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The Skills Funding Agency funds and regulates adult further education and skills in England.

An agency of the Department for Business, Innovation and Skills.

Guidance on the self-assessment of a Provider's Financial Management and Control Arrangements using the Financial Management and Control Evaluation (FMCE) Return

Version 1 July 2011

Note

This guidance has been prepared for the providers that the Chief Executive of Skills Funding takes the "lead" for on assurance matters. However, it is also equally applicable to those providers that the YPLA directly funds and it takes the "lead" for on assurance matters, that is, independent specialist colleges, sixth form corporations designated under the Apprenticeships, Skills, Children's and Learning Act 2009 (local authorities) and certain non-college providers.

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Executive Summary

Background

- 1 In respect of the providers that the Chief Executive of Skills Funding takes the “lead” for on assurance matters the completion of a FMCE return is mandatory for all of them provided they have a direct contract with the Chief Executive of Skills Funding for the 2011/12 year and have been in receipt of “public” funds for over 12 months¹. The providers that the YPLA take the “lead” for on assurance matters, for example, independent specialist colleges and sixth form corporations designated under the Apprenticeships, Skills, Children’s and Learning Act 2009 are also required to complete a FMCE return this year.

Purpose of the FMCE Return

- 2 The FMCE return requires all providers to self-assess, evaluate and grade their financial management and control arrangements. The timescale for the self-assessment will normally be the previous funding year (1 August 2010 to 31 July 2011). This approach for financial management and control arrangements is built on the previous arrangements that existed for colleges since the 1990s and for all other providers since 2005/06.

Two Versions of the FMCE Return

- 3 There are two versions of the FMCE return which are attached to this Guidance:
 - Form A should be completed by further education corporations designated under the Further and Higher Education Act 1992 and sixth form corporations designated under the Apprenticeships, Skills, Children’s and Learning Act 2009; and
 - Form B should be completed by all non-college providers for which the Chief Executive of Skills Funding takes the lead for on assurance matters and who are in receipt of a direct contract from the Chief Executive of Skills Funding in 2011/12 and were also in receipt of a direct contract > £50k in 2010/11.
- 4 Each version of the FMCE return comprises the following parts:
 - Part 1: Summary of Grades;
 - Part 2: Improvement Plan; and
 - Part 3: Control Arrangements and Effectiveness.

¹ A provider who receives its first contract with effect from 1 August 2011 does not need to complete a FMCE Return. Furthermore, a provider who no longer has a direct contract with the Chief Executive of Skills Funding after 31 July 2011 does not need to complete a FMCE Return (this would apply to providers who are in a consortium).

Changes in 2011/12

- 5 The biggest change this year is the removal of the restriction to submit short returns for two years only. There have also been some changes made to the questions in Part 3 of the FMCE Return in order to promote the identification of more effectiveness issues.

Full and Short FMCE Returns

- 6 Many providers will be able to submit a short FMCE return in 2011/12 provided they meet the required criteria and the Chief Executive of Skills Funding recommends that all these providers consider this option. However, for all those providers who need to complete a FMCE return for the first time because they have been in receipt of public funds in excess of £50k for 12 months, the completion of the full FMCE return is mandatory.

Completion, Submission, Review and Validation

- 7 Providers should complete their FMCE Return electronically and once approved, the FMCE return should be uploaded to the Provider Gateway (in the PFM –FMCE folder within PFM reports on the Provider Gateway (<http://thegateway.skillsfundingagency.bis.gov.uk>)). In respect of both FMCE returns, this action should be completed by no later than 30 November 2011. There is no longer a requirement to submit a signed paper copy of Part 1 to PFA in Coventry. PFA will review the FMCE Returns on an exception basis and will only write to providers when such is viewed necessary.
- 8 In respect of colleges, the full validation of the FMCE return will usually take place when the college is being inspected by Ofsted. There will also be some non-college providers who will be visited by PFA during their inspection by Ofsted and the full FMCE return will be validated at this time. Other non-college providers may be subject to separate validation visits. However, PFA reserve the right to validate any self-assessment when such is viewed appropriate and necessary.

Support for Providers

- 9 If providers need any support and guidance in completing the FMCE return they should contact either Brian Lister (brian.lister@skillsfundingagency.bis.gov.uk) or Dan Canham (daniel.canham@skillsfundingagency.bis.gov.uk) of the Skills Funding Agency. In the providers that the YPLA funds directly, that is, independent specialist colleges, sixth form corporations designated under the Apprenticeships, Skills, Children's and Learning Act 2009 (from 1 August 2010) and some non-college providers (from 1 August 2010) have any queries on the FMCE Return then they should contact either Ian Stafford – ian.stafford@ypla.gov.uk; or Malcolm Sevenoaks – malcolm.sevenoaks@ypla.gov.uk

Detailed Guidance

Background

- 10 With effect from 1 August 2010 only the Chief Executive of Skills Funding and the YPLA have been involved in funding further education and both have clear responsibilities for the funding it is responsible for and each takes the “lead” on assurance matters for specific groups of providers. In respect of those providers that the Chief Executive of Skills Funding takes the lead for, the electronic completion of the Financial Management and Control Evaluation (FMCE) return is mandatory if these providers have been in receipt of direct contracts for over 12 months. The providers that the YPLA funds directly, that is, independent specialist colleges, sixth form corporations designated under the Apprenticeships, Skills, Children’s and Learning Act 2009 (from 1 August 2010) and some non-college providers (from 1 August 2010) are also required to complete a FMCE return this year.

Purpose of the FMCE Return

- 11 The FMCE return requires all these providers to self-assess, evaluate and grade their financial management and control arrangements on an annual basis. This approach was built on the previous arrangements that existed for colleges since the 1990s and for all other providers since 2005/06. Since then all providers have had to assess the soundness, operation and effectiveness of their financial management framework as part of their overall self-assessment process, in accordance with the LSC document, *Quality Improvement and Self-Assessment*, published in May 2005 (a self-assessment report had to be prepared in preparation for inspection by Ofsted and as a part of their quality-improvement processes). This guidance on self-assessment was augmented in the LSC/LSIS document, *Self-assessment: Updated Guidance for the Further Education System* published in September 2008.
- 12 When undertaking their self-assessment providers need to recognise that their financial management and control arrangements are supposed to:
- support the delivery of high quality learning provision;
 - contribute to effective self assessment, quality improvement and corporate governance;
 - give assurance to stakeholders; and
 - demonstrate value for money.

If providers cannot demonstrate the above then they should not view their financial management and control arrangements as being effective even if they have an adequate internal control system and are financially stable.

Changes in 2010/11

- 13 The Chief Executive of Skills Funding has reviewed the approach followed last year and decided that:
- the restriction for providers to submit short returns for two years only should be removed;

- there should be some amendments to the questions in Part 3 of the FMCE Return to assist providers identify more effectiveness issues (these changes are identified in italics); and
- the requirement to submit a signed paper copy of Part 1 of the FMCE Return to PFA in Coventry should be removed.

Scope

14 The FMCE return covers the same four areas as last year:

- **Accountability Arrangements** - *appropriate and effective accountability arrangements should be in place to enable (both governors and) management to effectively discharge their responsibilities²*

This is divided into three sections namely strategic oversight; operational oversight and sub-contracting arrangements (where applicable).

- **Financial Planning Arrangements** - *adequate and effective financial planning arrangements should be in place and these should contribute to the proper, economic, efficient and effective use of resources*

This is divided into two sections namely long-term financial planning and short-term financial planning.

- **Internal Control Arrangements** - *adequate and effective internal control arrangements should be in place to safeguard and protect public funds (includes funds from the Chief Executive of Skills Funding and the YPLA)*

This is divided into two sections namely risk management and internal control system

- **Financial Monitoring Arrangements** - *adequate and effective financial monitoring arrangements should be in place to enable (both governors and) management to monitor, control and improve financial and contractual performance effectively.*

How to complete the FMCE Return

Choose the correct version of the FMCE Return (Form A or Form B) to complete

15 Providers should decide which FMCE return is the correct version to use. There are two versions of the FMCE return which are attached to this Guidance:

- Form A should be used by further education corporations designated under the Further and Higher Education Act 1992 and sixth form corporations designated under the Apprenticeships, Skills, Children's and Learning Act 2009; and
- Form B should be used by all non-college providers who have a direct contract with the Chief Executive of Skills Funding for the 2011/12 year and have been in receipt of public funds for over 12 months.

² Further education colleges should note that the scope of Accountability Arrangements extends beyond just simple financial management and control issues to their entire operations.

Providers should download the relevant Form from the Provider Financial Management section of the Skill Funding Agency's website:

<http://www.skillsfundingagency.bis.gov.uk/providers/pfm/financial-assurance/>

Decide upon the type of FMCE Return (full or short) to complete

- 16 As the option to submit a short FMCE Return for two years only has been removed, many providers will be able to submit a short FMCE return in 2011/12. This option though is only available to providers who:
- do not wish to change last year's overall self-assessed grade; and
 - have not undergone any significant internal changes since last year (organisational changes; changes in the governance framework; mergers; changes in ownership; deterioration in financial health; adverse audit or inspection outcomes; notices to improve).
- 17 The Chief Executive of Skills funding recommends that all eligible providers should consider this option including those who have submitted short returns for the past two years. However, for all those providers who have to complete a FMCE Return for the first time in 2011/12, completion of a full FMCE return is mandatory.

