability arising from any default by the auditors. Normally, such liability should be without limit. Institutions are not prohibited from negotiating a restriction in liability, so long as the outcome takes into account the risks and potential consequences of any loss suffered as a result of negligence, the level of professional indemnity held and the wider interest of the institution's responsibility for public funds as set out in the financial memorandum. The governing body, advised by the audit committee, must consider and approve any request for a liability restriction.

HEFCW access to external auditors

99. On occasion, the HEFCW assurance service may wish to meet with institutions' external auditors, particularly in connection with a visit to the institution. Access should not be limited in any way by the institution. Formal discussions with the external auditors should normally be arranged through the institution's designated officer or representative. The HEFCW assurance service will exchange letters where necessary with both parties to deal with confidentiality and the terms under which access is given.

The role and responsibilities of the HEFCW assurance service

Role and scope

100. The HEFCW assurance service is responsible for evaluating the risk management, control and governance arrangements of HEIs and other entities funded by HEFCW, and for giving assurance on those arrangements to HEFCW's chief executive.
101. All the activities of HEIs are within the remit of the HEFCW assurance service. The HEFCW assurance service works in accordance with the standards for internal audit in the Government Internal Audit Standards issued by the Treasury, and guidance from relevant professional auditing and accountancy bodies. It will consider whether risk management, control and governance arrangements are adequate to manage risk and to secure propriety, efficiency, economy and effectiveness in all areas. It will seek to confirm that management has taken the necessary steps to achieve these objectives.
102. Subject to legislative constraints, the HEFCW assurance service has access to all records, information and assets of HEIs and other entities, and can require any officer, including members of the governing body, to give any explanation which it considers necessary to fulfil its responsibilities.
103. The HEFCW assurance service will liaise, whenever appropriate, with the Wales Audit Office, National Audit Office, the HEIs' internal and external auditors (collectively and individually), DCELLS, Scottish Funding Council, Higher Education Funding Council for England and any other appropriate HEFCW officer or relevant organisation. The HEFCW assurance service will also liaise with sector bodies as it seeks to promote good governance, management and auditing. Liaison is pursued both for effectiveness and to avoid duplication of effort.

Reporting

104. The HEFCW assurance service will report on HEIs' compliance with the relevant standards to the HEFCW's chief executive and audit committee. The HEFCW audit committee will also consider, and advise the chief executive on, any assessments of the HEFCW assurance service, including any reports that have been specially commissioned and any by the Welsh Assembly Government's head of internal audit.
105. The HEFCW assurance service will, when appropriate, draw the attention of the HEFCW chief executive and audit committee to serious weaknesses, significant frauds and any major accounting breakdowns.

106. The HEFCW assurance service will submit an annual report to HEFCW's chief executive and audit committee. This will include the HEFCW assurance service's assessment of the adequacy and effectiveness of the risk management, control and governance arrangements within HEIs and other entities funded by HEFCW; report on coverage achieved; and provide audit performance measures.

Ongoing risk assessment

107. We expect HEIs to notify us of significant changes and issues as they arise. This will help us to maintain the currency of the risk assessment of institutions. For example, changes of auditors, of key personnel (such as the finance director, or university secretary/registrar) or key systems changes (such as the implementation of a new finance information system) are potentially significant. We also need to be notified of material adverse changes in performance, such as under-recruitment, that could impact our assessment.

Annual accountability assessment

108. Every year the HEFCW assurance service will assess the extent to which each HEI's audit and related reports, supported by any other relevant information, demonstrate the effectiveness of risk management, control and governance arrangements. The work will take place after receipt of HEIs' financial statements and other audit returns. The conclusions from the assessments will be taken into account when HEFCW makes its overall assessment of each HEI's risks and financial position. Where HEIs' reports are not provided to us, or where they reveal inconsistencies or other concerns, we will take appropriate action. This may include the HEFCW assurance service undertaking audit work or asking for audit work to be done.

109. The specific sources of assurance that influence our assessment include the financial statements and reports of the audit committee and the internal and external auditors. In addition, we will require by the end of January the annual assurance return from the designated officer (see Annex B).

HEFCW assurance reviews at institutions

110. The HEFCW assurance service undertakes reviews at institutions once every three years with the objective of determining whether the institutions' reports and returns, including those specified in this Code, can be relied on. The HEFCW assurance service will need to undertake more frequent reviews or conduct different sorts of enquiries if an institution does not meet its obligations under this Code or gets into difficulty.

