

i For information



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Guidance for Colleges on the Self-Assessment of their Financial Management and Governance Frameworks, and on Provider Financial Assurance Regional Team Reviews of these Frameworks in Parallel with Inspections by the Education Inspectorate – 2006/07

Addressed to:

College Principals, Heads of Finance, Clerks to the Corporation and Other Staff involved in Colleges' Annual Self-Assessment Process

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Executive Summary

1. This document sets out the 2006/07 guidance for colleges:
 - a. to support the self-assessment of their financial management and governance frameworks; and,
 - b. to inform them of how provider financial assurance (PFA) regional team reviews of these frameworks, in parallel with inspections by the education inspectorate, would be undertaken.

The parallel reviews, referred to in b above, are in accordance with paragraph 19 of the *Memorandum of Understanding on Inspection Arrangements for Post-16 Provision* (the *Memorandum of Understanding*) between the Learning and Skills Council (LSC), Jobcentre Plus, Ufi Limited, the Office for Standards in Education (Ofsted) and the Adult Learning Inspectorate, dated 23 May 2005.

2. Inspectors and auditors have worked in parallel through the last two inspection cycles for colleges. The aim of parallel working continues to be a consistent, holistic view of the college and to minimise the administrative impact on the college which separate visits would bring. Inspectors and auditors share evidence to inform each others' findings. The National Audit Office (NAO) report, *Securing Strategic Leadership for the Learning and Skills Sector in England*, published in May 2005, recognised the value of this approach. Changes to the inspectors' approach, particularly notification periods for colleges, and the assurance framework for colleges have required the PFA regional teams to modify their approach for 2005/06 reviews and beyond.
3. The document *Quality Improvement and Self-Assessment*, published by the LSC in May 2005, confirmed that parallel working would continue. It indicated that the preparation of colleges' self-assessment reports (SAR) should take account of the scope of the PFA regional teams' reviews. Judgements in relation to those areas reviewed by the PFA regional team should also contribute to the grading of 'leadership and management' in the SAR. It also indicated that the PFA team would produce further guidance to support colleges' self- assessments, and explain how its reviews would be conducted. This document provides that further guidance, and is intended to be helpful to colleges in annually preparing SARs and in preparing for PFA regional team reviews.
4. A major change to the PFA review process is that the PFA regional team will use the college SAR as a starting point in determining the scope of its review. The scope will be determined on the basis of risk, also having regard to the outcomes of annual planning reviews, discussions with relevant regional and area LSC colleagues, recent evidence of financial health, and the outcomes of college audit reports. Depending on the assessment of risk, the review will either be 'full scope', 'limited scope' or 'desk-based' (formerly 'office-based').

5. To help colleges in their self-assessment, a self-assessment report questionnaire (SARQ), together with details of the evidence which might be collated in support of the judgements made, is provided. Colleges are encouraged to use other sources of evidence, in undertaking their self-assessment. Colleges should find it useful to update the SARQ and supporting evidence as appropriate each year as part of their self-assessment process.
6. The SARQ sets out a series of questions in relation to the soundness, operation and also the effectiveness of colleges' financial management and governance frameworks. Asking colleges to self-assess the effectiveness of the frameworks is another major change. The PFA team believes it is essential for colleges to assess themselves against these questions, if they are to satisfactorily form their judgements and opinions on those frameworks, as part of the annual self-assessment process.
7. The PFA team has taken considerable care in the preparation of the SARQ to ensure that it does not duplicate the regularity audit self-assessment questionnaire (SAQ) and the work of college financial statements auditors in this regard. Colleges should, however, draw on the completed SAQ and the results of their regularity audit in undertaking their self-assessment.
8. The outcomes of the self-assessment should be expressed as grades, on a scale of 1 to 5, reflecting separate opinions on:
 - a. the soundness and operation of the college's financial management and governance frameworks; and,
 - b. the effectiveness of the frameworks.

The grade descriptors are set out at annex A. Colleges should refer to the self-assessment of their financial management and governance frameworks, and the resulting grades, in their SAR.

9. Colleges may find it useful to collate documentary evidence in support of their responses to the questions on the SARQ. A list of suggested evidence is provided at part A of annex G. Colleges are also encouraged to collate any other supporting evidence they feel is appropriate.
10. Following the initial completion of the SARQ and the collation of supporting evidence, colleges are strongly recommended to review and update the questionnaire and supporting evidence each year as part of their annual self-assessment. The PFA team believes that this ongoing review should not prove to be an onerous task, the benefit to the college being that its annual self-assessment will always be based on the most up to date information and judgements.
11. The PFA regional team will only ask for sight of the SARQ and supporting evidence when it undertakes a review of the college. This information will

facilitate the planning of the PFA regional team's review of the college's financial management and governance frameworks.

12. As noted above, the scope of the PFA regional team review will be either 'full scope', 'limited scope' or 'desk-based'. Proforma introductory letters to the college in respect of each type of review are included at annex F.
13. The PFA team has made significant changes to the nature of the 'desk-based' review. This reflects comments from colleges and inspectors who expressed a wish to receive personal feedback from the PFA regional team. Consequently, the 'desk-based' review will include:
 - a. a one day visit to the college during inspection week, for the purposes of liaison with the inspectors, follow up of any outstanding issues and feedback of findings and opinion to the principal and colleagues;
 - b. the provision of an opinion on the effectiveness of the financial management and governance frameworks (formerly the soundness and operation of those frameworks); and,
 - c. the use of the same grading scale as for 'limited scope' and 'full scope' reviews (see annex A).
14. In response to *Securing Strategic Leadership for the Learning and Skills Sector in England*, the PFA team held a series of seminars for college staff in the autumn 2005. The purpose of these seminars was to enhance college staff's understanding of the respective roles of the PFA team and the education inspectorate when working in parallel at colleges, and to set out the revised working arrangements for 2005/06 and beyond. The PFA team continues to work with the College Clerks' and Finance Directors' Groups to enhance understanding of these roles. In addition, PFA regional teams offer colleges, which have been notified that they are to be inspected, a pre-inspection meeting, at which all aspects of the forthcoming financial management and governance review can be discussed.
15. Colleges should note that if they require any general advice in relation to the annual self-assessment of their financial management and governance frameworks, or wish to discuss any aspect of the PFA regional teams' financial management and governance reviews, they should contact Brian Lister (01274 444106) or Ian Stafford (01274 444108). In respect of a specific review, colleges should, in the first instance, contact the PFA staff member named in the letter referred to in paragraph 12 above.