Part 3: Control Arrangements and Effectiveness

- 18 The completion of Part 3: Control Arrangements and Effectiveness is required by those providers who intend to submit a full FMCE return. Providers who intend to submit the short FMCE return should ignore this part of the Detailed Guidance and consider only paragraphs 32 to 36 below.

Financial management and control arrangements in place

- 19 There are two stages in the completion of Part 3. The first and relatively straightforward stage requires providers to consider the financial management and control arrangements in place by answering a number of closed questions in the four areas covered by the FMCE with a "yes", "no" or "not applicable" answer. Providers should note that:
- for each "yes" answer a brief outline of the evidence that exists to support the answer is required;
 - a "no" answer should normally be treated as a weakness or an area for improvement that should then be included in the Improvement Plan. However, if a provider believes the implementation of a particular control may not be cost effective and/or not produce any additional benefit or affect a grade judgement, then the provider should state this in the evidence column and thus not include this item in the Improvement Plan; and
 - a "not applicable" answer is appropriate when there is no need to have in place all the controls specified in Part 3. Providers should specify the reasons why a "not applicable" answer has been provided in the evidence column.

20 There may also be occasions when a provider has controls that are not referred to specifically by the questions stated in Part 3. The Chief Executive of Skills Funding will need to be made aware of these controls especially if they are important in justifying the self-assessed grade. Accordingly, a question has been added at the end of each section of the FMCE return that allows for the existence of these additional controls. Providers should refer to these additional controls, provided documentary evidence exists to support them, when answering the final question in each of the sections. Also, when providers complete the Summary of the Effectiveness Section they should refer to the effectiveness of these additional controls.

Effectiveness of a provider's financial management and control arrangements³

21 **The second and most crucial stage in the completion of Part 3 requires providers to consider and evaluate the effectiveness of the financial management and control arrangements in place by recording on the Summary of the Effectiveness Sections (there is one section for each of the four areas) the effectiveness of their arrangements in terms of impacts and outcomes. Positive impacts and outcomes should be viewed as strengths and negative impacts and outcomes should be viewed as weaknesses. As “effectiveness”, in the view of the Chief Executive of Skills Funding, should be the key element in justifying a provider's overall self-assessed grade providers need to ensure that sufficient time is allowed for this task.**

22 **Despite the significance of these Sections in determining the overall grade, the completion of these Sections has caused some providers problems in past years as many either focussed on compliance issues as opposed to actual effectiveness issues or simply ignored effectiveness issues altogether. This meant that the overall content of these Sections did not support providers' self-assessed grades, that is, based on a simple reading of the FMCE return the self-assessed grades appeared unjustified and over-stated.**

23 **If the Summary of the Effectiveness Sections are not completed or only partially completed then when PFA undertake a full validation of the FMCE Return they will have to ask providers to update the Summary sections and provide further details on the effectiveness of their financial management and control arrangements. Without this additional information being provided it will not be possible for PFA to either validate or concur with a provider's self-assessed grades.**

Choosing a Grade for an Area and Section

24 To assist providers choose the correct grade, the Chief Executive of Skills Funding will issue two further guidance documents:

- *Indicative Examples of Grade Components for Further Education Colleges;* and
- *Indicative Examples of Grade Components for all non-college providers.*

These two documents will list, section by section, those components the Chief Executive of Skills Funding expects to see under the four grades. However, providers should note

³ This section of the Guidance has been put in bold in order to stress the importance of “effectiveness” in determining the overall self-assessed grade.

that these lists are not meant to be either exhaustive or prescriptive in what constitutes a grade component and they should not prevent providers identifying further components.

- 25 There will though be no worked examples of Forms A and B issued this year. Most providers have gained experience of completing FMCE Returns over the past three years and it is viewed therefore that a worked example will not bring any benefits to providers.

Outstanding

- 26 A self-assessment grade of “Outstanding” for any section would be appropriate if a provider:
- can demonstrate that its financial management and control arrangements are effective and has clearly recorded evidence of this on the relevant Summary of the Effectiveness Section, that is, the provider has identified sufficient and auditable strengths to support the grade;
 - has not identified any weaknesses when answering a particular section of the FMCE but may have identified a few areas for improvement; and
 - has all the components listed in the Outstanding column of the relevant guidance document, *Indicative Examples of Grade Components* for that particular section (it should have the components for the “Good” and “Satisfactory” grades too).

Good

- 27 A self-assessment grade of “Good” for any section would be appropriate if a provider:
- has identified quite a few effectiveness issues (strengths) on the Summary of the Effectiveness Section;
 - has probably identified a few weaknesses and/or areas for improvement from Part 3; and
 - has the majority of the components listed in the Good column of the relevant guidance document, *Indicative Examples of Grade Components* for that particular section (it should have the components for the “Satisfactory” grade too).

Satisfactory

- 28 A self-assessment grade of “Satisfactory” for any section would be appropriate if a provider:
- has identified some effectiveness issues on the Summary of the Effectiveness Section;
 - has all, or most of, the components listed in the Satisfactory column of the relevant guidance document, *Indicative Examples of Grade Components* for that particular section; and
 - has answered “No” to some of the questions in Part 3 of the FMCE return and included all the associated weaknesses or areas for improvement in the Improvement Plan.

Inadequate

- 29 A self-assessment grade of “Inadequate” for any section would be appropriate if a provider:

-
- has either not identified any or very few effectiveness issues on the Summary of the Effectiveness Section;
 - has some of the components listed in the Inadequate column of the relevant guidance document, *Indicative Examples of Grade Components* for that particular section; and
 - has answered “No” to many of the questions in Part 3 and included all the associated weaknesses or areas for improvement in the Improvement Plan.

Overall Grade

- 30 In choosing their overall grade, providers should just not simply have regard to the grades reached for each of the four areas. Providers should appreciate that equal weightings are not applied to each of the four areas. Thus, for example, if an “Outstanding” grade has been reached for three areas it does not automatically mean that the overall grade itself has to be “Outstanding”. There may be a weakness of such significance in the fourth area which not only has a major impact on the area grade but also on the overall grade itself. Thus a significant weakness in one area can have a major influence on the overall grade irrespective of what grades have been reached for the other three areas.
- 31 The following are examples of issues that will have a major impact on the overall grade:
- a sudden and unplanned deterioration of a provider’s financial health;
 - a failure to deal with financial health issues;
 - revisions to a submitted financial plan have been requested by the Chief Executive of Skills Funding because the original financial plan has shown that a provider’s financial health will deteriorate, but there is no evidence to demonstrate how this scenario will be dealt with;
 - a provider becomes reliant on advances of funding from the Chief Executive of Skills Funding in order to maintain its solvency and continue its operations;
 - an overall qualified audit report from the provider’s auditors (for further education colleges this would be the internal auditors’ annual report, a qualified regularity audit opinion or a qualified opinion on the financial statements from the external auditors, a qualified opinion from the funding auditors);
 - poor inspection outcomes; and
 - the issue of a Financial Notice to Improve.

Part 2: Improvement Plan

- 32 All providers should complete Part 2 (Improvement Plan) that is, record all relevant weaknesses and/or areas for improvement in their financial management and control arrangements. These weaknesses and/or areas for improvement may have been identified by a provider during the course of the self-assessment or may have already been identified by other third parties, for example, the provider’s auditors (all these third party identified weaknesses should be included in the Improvement Plan if they either have not been addressed or only partially addressed). Providers should outline their proposed action for each identified weakness or area for improvement, identify who is responsible for ensuring that the required action is taken and specify a planned completion date for the action.
- 33 Examples of weaknesses are:

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- where there is a “No” answer to a question on Part 3 and the provider has not identified this as a control which will not be implemented because it is either not cost effective to do so or it will not bring any added benefits; or
 - a negative impact or outcome identified during the completion of the Summary on the Effectiveness Section; or
 - a weakness or area for improvement identified in the Chief Executive of Skills Funding’s guidance document, *Indicative Examples of Grade Components*; or
 - a weakness or area for improvement identified by a third party, for example, a provider’s auditors.

34 For providers who complete the short FMCE return a revised and updated Improvement Plan should be completed. The revised and updated Improvement Plan will thus show:

- areas for improvements/weaknesses which have been fully addressed;
- areas for improvements/weaknesses which have been partially addressed/ are in the process of being addressed; and
- areas for improvements/weaknesses which have not been addressed (the reasons for this should also be specified).