Data audits

111. HEIs are required to supply us with data to inform our allocations of funding generally, and in response to specific initiatives. To avoid duplication we will wherever possible use data that are already supplied through the Higher Education Statistics Agency (HESA). We have procedures for validating and verifying data. We also undertake data audit work in each institution. Further details of the data audit procedures are available on the HEFCW website (see HEFCW Circular W07/27HE).

Value for money

112. There is an underlying duty of care to ensure that public funds are spent on the purposes for which they are intended, and that good value for money is obtained. This duty falls on HEFCW and on the HEIs that we fund. Further guidance on this subject is available in the Audit handbook for members of audit committees in HEIs published by the CUC.

Mandatory requirements of the Audit Code of Practice

The following requirements within this Code are mandatory and represent conditions of funding under the financial memorandum with the HEFCW:

- The governing body is required to appoint the head of the institution as the ‘designated officer’. The designated officer must satisfy the governing body that there is compliance with the terms and conditions of the financial memorandum (paragraph 25).
- The designated officer must report any material adverse change – such as a significant and immediate threat to the institution’s financial position, significant fraud or major accounting breakdown – without delay to the chair of the audit committee, the chair of the governing body, the head of internal audit and the HEFCW chief executive. If a matter requiring report is discovered by the institution’s external or internal auditors in the normal course of their work and the designated officer refuses to make a report, the auditors must report directly to the chair of the audit committee, the chair of the governing body and the HEFCW chief executive (paragraph 26).
- Internal audit and external audit services must not be provided by the same firm or provider (paragraphs 32 and 85).
- The governing body must ensure that it is fulfilling its responsibilities for adequate and effective risk management, control and governance, and for the economy, efficiency and effectiveness (or value for money (VFM)) of the HEI’s activities. To assist in this, the governing body must establish an audit committee (paragraph 34).
- Audit committee members should not be members of a finance committee or its equivalent. If the governing body determines that a minimal (no more than one) cross-representation is essential, this should be the subject of an explicit, recorded resolution – but it should not be an option for the chair of either committee. The chair of the governing body should not be a member of the audit committee (paragraph 37).
- The audit committee must have explicit authority to investigate any matters within its terms of reference and full access to information and personnel (paragraph 39).
- The audit committee must produce an annual report for the governing body and the designated officer (paragraph 42).
- The audit committee annual report must cover the financial year and include any significant issues up to the date of preparation of the report (paragraph 42).

- The internal auditor's annual report as well as the audit committee report must be submitted to the HEFCW assurance service by the end of January. Where an institution's financial position is categorised by HEFCW as unsatisfactory (category D), copies of all internal audit reports must be sent to the HEFCW assurance service (paragraph 42).
- The audit committee annual report must include the committee's opinion on the extent to which the governing body, in discharging its responsibilities, may rely on the institution's risk management, control and governance processes (paragraph 43).
- Each institution must have an internal audit function (paragraph 46).
- The scope of the internal audit service must embrace the whole of the HEI's risk management, control and governance arrangements including all its operations, resources, staff, services and responsibilities for other bodies (paragraph 52).
- Internal audit must have direct access to the HEI's designated officer and to the governing body (normally through the chair of the audit committee), and, if necessary, to the chair of the governing body. Internal auditors must also have unrestricted access to all records, assets, personnel and premises, and be authorised to obtain whatever information and explanations are considered necessary by the head of the internal audit service (paragraph 55).
- As an integral part of its responsibility to evaluate the internal control system, internal audit will examine the controls established by management to secure value for money (paragraph 56).
- The internal audit service must produce an annual report of its activities. The annual report must relate to the financial year, and include any significant issues up to the date of preparing the report which affect the opinion. This should be addressed to the governing body and the designated officer, and should be considered by the audit committee (paragraph 58).
- The governing body must inform HEFCW's assurance service without delay of the removal or resignation of the internal auditors and of the reasons (paragraph 69).
- The external auditors' report must state whether, in all material respects, funding received from HEFCW (and other bodies and restricted funds where appropriate) has been properly applied for the purposes provided and in accordance with the institution's financial memorandum with HEFCW (paragraph 77).
- Institutions' external auditors must be eligible for appointment as external auditors under the provisions of the Companies Act 1985 and must be registered with one of the appropriate professional bodies, and conform to that body's standards (paragraph 79).