Part 1: Summary of Grades

35 All providers should complete Part 1 in 2011/12 irrespective of which FMCE return is being submitted. Part 1 needs to be signed off by the college principal or chief executive of the organisation prior to submission to the Chief Executive of Skills Funding. For those providers who submit a short FMCE return, the signing off of Part 1 indicates that no significant changes have occurred in the organisation in the last 12 months.

36 Similar to last year, we have asked for details of the person(s) we should contact if the Chief Executive of Skills Funding has any queries on the FMCE return as in many cases the person signing off Part 1 may not be the person who actually completed the FMCE Return (there may be more than one person involved).

Evidence File

37 The Chief Executive of Skills Funding believes it would be useful if providers collect evidence to support their completion of Part 3 of the FMCE Return and retain it in an Evidence File. If any evidence is already held elsewhere for other purposes or held electronically a simple cross-reference to where the existing documentary evidence or electronic evidence can be accessed will suffice.

38 As a FMCE return is required on an annual basis, the Evidence File will need updating each year. Whilst this annual update is a cost to providers, the Chief Executive of Skills Funding believes it will be beneficial because:

- it contributes in a systematic and consistent way to the provider’s overall self-assessment procedures; and
- it gives all providers a sound basis against which to undertake the annual completion of the FMCE return, thereby contributing significantly to the overall judgement and grading of the sections and areas covered by the FMCE return.

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- 39 Guidance on the evidence that should be included on an Evidence File has been provided as annex to both appendix I and appendix II. Providers should refer to the relevant annex when preparing their own Evidence File.

Post 31 July 2011 Events

- 40 The timescale for the self-assessment of a provider's financial management and control arrangements will normally be the previous funding year (1 August 2010 to 31 July 2011). However, when completing the FMCE return providers should take account of any developments (improvements to, or a deterioration of, their financial management and control arrangements) which have taken place since 1 August 2011.
- 41 If a provider wishes to take into account positive developments since 1 August 2011, there does need to be evidence to demonstrate that these developments have had an impact. If there is no robust evidence to show that such developments (recent staff changes etc) have had an impact then no weighting should have been given to such when a provider is considering its self-assessed grade.
- 42 Providers should appreciate that a failure to recognise any fundamental or significant weaknesses in to their financial management and control arrangements which have arisen since 1 August 2011 would indicate to the Chief Executive of Skills Funding that the provider's self-assessment processes are not robust and this would be considered to be a further weakness.

Submission of the FMCE Return

43. Once completed the FMCE return (both types) should be approved. So for further education colleges, audit committees should review the FMCE return and recommend it to the Corporation for approval. Similarly, those non-college providers who are reliant on public funds and have non-executive scrutiny or supervision arrangements at board or committee level should ensure that these are used to review and approve the completed FMCE return. Obviously the Chief Executive of Skills Funding would not expect such approval at non-college providers where public funds are not a material part of overall income.
- 44 Providers are required to upload a copy of their completed FMCE return (short return - Parts 1 and 2 only; full return – all three parts) to the Provider Gateway (in the PFM – FMCE folder within PFM reports on the Provider Gateway (<http://thegateway.skillsfundingagency.bis.gov.uk>)). This action should be completed for both returns by 30 November 2011 at the latest. and this deadline should be observed even if the FMCE return has not been approved, as we are not suggesting extra meetings of either the Corporation or the Audit Committee should be arranged to facilitate this approval. Retrospective approval of the FMCE return should be obtained in such circumstances⁴. Early submission is encouraged in both circumstances but especially if a full FMCE return is being submitted for the first time. If any provider fears they will not be able to meet this deadline then they should contact either Brian Lister (02476 – 823216) or Dan Canham (01489 – 558525) and explain the reasons for the delay.

Review of the FMCE Return

⁴ If a college is submitting a short FMCE return in 2011/12 then in order to meet the 30 November 2011 deadline it may wish to consider delegating the approval of the short FMCE return to the audit committee.

45 PFA will carry out a review of the submitted FMCE returns and communicate with providers after the review if such is viewed necessary. However, this review is though limited to ensuring that:

- the provider has fully completed its FMCE return; and
- the provider's responses are internally and externally consistent.

Thus this review simply provides PFA with comfort on the compliance aspects of the FMCE return, alongside other indicators of effectiveness such as recent audit results which are known to PFA at the time of the review. Accordingly, in most instances if PFA can confirm these compliance aspects have been met then there will no need to write to providers to confirm this.

Validation of a full FMCE return

46 In respect of further education colleges, the validation of the full FMCE return will usually take place when the college is being inspected by Ofsted. There will also be some non-college providers who will be visited by PFA during their inspection by Ofsted, and the full FMCE return will be validated at this time. Thus if such providers have completed a short FMCE return in 2011/12, a full FMCE return will now have to be completed as PFA will need this in order to validate the provider's financial management and control arrangements. However, PFA reserve the right to validate any self-assessment when such is viewed appropriate and necessary.

47 Providers should appreciate that a full validation involves a significant amount of substantive work and an exploration of effectiveness issues in detail. Further details of the validation process at further education colleges and non-college providers can be found at appendix I and appendix II respectively.

Support for Providers

48 If providers need any support and guidance in completing the FMCE return they should contact either Brian Lister (brian.lister@skillsfundingagency.bis.gov.uk) or Dan Canham (daniel.canham@skillsfundingagency.bis.gov.uk) of the Skills Funding Agency.

49 If the providers that the YPLA funds directly, that is, independent specialist colleges, sixth form corporations designated under the Apprenticeships, Skills, Children's and Learning Act 2009 (from 1 August 2010) and some non-college providers (from 1 August 2010) need any support and guidance in completing the FMCE return they then they should contact either Ian Stafford – ian.stafford@ypla.gov.uk; or Malcolm Sevenoaks – malcolm.sevenoaks@ypla.gov.uk

Future Developments

50 The Chief Executive of Skills Funding welcomes comments from providers on the FMCE return and how it could be further developed and refined in the future, particularly in respect of its scope, usefulness and content.

APPENDIX I – GUIDANCE FOR FURTHER EDUCATION COLLEGES

Purpose of the Appendix

- 1 This appendix provides useful information on the areas covered in the FMCE return and will help all further education colleges and YPLA providers complete it properly and fully.

Background

- 2 Further education colleges ⁵should ensure that the self-assessment of their financial management and control arrangements using the FMCE return encompasses all their operations and all their funding streams including learner responsive funding (16-18 & adult), employer responsive funding and ESF. The questions contained within Form A have been tailored to assist colleges to do this.
- 3 The FMCE return covers both governance and financial management issues. The Chief Executive of Skills Funding would expect that both the clerk to the corporation and the director of finance will be involved in the completion of the FMCE return. If this is the case then the names and contact details of these people need to be specified on Part 1 of the FMCE return.

Area 1: Accountability Arrangements

- 4 It is important to note that issues covered in the other areas of the FMCE return will also have an impact on the grade for this area. The following are examples of issues which would indicate that the college's overall accountability arrangements have not been effective:
 - the Chief Executive of Skills Funding has rejected a college's financial plan and as asked for it to be re-submitted as it does not demonstrate how a college's financial health problems will be addressed;
 - the Chief Executive of Skills Funding has had to provide advances of funding to the college to maintain its financial solvency;
 - the college has received an overall qualified audit report from any of its auditors; or
 - a Financial Notice to Improve has been issued.

Area 1 Section 1: Strategic Oversight

- 5 When the PFA team undertake their financial management and control return validations they need assurance that the college has complied with all the statutory and other requirements placed on a college by the *Instrument and Articles of Government*., the *Financial Memorandum* and guidance or rules with a similar force, for example, ministerial announcements and the recommendations of the Committee on Standards in Public Life. Rather than replicate every requirement in Form A only one question on overall compliance has been included. If a college answers this question with a "Yes" they are confirming that they comply with all these requirements and have the documentary evidence to support such. Colleges should treat any non-compliance with

⁵ If YPLA providers have any queries on the FMCE Return then they should contact either Ian Stafford – ian.stafford@ypla.gov.uk; or Malcolm Sevenoaks – malcolm.sevenoaks@ypla.gov.uk

the various requirements as a weakness and these should be included in the revised and updated Improvement Plan.

- 6 As colleges are fully aware of the requirements contained in the *Instrument and Articles of Government*, the *Financial Memorandum* and guidance or rules with a similar force, it is not thought necessary to list these requirements. However, as the Chief Executive of Skills Funding believes it would be useful if colleges retained the evidence supporting the compliance with these various requirements, colleges can document, if they choose, the various requirements they meet.
- 7 The Chief Executive of Skills Funding would expect all the activities of a college to be subject to appropriate and effective strategic oversight. This is why PFA, when carrying out a validation visit in parallel with Ofsted, will liaise with the inspectors and share evidence and exchange findings with them. PFA will be particularly interested in the inspectors' overall conclusion as this will be of importance to them in validating the self-assessed grade for "Accountability". Thus if Ofsted provide an overall grade 4 (Inadequate) for Overall effectiveness of provision, or a grade 4 for Outcomes for learners, this would demonstrate that the Corporation has not met its statutory responsibility, as per the Articles of Government, for the oversight of the College's activities. This would result in PFA providing an Inadequate grade for Strategic Oversight
- 8 The Chief Executive of Skills Funding would expect that the Corporation exercises appropriate oversight of all the College's activities including the following activities:
- its educational achievements (monitoring success rates etc);
 - its financial position;
 - its performance against its various funding allocation;
 - its sub-contracted/franchise arrangements;
 - its internal control system;
 - any contracted out services; and
 - (if applicable) its capital projects.