- The provision by external auditors of any additional services, beyond the scope of the audit of financial statements, must not impair their independence. The audit committee must be informed of all significant facts and matters that have a bearing on the auditors' objectivity and independence, related to the provision of non-audit services, including the safeguards put in place (paragraph 82).
- The notes to each institution's financial statements should disclose the fees paid to its external auditors for other services. Each HEI's audit committee must review both the level of fees incurred and the future planned work, and satisfy itself that the extent and nature of other work does not affect the objectivity of the external audit (paragraph 84).
- A copy of the final management letter (incorporating management responses) must be sent to the HEFCW assurance service by the last day of January (paragraph 88).
- Institutions and their external auditors are required to conform to the requirements of the annual accounts direction published annually in a circular by HEFCW. The accounts direction summarises and updates HEFCW's financial reporting requirements (paragraph 90).
- The governing body is responsible for advising HEFCW where external auditors cease to hold office and the reasons for this. The HEFCW assurance service must be sent a copy of any statement provided to the governing body by the outgoing auditors (paragraph 95).
- HEIs must not agree to any restriction in external auditors' liability in respect of the external audit of their annual financial statements, unless a liability limitation agreement has been entered into. The governing body, advised by the audit committee, must consider and approve any request for a liability restriction (paragraphs 97 and 98).
- Subject to legislative constraints, the HEFCW assurance service has unrestricted access to HEIs' information – including all records, assets, personnel and premises – and can require anyone to give any explanation which it considers necessary to fulfil its responsibilities. This includes access to any work of the internal auditors and the external auditors, or correspondence between internal and external auditors. For access to external audit work, the HEFCW assurance service will exchange letters (where necessary) with both parties to deal with confidentiality and the terms under which access is given (paragraphs 75, 99 and 102).
- The annual assurance return attached as Annex B must be signed by the designated officer and sent to the HEFCW assurance service by the last day of January (paragraph 109).

Annual assurance return from institutions
(to be returned to HEFCW by the end of January)

| | |
|--|--|
| Institution name | |
| Year ended | |
| Return completed by designated officer (enter name of head of institution) | |
| Please confirm that you are submitting with this annual assurance return the specific returns required under paragraphs 42 and 88 of the Code, and that these returns were considered by the governing body. | |
| Where appropriate, please provide details and explanations of the following (if these have <u>not</u> already been notified to HEFCW): | |
| (i) Any changes of senior officer in the period including the chairs of the governing body and audit committee, the designated officer and the heads of finance and internal audit. | |
| (ii) Any change of external audit provider in the year. | |
| (iii) Any change of internal audit provider in the year. | |
| (iv) If your internal audit is provided in-house, any change of head of internal audit in the period. | |
| (v) Any serious weakness, such as a significant and immediate threat to the HEI's financial position, significant fraud or major accounting breakdown. | |
| When did you last complete a review of governance effectiveness and institutional performance as recommended in the CUC Guide for Members of Governing Bodies? | |

Signed.....

Dated

| Glossary of terms | Annex C |
|-----------------------------|---|
| ACCA | Association of Chartered Certified Accountants |
| CIPFA | Chartered Institute of Public Finance and Accountancy |
| CUC | Committee of University Chairs |
| DCELLS | Department for Children, Education, Lifelong Learning and Skills |
| Designated Officer | head of an institution responsible and accountable to HEFCW (and ultimately to the National Assembly for Wales) for ensuring that the institution uses HEFCW funds in ways that are consistent with the purposes for which those funds were given, and complies with the conditions attached to them. These include the conditions set out in the Further and Higher Education Act 1992 and in the financial memorandum |
| Financial Memorandum | memorandum between HEFCW and HEIs that sets out the terms and conditions for the payment by HEFCW of funds to the governing body of each institution |
| GIAS | Government Internal Audit Standards |
| Governing Body | the university council, board of governors or other body ultimately responsible for the management and administration of the institution's revenue and property, and the conduct of its affairs; |
| HEFCW | Higher Education Funding Council for Wales |
| HEI | Higher Education Institution |
| ICAEW | Institute of Chartered Accountants in England and Wales |
| IIA | Institute of Internal Auditors |
| SORP | Statement of Recommended Practice |
| The Act | the Further and Higher Education Act 1992 |
| UK Funding Councils | the Higher Education Funding Council for England, HEFCW and the Scottish Funding Council |
| WAO | Wales Audit Office |