Furthermore, PFA will expect governors to be fully aware of all issues relevant to the College and understand what action, if needed, is being taken to address such

Area 1 Section 2: Operational Oversight

- 9 PFA will be particularly interested in the inspectors' view on leadership and management as this will be of importance to them in validating the self-assessed grade for "Operational Oversight". If the inspectors were to:
- give a grade 4 for "Leadership and Management" then that would suggest to the PFA team that the college's oversight arrangements are not effective, and PFA would probably have to give an Inadequate grade for both "Operational Oversight" and then "Accountability" overall; and
 - give a grade 3 for "Leadership and Management" then the highest grade PFA could provide for "Operational Oversight" would be Good but this would be dependent on there being significant other strengths in this area to compensate for the views of the inspectors.

PFA will also be interested in establishing what progress and improvements the College has made since its last inspection.

10 PFA will also be wishing to establish that the College has been:

- monitoring its performance in all areas,
- achieving its funding targets for all funding streams(learner responsive funding, employer responsive funding, ESF etc);
- investing monies for the benefit of learners;
- achieving cost savings and efficiencies;
- improving its internal control system;
- involved in partnerships and/or shared services arrangements (if applicable);
- controlling staff costs; and
- reducing its dependency on Government funding and increasing its own income.

Area 1 Section 3: Sub-Contracting Arrangements (if applicable)

- 11 Sub-contracting arrangements cover any arrangements that a provider has in place to deliver their agreed volumes, across all of its funding streams, through the use of sub-contracted provision. This includes the arrangements for learner responsive funding (16-18 & adult), employer responsive funding and ESF including arrangements where a provider acts as the lead provider for consortia, for example, for Train to Gain, Apprenticeship provision or ESF. Lead providers are responsible for the overall quality of provision, quality of outcomes, overarching self-assessment processes and judgements and for the management and control of funding.
- 12 The extent and depth of a provider's sub-contracting activities need to be clearly identified here (number of sub-contracts in existence, their value, amounts actually earned and the amount of funds retained by the provider for the administration purposes etc) and the significance of these to the provider's overall activities.
- 13 If a provider acts as an agent for the distribution of any public funds and receives remuneration for this then these arrangements should be reflected in this section
- 14 A college needs to ensure that all the required returns are submitted to the Chief Executive of Skills Funding and that his guidance is followed in all other aspects too.
- 15 As sub-contracting is viewed as a high risk area there needs to be Corporation involvement in this area. We would expect as a minimum that there would be an annual report to the Corporation covering a college's sub-contracting activities. If a college's sub-contracting activities increase then more frequent reporting to the Corporation may need to be considered. If there was no Corporation involvement then the Corporation's statutory responsibility for the oversight of all the College's activities, as far as the College's sub-contracting arrangements are concerned, would not be met.
- 16 If this Section is not applicable then "Not Applicable" should be entered as the grade in both Part 1 and Part 3 of the FMCE. The overall self-assessed grade for Area 1: Accountability will then be based on the self-assessed grades for the first two Sections of this Area.

Area 2: Financial Planning Arrangements

Area 2 Section 2: Long-term Financial Planning

- 17 PFA will take cognisance of the comments of their PFM colleagues on a college's three year financial plan, and these comments may be included in the PFA report. As noted in paragraph 4 above, if the Chief Executive of Skills Funding asks for a college to re-submit its financial plan then PFA would regard this as a significant weakness.
- 18 The College in preparing its long-term plans need to demonstrate that it is aware of, and taken into account, all known external factors including Government spending plans.
- 19 If a college has been, or is, in receipt of any exceptional support funds from the Chief Executive of Skills Funding then this would suggest the college's financial planning arrangements have been, in the past at least, inadequate.

Area 2 Section 2: Short-term Financial Planning

- 20 A college's approved budget should be a realistic and accurate reflection of the levels of income and expenditure that will be received and incurred in the forthcoming twelve months. Thus an annual budget should be prepared in accordance with a documented timetable and process, be based on realistic and valid assumptions with appropriate recognition being taken of known sensitivities and risks and involve all relevant stakeholders.
- 21 The Corporation needs to be involved with the budget process as soon as possible.
- 22 If a budget, once approved, has to be revised on a regular basis throughout the year it may indicate it was not realistic to start with and this would be a significant weakness.

Area 3 Section 1: Risk Management

- 23 There is a requirement under the *Financial Memorandum* that Colleges should have a risk management policy in place, and therefore the existence of such a policy in a college should not be considered to be a strength in itself. What is more important to the Chief Executive of Skills Funding is knowing whether the risk management processes have been used effectively to mitigate risks faced by the college. Clearly if any risks have arisen which could have reasonably been foreseen by a college, but have not been included in the risk register, then this should be treated as a significant weakness.
- 24 When considering its arrangements in this are the College needs to have regard to the role of the Audit Committee and the Corporation.

Area 3 Section 2: Internal Control System

- 25 Colleges should not recognise simple compliance with the requirements of the *Financial Memorandum* and the former LSC's *Audit Code of Practice* as being strengths as compliance is a requirement. The Skills Funding Agency believes strength should be identified when a college can evidence the fact that it goes beyond simple compliance, for example:
 - can a college demonstrate that its internal auditors and external auditors are effective?;

- can a college demonstrate a commitment to implementing audit recommendations?;
- can a college demonstrate that all audit reports from whatever source together with any reviews which could impact on a college's internal control system, are presented to and considered by the audit committee?
- does the Audit Committee actively monitor the implementation of all audit recommendations?
- can a college demonstrate that the number of recommendations raised by its internal auditors, and their significance, are falling?
- can a college demonstrate that its internal auditors are reviewing all the college's systems as opposed to concentrating on just the traditional financial systems?
- can a college demonstrate its Audit Committee is actively involved in determining the priorities for the college's internal auditors?.

26 However, non-compliance with the requirements of the *Financial Memorandum* and the former LSC's *Audit Code of Practice* would be viewed as a weakness and a failure to record any such weaknesses would indicate to the Chief Executive of Skills Funding that the college's self-assessment processes are not robust and would be considered to be a further weakness.

27 The Chief Executive of Skills Funding expects all colleges will receive unqualified reports from their auditors namely:

- from the internal auditors, there should be an overall unqualified opinion containing no "except for" or "subject to" issues in the annual internal audit report; and
- from the external auditors there should be an unqualified opinion on the Financial Statements and an unqualified regularity audit opinion.

However, if a college receives an overall qualified opinion from any of its auditors, then this needs to be treated as significant weaknesses as it will have to result in an "Inadequate" grade being awarded for this section and area too.

28 For Colleges assessing their internal control system as "Outstanding" the internal auditors need to be providing the highest level of assurance possible on all systems reviewed and raising very few recommendations (these would also need to be medium and low risk recommendations). There should also be no issues raised by any of a college's other auditors.

29 For Colleges assessing their internal control system as "Good" the internal auditors need to be providing the highest level of assurance possible on the majority of systems reviewed, and whilst we would expect some recommendations to be made, these should not be fundamental/significant ones. There should also be no significant issues raised by any of a college's other auditors.

30 Furthermore, any "except for" or "subject to" opinions contained in the Internal Auditors' annual internal audit report would normally suggest a college's internal control system can be self-assessed as no better than "Satisfactory" (unless evidence can be produced which demonstrates all the weaknesses identified by the internal auditors which resulted in this type of opinion being provided have been addressed and no other fundamental weaknesses have been identified since the annual internal audit report was issued).

Funding Audits

- 31 With the arrival of Demand Led Funding in 2008/09 the LSC reintroduced a programme of funding audits at colleges based on the approach which had been in place prior the implementation of Plan-led funding in 2004/05. The funding audits which replaced the cyclical reviews of learner eligibility and existence have been continued by the Chief Executive of Skills Funding. If a college has had a funding audit then this should be recognised when the FMCE return is completed.
- 32 If a college receives a qualified opinion from this audit then such have to be treated as a significant weakness as it necessitates an “Inadequate” grade being awarded for this section (and the area too). Indeed the existence of such a qualified opinion will also have an impact on the self-assessed grade for the college’s Accountability arrangements too as these cannot be viewed as being effective when arguably the college’s most crucial system has fundamental weaknesses in it.
- 33 If a college is subject to a funding audit in 2011 then this fact should be recognised in the FMCE Return even if the outcomes are not fully known.
- 34 Not all colleges will have a funding audit. Accordingly, the Chief Executive of Skills Funding would expect that all colleges would aim to gain some assurance over their learner numbers and data system. This assurance could have been provided by either the college’s internal auditors, or by engaging an accountancy firm to carry out a separate consultancy exercise. If a college has not gained this assurance on its most crucial operating system during this period, then this should be recognised as a weakness.

Area 4: Financial Monitoring Arrangements

- 35 The Corporation has a statutory responsibility of ensuring the solvency of the College. It is essential then that the financial information provided to the Corporation (and Finance Committee) is accurate, suitable, reliable and up-to-date. The financial information, if relevant, should clearly identify those areas where financial performance is poor or not as good as planned.
- 36 The minutes of the Corporation (and Finance Committee) need to formally record the consideration of this financial information and identify any action that has to be taken to improve financial performance if such is required.
- 37 The Chief Executive of Skills Funding also cannot avoid considering the college’s financial health when reviewing the effectiveness of a college’s financial monitoring arrangements. The Chief Executive of Skills Funding is not stating that there is always an automatic correlation between a college’s financial monitoring arrangements and financial health. However, a sudden and unplanned deterioration of a college’s financial health would usually indicate that the arrangements in place were not effective. Whilst an improvement in a college’s financial position would normally be treated as strength. The key issue here then is the “direction of travel”.
- 38 The issue of a Financial Notice to Improve should be treated as a major weakness as in most cases it would suggest financial monitoring, and most likely financial planning too, has not been effective.

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- 39 It would be useful if the Director of Finance produces a reconciliation between the projected out-turn as per a college's final set of management accounts for the year as seen by the governors and the actual out-turn as per the audited Financial Statements. Consideration of such a reconciliation by governors would provide them with assurance over the reliability and accuracy of the financial information provided to them over the previous months..

Validation of the Financial Management and Control Evaluation Return

- 40 Colleges that are to be inspected in 2010/11 will have to complete a full FMCE return because the validation undertaken by the National PFA team is based on a full FMCE return. Accordingly, if a college is of the opinion that it is likely to be inspected in 2010/11 especially in the autumn term, then it should complete the full FMCE return and update its FMCE Evidence File before the inspection begins. It is appreciated that the audit committee may not have reviewed the full FMCE return and recommended it for approval by the corporation before the inspection begins.
- 41 PFA will need access to both the college's full FMCE return and the college's FMCE Evidence File two weeks before the start of the validation visit, so that the validation process can commence. Colleges therefore should ensure the FMCE Evidence File is kept up-to-date and to assist colleges with this task a guide to what evidence should be retained is provided on annex B to this appendix. The efficiency of the PFA validation could be affected adversely if all the required evidence is not available to them.
- 42 PFA will initially undertake a review of the FMCE Return. If PFA identify any apparent inconsistencies or omissions during the desk-based review then PFA will follow these up when they come to the college.
- 43 PFA will aim to complete the validation of the full FMCE return by:
- ensuring the evidence retained in the Evidence File supports all the "Yes" answers entered in Part 3 of the full FMCE return;
 - ensuring that all weaknesses and/or areas for improvement in the financial management and control arrangements have been identified and included in the FMCE Improvement Plan;
 - ensuring that adequate justification has been provided as to why any "no" answers or "not applicable" answers to the questions in Part 3 of the FMCE return have not been treated as weaknesses and not been included in the FMCE Improvement Plan;
 - reviewing the responses in the *Summary of the Effectiveness Sections* to ascertain how effective the financial management and control arrangements are in the four areas covered by the FMCE return; and
 - comparing and contrasting the effectiveness of the financial management and control arrangements with the grade components included in the guidance document, *Indicative Examples of Grade Components for Further Education Colleges*.
- 44 At the end of the validation visit, PFA will provide the college with their initial draft feedback notes which identify the strengths and weaknesses/areas for improvement they have identified during the course of their validation of the FMCE return, and provide their provisional opinion on the college's financial management and control arrangements. This provisional opinion will be that:

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- PFA concur with the college's overall self-assessed grade for the financial management and control arrangements and agree with the identified strengths and (if applicable) weaknesses/areas for improvement; or
 - PFA do not concur with the college's overall self-assessed grade for the financial management and control arrangements, and thus they have to provide a different grade, which could be either higher or lower than the self-assessed grade.
- 45 In respect of the latter option, a lower grade may be given if PFA cannot validate all the strengths and/or PFA identify additional weaknesses/areas for improvement. Conversely, a higher grade may be given if PFA identify additional strengths and/or find many of the identified weaknesses are no longer relevant.
- 46 The resulting report issued to colleges confirming the findings and opinion will normally be based on the contents of the feedback notes. However, colleges should appreciate that the draft feedback notes will subject to manager review and moderation which may result in changes and alterations being made to the findings initially feedback. Thus the contents of the actual issued report may not always be totally consistent with the contents of the draft feedback notes. However, any new issues included in the report should though be factually accurate and based on evidence PFA have examined.

ANNEX B TO APPENDIX I – SUGGESTED EVIDENCE TO BE RETAINED ON A COLLEGE'S FMCE EVIDENCE FILE

ACCOUNTABILITY ARRANGEMENTS

If any evidence is held electronically there is no need to keep hard copies of it on the Evidence File. A simple reference to where the evidence can be accessed will suffice.

Strategic Oversight

- Q1 Please note that if the answer is "Yes" to this question then the college is stating that it complies with all the various statutory and other requirements colleges have to adhere to. The college may wish to keep a list of the evidence to support this "Yes" answer, as opposed to keeping all the evidence on the Evidence File as there will be a significant amount of evidence to collect here. A list would be useful for PFA too as they probably will need to review some of this evidence identified on the list.
- Q2 Terms of reference for all the relevant committees including audit and finance.
Standing orders.
Financial regulations.
Any other documents which cover governors' responsibilities and reporting lines for financial management and control issues.
- Q3 Any evidence to demonstrate that there are sufficient governors with the required experience in financial matters, for example, the results of latest governors' skills audit and details of any outcomes.
If there are skills shortages in the financial management and internal control area then provide evidence to demonstrate that these shortages are being addressed.
Evidence of training on financial management and control issues.
There needs to be evidence showing how governors make contributions when significant financial management and internal control decisions are made by the Corporation or its committees.
Corporation, finance committee and Audit minutes – the last 12 months minutes are needed.
- Q4 Search committee minutes should demonstrate that succession plans are in place.
- Q5 Clerk's CV.
Evidence to show clerk has been appraised.
Any formal reporting of appraisal of clerk to the governors?
- Q6 Evidence to show governors have considered their information needs.
- Q7 Confirmation that papers etc sent out on a timely basis. If tabling of papers occurs please provide details.
- Q8 Relevant corporation minutes – the last 12 months minutes would assist our validation work. Evidence of governors challenging financial and internal control issues would be useful.
- Q9 Minutes if not supplied elsewhere. Provide details of any committee meetings not clerked by the clerk to the corporation

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- Q10 Evidence to show the formal review of Corporation and committee effectiveness has taken place.
- Q11 Corporation minutes and reports which demonstrate that there has been oversight of these activities including:
- the College's financial position;
 - the College's overall educational achievements (monitoring of success rates, retention rates etc);
 - the College's sub-contracted/franchise arrangements;
 - the College's contracted out services; and
 - the College's capital projects.
- Schedule of Corporation business.
- Q12 Audit committee agenda and minutes – the last 12 months minutes etc would assist our validation work. Annual report of the audit committee.
- Report on progress of implementing recommendations – does this show that the overall number of recommendations is falling?
- Q13 If this question is answered then evidence should be provided to support the answer.

Operational Oversight

- Q1 Job description of the principal.
- Q2 Job description of the director of finance plus other members of the SMT.
- Q3 Finance department & MIS department structure.
- Evidence that these two functions operate effectively.
- Q4 SMT minutes. Schedule of meetings of the SMT. Examples of SMT decisions following consideration of financial management and control information covering issues such as:
- reviewing inefficient areas of the college's operations;
 - reviewing staff costs;
 - achieving efficiencies and cost savings;
 - considering the implications of reduced funding; and
 - investing monies for the benefits of learners.
- Q5 Evidence of improvement of College's educational performance since the last inspection.
- Q6 Evidence to show staff are kept aware of relevant funding guidance and requirements.
- Q7 Details of the college's self-assessment of "Leadership and Management".
- Q8 If this question is answered then evidence should be provided to support the answer.

Sub-Contracting

- Q1 Details of how sub-contractors are appointed.
- Details of how sub-contractors are assessed before contracts awarded.
- Q2 Copies of the sub-contractor form referred to.
- If there has been a significant change to the amount and/or nature of any sub-contracted provision from that originally declared then an updated sub-contractor form will be needed.
- Q3 Sub-contracting agreements - did someone compare such to the required model?
- Evidence of any review by legal representatives.

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- Q4 Evidence of reviews undertaken at sub-contractors.
- Q5 Evidence of how you ensure that ILR data and other learner documentation completed by the sub-contractors is accurately and also readily accessible premises?
- Q6 Evidence of assessments/ reviews undertaken at sub-contractors including reviews of the quality of provision.
- Q7 Details of reports prepared for SMT and Corporation – has the performance of sub-contractors improved due to this monitoring?
- Q8 If this question is answered then evidence should be provided to support the answer.

Summary of the Effectiveness Section

The college needs to keep the evidence which supports the positive impacts and outcomes that have been identified in this section on the Evidence File unless it has already been included to support an answer to one of the above questions.

FINANCIAL PLANNING ARRANGEMENTS

If any evidence is held electronically there is no need to keep hard copies of it on the Evidence File. A simple reference to where the evidence can be accessed will suffice.

Long-term Financial Planning

- Q1 Any procedures governing the production of the three year financial plan?
Evidence of corporation approval of the three year financial plan (and detailed consideration by the finance committee).
Copy of the report on the financial plan prepared for Corporation approval (and finance committee too).
- Q2 Sensitivity analysis used in the preparation of the three year financial plan.
Details of the uncertainties which have been recognised.
Any relevant updates to the risk register.
- Q3 Details relating to the self-assessment of the college's financial health.
Details, if relevant, of any recent changes to the college's financial health.
- Q4 A copy of the report which was presented to the corporation (and finance committee too) on the financial plan.
- Q5 If you have specific examples of why years 2 and 3 of previous financial plans have not proved realistic then please identify these.
- Q6 Comments received from the Chief Executive of Skills Funding on the three year financial plan.
- Q7 If this question is answered then evidence should be provided to support the answer.

Short-term Financial Planning

- Q1 Budget timetable and process.
Evidence of early involvement of governors in the process.
- Q2 Details of budget approval – and include consideration of it by the finance committee.
- Q3 Evidence of management involvement in the budget process.

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- Q4 Details of assumptions underpinning the budget.
Details of known sensitivities and risks which were taken into account when the budget was prepared.
A copy of the report which was presented to the corporation (and finance committee too) on the budget.
- Q5 Key performance indicators.
Evidence to demonstrate that progress is monitored against these.
- Q6 Details of the capital budget and approval of such.
- Q7 Evidence of action taken if any part of budget (income and expenditure) has proved unrealistic.
Details of any events which have occurred during the year which were not planned for and the reasons for these, for example:
- under-recruitment of learners across all funding streams;
 - other income budgets not being achieved;
 - income budgets being exceeded;
 - expenditure budgets being exceeded;
 - expenditure budgets not being met.
- Q8 Details of changes made to annual budget (and reasons for this) and evidence of approval of such.
A copy of the report which was presented to the corporation (and finance committee too) on the revised budget.
- Q9 Details of college's approach to course costing/contribution analysis.
- Q10 If this question is answered then evidence should be provided to support the answer.

Summary of the Effectiveness Section

The college needs to keep the evidence which supports the positive impacts and outcomes that have been identified in this section on the Evidence File, unless it has already been included to support an answer to one of the above questions.

INTERNAL CONTROL ARRANGEMENTS

If any evidence is held electronically there is no need to keep hard copies of it on the Evidence File. A simple reference to where the evidence can be accessed will suffice.

Risk Management

- Q1 Details of governors involvement in risk management system.
Approval of risk management policy.
Evidence to show that the risk register has been reviewed and the outcomes of the review
Consideration of risk management reports.
- Q2 Evidence to show that new risks have been identified and how risks are assessed.
Link between the college's risks and the college's strategic objectives.
- Q3 Any evidence to show that risk management system has been successful.

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- Q4 Evidence of action taken to address significant risks.
 - Q5 Any further details of the college's risk management system not previously supplied which demonstrates it is embedded within the college.
 - Q6 Examples of reports submitted to the Corporation requiring approval for a specific course of action (which have a section covering the risks associated with that area covered by the report).
 - Q7 Internal audit report on risk management.
 - Q8 If this question is answered then evidence should be provided to support the answer.

Internal Control

- Q1 Reports and management letters produced by all the college's auditors – the annual report of the internal auditors will suffice for internal audit. If this is not available, a schedule of internal audits produced together with the opinion will suffice.
- Q2 Details of the outcomes of all internal audit reviews in the past 12 months.
- Q3 Details of any adjustments made to the college's draft financial statements by the financial statements auditors.
- Q4 Evidence to show that DSAT's have been used and how the results of this have been used to address issues and improve data quality. Audit reports on the ILR and student data system.
- Q5 Copy of the internal auditors' strategic internal audit plan and annual internal audit plans for the current and previous year.

There needs to be evidence that all the college's systems of internal control were considered when the internal auditors prepared their strategic internal audit plan.
- Q6 Evidence to show that both senior management and the Audit Committee were consulted before the current internal audit plan was approved.
- Q7 Evidence of the college implementing all audit recommendations on a timely basis.
- Q8 Evidence to demonstrate that the Audit Committee considers all relevant reports.
- Q9 Whistle-blowing and fraud policies, and details of any incidents of whistle-blowing and fraud.
- Q10 Details of any review of financial regulations and subsequent approval.
- Q11 Details of the submission of data returns.
- Q12 Details of the Corporation approval of the strategic and annual internal audit plan, the audit needs assessment, the annual internal audit report and the annual report of the audit committee.
- Q13 If this question is answered then evidence should be provided to support the answer.

Summary of the Effectiveness Section

The college needs to keep the evidence which supports the positive impacts and outcomes that have been identified in this section on the Evidence File unless it has already been included to support an answer to one of the above questions.

FINANCIAL MONITORING ARRANGEMENTS

If any evidence is held electronically there is no need to keep hard copies of it on the Evidence File. A simple reference to where the evidence can be accessed will suffice.

- Q1 Copy of the college's financial reports including the management accounts.
Copy of any policy relating to the production of the management accounts and any evidence demonstrating compliance with this policy.
Ensure you identify in your answer when the first and last set of management accounts are produced.
- Q2 Covered in Q1
- Q3 Covered in Q1. May need details of any revisions to the approved budget if the "budget" figures shown in the financial reports differ from the original approved budget figures.
- Q4 Provide us with a copy of the management accounts provided to governors if different to those produced for management. Evidence to demonstrate that governors have commented upon suitability of the financial information provided to them.
- Q5 Any evidence produced for governors on under-performing activities.
- Q6 Report (if produced) on differences between final projected year-end out-turn position as per the college's last management accounts and the actual out-turn as per the audited Financial Statements.
- Q7 Report to the corporation or the finance committee which compares the financial outturn with forecasts made during the year and explains the reason for any major variances.
Any evidence which demonstrates that the out-turn forecasts included in the management accounts proved reasonably accurate during the year.
- Q8 Details of the college's financial health position in the last 12 months which demonstrate that it has been consistent with that which was planned.
Include, if relevant, details of any Financial Notices to Improve.
- Q9 If this question is answered then evidence should be provided to support the answer.

Summary of the Effectiveness Section

The college needs to keep the evidence which supports the positive impacts and outcomes that have been identified in this section on the Evidence File, unless it has already been included to support an answer to one of the above questions.

APPENDIX II – GUIDANCE FOR NON-COLLEGE PROVIDERS

Purpose of the Appendix

- 1 This appendix provides useful information on the areas covered in the FMCE return and it will help all non-college providers including those that the YPLA is responsible for, complete it properly and fully.

Form B

- 2 There is one form (Form B) for all non-college providers to complete. Brief guidance has been added to each of the questions being asked in Form B which should help non-college providers appreciate the purpose of a particular question and assist them with their answers.
- 3 This is the fourth year that a FMCE return has had to be completed, so most providers will now be used to completing it. However, there may be some providers who have not completed a full FMCE return before, for example, providers who were in receipt of their first direct contract in 2010/11. These providers were not required to complete a FMCE return last year but now need to complete a FMCE return this year as they have been in receipt of public funds for over 12 months. Such providers should liaise with either Brian Lister or Dan Canham before completing the FMCE return, as assistance and guidance in this task can be provided. If YPLA providers have any queries on the FMCE Return then they should contact either Ian Stafford – ian.stafford@ypla.gov.uk; or Malcolm Sevenoaks – malcolm.sevenoaks@ypla.gov.uk
- 4 Providers should ensure that the self-assessment of their financial management and control arrangements using the FMCE return encompasses any funds received from the YPLA as well as the Chief Executive of Skills Funding.

.Area 1: Accountability Arrangements

Area 1 Section 1: Strategic Oversight

- 5 If a provider considers that this section is not appropriate then “Not Applicable” should be entered as the grade in both Part 1 and Part 3. The overall self-assessed grade for Area 1: Accountability will then be based on the self-assessed grades for the next two Sections of this Area: Strategic Oversight and Sub-contracting arrangements (if applicable).
- 6 The Chief Executive of Skills Funding is:
 - trying to establish if there are any strategic oversight arrangements in place; and
 - whether these cover the performance of his (and the YPLA’s) contracts and/or funding.
- 7 At large providers where there are strategic oversight arrangements in place, but the Chief Executive of Skill Funding’s (YPLA’s) income forms only an insignificant part of its overall income, it is unlikely the Chief Executive of Skill Funding’s /YPLA’s contract performance and funding will be discussed at board (or equivalent) level. If this is the case then such providers may wish to answer the final question of this section and

explain how their particular strategic oversight arrangements work in respect of Chief Executive of Skills Funding's (and the YPLA's) contracts and/or funding.

Area 1 Section 2: Operational Oversight

- 8 The Chief Executive of Skills Funding wants to know how effectively his (and the YPLA's) contract and/or funding are managed by providers. This includes various staff roles such as finance, operational management and administration. Providers will require:
- sufficient staff to actually deliver the contract, for example, trainers and assessors;
 - an effective MIS function to record accurately all learner information and data, and submit returns to the Chief Executive of Skills Funding ; and
 - a reliable finance function so that the Chief Executive of Skills Funding income, and related expenditure, can be properly recorded.

Weaknesses in any of the above areas could have a serious impact on contract performance.

- 9 The Chief Executive of Skills Funding would expect all the activities of a provider which impacts on its contract and/or funding ((includes YPLA funding) to be subject to appropriate and effective operational oversight. This is why PFA, when carrying out a validation visit in parallel with Ofsted, will liaise with the inspectors and share evidence and exchange findings with them. PFA will be particularly interested in the inspectors' view on leadership and management as this will be of importance to them in validating the self-assessed grade for "Accountability". If the inspectors were to give a grade 4 for "Leadership and Management" then that would suggest to PFA that the provider is not effective. Thus due to the significance attached to this grade 4, PFA would probably have to give a grade 4 for both "Operational Oversight" and then "Accountability" overall. If the inspectors were to give a grade 3 for "Leadership and Management" then PFA would find it difficult to provide an "Outstanding" grade for "Operational Oversight".

Area 1 Section 3 Sub-contracting Arrangements (if applicable)

- 10 Sub-contracting arrangements cover any arrangements that providers have in place to deliver their agreed volumes, across all of the Chief Executive of Skills Funding's (and the YPLA's) funding streams, through the use of sub-contracted provision. This includes the arrangements for managing franchised or partner provider FE activity, but also includes arrangements where providers act as the lead provider for consortia, for example, for Train to Gain or Apprenticeship provision. Lead providers are responsible for the overall quality of provision, quality of outcomes, overarching self-assessment processes and judgements and for the management and control of funding.
- 11 If this Section is not applicable to a provider then "Not Applicable" should be entered as the grade in both Part 1 and Part 3 of the FMCE. The overall self-assessed grade for Area 1: Accountability will then be based on the self-assessed grades for the first two Sections of this Area namely Strategic Oversight and Operational Oversight.

Area 2: Financial Planning Arrangements

Area 2 Section 2: Long-term Financial Planning

- 12 The capacity for long-term financial planning in respect of the Chief Executive of Skills Funding/YPLA funds may be limited in many providers and the Chief Executive of Skills Funding does recognise this. However, the Chief Executive of Skills Funding would expect all providers to have some idea or views as to what will happen in respect of Agency/YPLA funding after the end of the current contract period at 31 July. Furthermore, as a provider's size increases, planning arrangements need to be developed and enhanced, for example, if the size of the Chief Executive of Skills Funding's contract increases significantly, a provider will have to recruit extra staff and possibly acquire additional premises in order to deliver the contract and all this will have to be planned for.
- 13 Due to the expected variations in providers' long-term financial planning arrangements, the Chief Executive of Skills Funding recognises that some providers will not have in place all the controls specified in Part 3 and the related question will generate a "Not Applicable" answer. If this is the case, providers should explain what long-term financial planning controls are in existence by answering the last question in this section.

Area 2 Section 2: Short-term Financial Planning

- 14 For non-college providers, this section is the more important of the two financial planning sections because of the importance of the annual budget to effective financial management.
- 15 All providers should know what income is expected to be received from the Chief Executive of Skills Funding/YPLA in a particular year, and the Chief Executive of Skills Funding would expect this amount to appear in either a budget or something equivalent. This section will therefore apply to all providers.
- 16 The Chief Executive of Skills Funding appreciates that the actual short-term planning arrangements in place will vary from provider to provider, but all should be appropriate for a provider's size and level of public funding. If, for example, the Chief Executive of Skills Funding's (YPLA's) income forms an insignificant part of a provider's overall income then it may not even have a budget head of its own. The Chief Executive of Skills Funding would still hope that expected Agency income is recorded at some level in the provider. However, where the Chief Executive of Skills Funding's (YPLA's) income forms the most significant income source, the Chief Executive of Skills Funding would expect that this income budget head to be soundly based and supported by valid assumptions.

Area 3: Internal Control Arrangements

Area 3 Section 1: Risk Management

- 17 The Chief Executive of Skills Funding appreciates that providers will manage risks in different ways. However, all providers need to be aware of, and be able to manage the following risks:
 - the impact of a poor inspection;

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- financial problems;
 - loss of key personnel;
 - competition
 - reduced funding allocation;
 - failure to meet funding targets; and
 - MLP issues.

Area 3 Section 2: Internal Control Arrangements

- 18 A prime consideration here is the findings and outcomes of recent PFA audits, that is, any audit which has taken place during the past year, or since the last time a full FMCE return was made. If a provider has received a qualified audit opinion(s) this should be fully reflected in the FMCE return, and details of action taken to address the issues should be included in the Summary of Effectiveness Section.
- 19 Any weaknesses identified by PFA (or any other review bodies) that have not yet been fully addressed should be included in the Improvement Plan.
- 20 Other providers, due to their size or type, may have other examples of how their internal control system is effective and they are encouraged to provide details of these, with reference to impact and outcomes, in the Summary of the Effectiveness section.

Area 4: Financial Monitoring Arrangements

- 21 The Chief Executive of Skills Funding would expect all providers to monitor their performance against its contract and/or funding targets and to do this effectively they need access to reliable, suitable and accurate information.
- 22 At large providers where the Chief Executive of Skills Funding's funds form only an insignificant part of its overall income, the Chief Executive of Skills Funding's interest will be concentrated on the contract performance reports produced for the team responsible for managing the Chief Executive of Skills Funding's contract. However, where the Chief Executive of Skills Funding income forms a provider's most significant income source, the Chief Executive of Skills Funding obviously has an interest in the form and content of the financial reports produced.
- 23 All providers should know not only what has been received (cash) from the Chief Executive of Skills Funding, but also what is due from/to the Chief Executive of Skills Funding, that is, does the Chief Executive of Skills Funding owe amounts to a provider or does a provider owe amounts to the Chief Executive of Skills Funding. Providers should account for sums actually due from the Chief Executive of Skills Funding as opposed to cash actually received.

Financial Health

- 24 The Chief Executive of Skills Funding Agency cannot avoid considering the issue of financial health when reviewing the effectiveness of the provider's financial management and control arrangements. The Chief Executive of Skills Funding needs to ensure that a provider has sufficient financial resources so that it can operate throughout the life of its funding agreements and fully discharge its obligations under these funding agreements.

25 Providers also need to be aware of the risks involved if there is a significant deterioration in their financial position namely:

- learners will suffer if their learning provision is disrupted or terminated;
- the Chief Executive of Skills Funding is unable to recover any funds owed to it by the provider; and
- the Chief Executive of Skills Funding's reputation is damaged.

Validation of the Financial Management and Control Evaluation Return

26 As noted in the guidance it is likely that the FMCE Return for some non-college providers will be validated at the same time these providers are inspected by Ofsted. In these circumstances providers will have to complete a full FMCE return because the validation undertaken by PFA is based on a full FMCE return.

27 At the current time PFA will aim to follow the financial guidelines at annex A to this appendix in deciding which providers to visit during inspection time (these financial guidelines apply to the cumulative value of contracts from the successor funding bodies to the LSC). So those providers who have contracts for £1m or less are unlikely to be visited by PFA, whilst providers who have contracts for £5m and above are likely to be visited by PFA. The situation is not as clear for those providers who have contracts in the range of £1m to £5m. Accordingly, these providers should contact their audit manager when they are informed that they are to be inspected to ascertain if a validation of their FMCE Return will take place.

28 PFA will need access to both the full FMCE return and the FMCE Evidence File two weeks before the start of the validation visit, so that the validation process can commence. Providers therefore should ensure the FMCE Evidence File is kept up-to-date and to assist providers with this task a guide to what evidence should be retained is provided on annex B to this appendix. The efficiency of the PFA validation could be affected adversely if all the required evidence is not available to them.

29 PFA will initially undertake a desk-top review of the FMCE Return. If the PFA team identify any apparent inconsistencies or omissions during the desk-based review then they will follow these up with the provider during the validation visit itself.

30 PFA will aim to complete the validation of the full FMCE return during the visit by:

- ensuring the evidence retained in the Evidence File supports all the "Yes" answers entered in Part 3 of the full FMCE return;
- ensuring that all weaknesses and/or areas for improvement in the financial management and control arrangements have been identified and included in the FMCE Improvement Plan;
- ensuring that adequate justification has been provided as to why any "no" answers or "not applicable" answers to the questions in Part 3 of the FMCE return have not been treated as weaknesses and have not been included in the FMCE Improvement Plan;

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- reviewing the responses in the *Summary of the Effectiveness Sections* to ascertain how effective the financial management and control arrangements are in the four areas covered by the FMCE return; and
 - comparing and contrasting the effectiveness of the financial management and control arrangements with the grade components included in the guidance document, *Indicative Examples of Grade Components for all non-college providers*.
- 31 At the end of the validation visit, PFA will feed back the strengths and weaknesses/areas for improvement they have identified during the course of their validation of the FMCE return and confirm their opinion on the provider's financial management and control arrangements. This opinion will be that:
- they concur with the provider's overall self-assessed grade for the financial management and control arrangements and agree with the identified strengths and (if applicable) weaknesses/areas for improvement; or
 - they do not concur with the provider's overall self-assessed grade for the financial management and control arrangements and thus they have to provide a different grade, which could be either higher or lower than the provider's self-assessed grade.
- 32 In respect of the latter option, a lower grade may be given if they cannot validate all the strengths and/or they identify additional weaknesses/areas for improvement. Conversely, a higher grade may be given if they identify additional strengths and/or find many of the identified weaknesses are no longer relevant.
- 33 The resulting report issued to providers confirming the findings and opinion will normally be based on the contents of the feedback notes. However, providers should appreciate that the draft feedback notes will be subject to manager review and moderation which may result in changes and alterations being made to the findings initially feedback. Thus the contents of the actual issued report may not always be totally consistent with the contents of the draft feedback notes. However, any new issues included in the report should though be factually accurate and based on evidence PFA have examined.

ANNEX A - FINANCIAL GUIDELINES TO DETERMINE IF A VALIDATION VISIT TO A NON-COLLEGE PROVIDER SHOULD TAKE PLACE WHEN THE PROVIDER IS INSPECTED BY OFSTED

Value of contracts	Comments
<£1m	It is unlikely that a provider will be visited by PFA when it is being inspected by Ofsted.
£1m - £5m	<p>(Resources permitting) PFA will consider undertaking a visit:</p> <ul style="list-style-type: none"> • if the value of the contracts exceed 50% of the provider's turnover (provider is dependent on the Chief Executive of Skills Funding (and YPLA) income and loss of contracts or reduction in value could cause problems); and/or • there are other known concerns at this provider (qualified PFA reports, financial health assessment out-of-date and/or gives cause for concern, large year on year variations in the amount of funding received, performance issues etc). <p>There could be good reasons for not doing a validation visit, for example:</p> <ul style="list-style-type: none"> • value of the Chief Executive of Skills Funding (and YPLA) contracts form a small % of the provider's overall turnover; • the provider is in good financial health and assessments are up-to-date; and • no problems have been identified by PFA and/or relevant colleagues.
£5m+	<p>A visit is likely. However, please note that:</p> <ul style="list-style-type: none"> • if dependency on the Chief Executive of Skills Funding (and YPLA) income is high, then arguably our interest in the provider's overall financial management and control arrangements should be high; and • if dependency on the Chief Executive of Skills Funding (and YPLA) income is low then arguably our interest should be confined to the provider's financial management and control arrangements relating to this income.

ANNEX B – SUGGESTED EVIDENCE TO BE RETAINED ON A PROVIDER'S FMCE EVIDENCE FILE

If any evidence is held electronically there is no need to keep hard copies of it on the Evidence File. A simple reference to where the evidence can be accessed will suffice.

ACCOUNTABILITY ARRANGEMENTS

Strategic Oversight

- Q1 Details of the strategic oversight arrangements in place. Note these details are only required if they cover the Chief Executive of Skills Funding (and YPLA) funds.
- Q2 Details of any external organisation that provide regular independent challenge. This question may not be applicable to all providers.
- Q3 This question is only applicable to providers with a separate training unit.
- Q4 If this question is answered then evidence should be provided to support the answer.

Operational Oversight

- Q1 Details of person who is responsible for the Chief Executive of Skills Funding (and YPLA) contract.
- Q2 Details of meetings where the Chief Executive of Skills Funding (and YPLA) contract is discussed.
- Q3 Any evidence which demonstrates that staff involved in the administration of the Chief Executive of Skills Funding (and YPLA) contract are appropriately skilled and experienced.
- Q4 Details of any financial training.
- Q5 Any evidence to show how the team responsible for the delivery of the Chief Executive of Skills Funding (and YPLA) contract are monitored.
- Q6 Evidence to show how finance and MIS functions support delivery of the Chief Executive of Skills Funding (and YPLA) contract.
- Q7 Details of finance and MIS functions – those parts which are relevant to administration of the Chief Executive of Skills Funding (and YPLA) contract
- Q8 Details of the self-assessment of Leadership and Management.
- Q9 If this question is answered then evidence should be provided to support the answer.

Sub-Contracting

- Q1 Details of how sub-contractors were appointed.
Details of how sub-contractors are assessed before contracts awarded
- Q2 The annex to the contract which lists the sub-contractors.
- Q3 Sub-contracting agreements.
- Q4 Evidence of reviews undertaken at sub-contractors.
- Q5 Evidence of assessments made on performance of sub-contractors.
- Q6 Evidence of how you ensure ILR data from sub-contractors is accurately completed.
- Q7 Evidence to show how you deal with conflicts of interest – may not be applicable to many providers.
- Q8 If this question is answered then evidence should be provided to support the answer.

Summary of the Effectiveness Section

There is a need to keep the evidence which supports the positive impacts and outcomes that have been identified in this section of the FMCE Return.

FINANCIAL PLANNING ARRANGEMENTS

Long-term Financial Planning

- Q1 Medium or long term business plans – these need to cover the Chief Executive of Skills Funding (and YPLA) funds.
- Q2 Any evidence which demonstrates that these plans have been accurate.
- Q3 If this question is answered then evidence should be provided to support the answer.

Short-term Financial Planning

- Q1 Annual budget (assuming it covers the Chief Executive of Skills Funding (and YPLA) funds) otherwise provide whatever financial information you have which incorporates Skills Funding Agency funds.
- Q2 Any evidence which demonstrates that the annual budget has been accurate.
- Q3 If this question is answered then evidence should be provided to support the answer

Summary of the Effectiveness Section

There is a need to keep the evidence which supports the positive impacts and outcomes that have been identified in this section of the FMCE Return.

INTERNAL CONTROL ARRANGEMENTS

Risk management

- Q1 Details of risk management policy and process.
- Q2 Risk register – we can review it on site if necessary.
- Q3 Evidence to show that action is taken to address the most significant risks identified in the register.
- Q4 Any evidence to show your risk management arrangements has been effective.
- Q5 Evidence to show that the risk management arrangements are fully embedded.
- Q6 If this question is answered then evidence should be provided to support the answer.

Internal Control System

- Q1 Reports and management letters produced by the auditors.
- Q2 Details of any adjustments made to the draft financial statements by the financial statements auditors.
- Q3 Evidence to show that DSAT's have been used and how the results of this have been used to address issues and improve data quality.
- Q4 Details of systems of control in place covering the Chief Executive of Skills Funding (and YPLA) funds. See also Q5. Evidence may be the same.
- Q5 Documented policies and procedures covering the Chief Executive of Skills Funding (and YPLA) funds.
- Q6 Details of self-assessment procedures.

-
- Q7 Any evidence to show that the provider's systems are free from fundamental weakness. We appreciate that there may be no additional evidence to that which has already been included on the Evidence File.
- Q8 For larger providers – details of any internal audit activity covering the Chief Executive of Skills Funding (and YPLA) funds.
- Q9 Any instances of fraud and/or irregularity in respect of the Chief Executive of Skills Funding (and YPLA) funds.
- Q10 If this question is answered then evidence should be provided to support the answer.

Summary of the Effectiveness Section

There is a need to keep the evidence which supports the positive impacts and outcomes that have been identified in this section of the FMCE Return.

FINANCIAL MONITORING ARRANGEMENTS

- Q1 Documented procedures and/or policies covering production of reports relating to Skills Funding Agency funds.
- Q2 Accountancy system used.
- Q3 Examples of reports produced relating to the Chief Executive of Skills Funding (and YPLA) funds.
- Q4 Details of any income (the Chief Executive of Skills Funding (and YPLA)) reconciliations which take place.
- Q5 Details of how reports are used to address financial and contractual issues.
- Q6 Details of final year-end reconciliation of the Chief Executive of Skills Funding (and YPLA) funds.
- Q7 For small providers only. Evidence to show an appropriate accounting system is used.
- Q8 If this question is answered then evidence should be provided to support the answer.

Summary of the Effectiveness Section

There is a need to keep the evidence which supports the positive impacts and outcomes that have been identified in this section of the FMCE Return.

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