Introduction

16. The LSC publication, *Quality Improvement and Self-Assessment*, sets out the main purposes and uses of self-assessment in the context of providers' accountability for their own quality and improvement. It notes that, although the requirement for providers to undertake self-assessment was initially introduced as part of the preparation for inspection, it is an important business tool in its own right, supporting providers' own work on quality improvement and assisting them to measure progress against their own mission and goals. Providers are required to produce a SAR annually. The need for colleges' SARs to take account of the scope of the PFA regional teams' reviews of financial management and governance is covered in paragraph 21 below.
17. Following the completion of the 2001/02 to 2004/05 round of college inspections, the LSC's PFA team has undertaken a detailed review of its approach to financial management and governance reviews at colleges, including the scope of such reviews, in parallel with the education inspectorate. This review has been necessitated largely by the following:
 - a. the implementation of plan-led funding and associated changes to the LSC's assurance regime, including the introduction of 'enhanced' regularity audit;
 - b. the need to minimise any duplication of work within the assurance regime;
 - c. comments received from colleges in respect of the financial management and governance reviews undertaken during 2004/05;
 - d. changes to the way in which inspections are carried out, in particular, the much reduced notice period which will be given to colleges from autumn 2005; no longer than six weeks, and, in most cases, as little as three weeks;
 - e. the introduction of the LSC business cycle.
18. As part of the regularity audit framework, introduced for 2004/05, the LSC has developed an annual SAQ, which provides colleges with an opportunity to evaluate their regularity and propriety in the use of LSC and other sources of funding. The PFA team has ensured that there is no overlap between the SAQ and this guidance. The PFA team has also undertaken a comprehensive review of the areas previously included in the self-assessment aide-mémoire (SAAM), completed by colleges inspected during 2002/03 to 2004/05. Consequently, the number of areas covered in the SARQ, dealing purely with the soundness and operation of the financial management and governance frameworks, has been reduced compared to the SAAM.

19. Annex C to the *Audit Code of Practice* (published as supplement A to Circular 04/07 in December 2004), *Business Areas for Inclusion in Internal Audit Strategic Plans*, requires colleges' internal audit service (IAS) providers to include annually in their internal audit plans 'the operation of governance processes'. Although no comprehensive definition of the components of 'governance processes' exists, in broad terms, these processes include the following:
- a. information and decision making;
 - b. risk management;
 - c. financial management and control.

Hence, there may be some overlap between the work undertaken by college IAS providers on 'governance processes' and PFA regional team reviews of financial management and governance. Colleges should use the results of relevant internal audit work to inform their self-assessment. Similarly, the PFA regional team will seek to take comfort from the internal audit work performed rather than duplicate work.

The Self-Assessment of Financial Management and Governance

20. Parallel working between the PFA regional teams and the education inspectorate is referred to in paragraphs 26 and 27 of *Quality Improvement and Self-Assessment*. The success of this arrangement in ensuring consistent messages to providers and in reducing bureaucracy is noted. Annex B to *Quality Improvement and Self-Assessment* deals with the PFA regional teams' reviews of financial management and governance, and notes the intention to make further information on these reviews available on the LSC website. This guidance has been produced in response to that pledge.
21. The basis of providers' self-assessment derives from the five key questions in the Common Inspection Framework, one of which deals with the effectiveness of 'leadership and management' in raising achievement and supporting all learners. An important component of 'leadership and management' is the soundness, operation and effectiveness of colleges' arrangements for financial management and governance. It is therefore essential that colleges take into account the scope of the PFA regional team's work on these arrangements when coming to an overall judgement about and grading 'leadership and management' in their SAR.
22. In preparation for PFA regional team reviews, colleges have in recent years been requested, six weeks before the date of the inspection, to complete a SAAM, allowing them to evaluate their own frameworks for financial management and governance. The SAAM was returned to the PFA regional team, along with supporting documentation, at least two weeks in advance of the start of the inspection. Given the reduced notice period, referred to in paragraph 17 d. above, it is no longer practical to continue with these arrangements.

23. Colleges are therefore asked to self-assess the soundness, operation and effectiveness of their financial management and governance frameworks annually, as part of their overall self-assessment procedures. The outcome of this process will be the separate grading of:

- a. the soundness and operation of the frameworks;
- b. the effectiveness of the frameworks.

These grades should contribute to the overall judgement on and grading of 'leadership and management'. Colleges should make specific reference to the self-assessment of their financial management and governance frameworks, and the resulting grades, in their SAR. Details of the grading system to be used by colleges are set out at annex A. This grading system will also be used by the PFA regional team when reporting its findings.

24. It is for colleges to determine the basis for their self assessment. However, to assist colleges in this regard, the PFA team has produced a SARQ, which sets out clearly, through a series of questions, the areas the PFA team believes colleges should consider when undertaking the annual self-assessment of the soundness, operation and effectiveness of their financial management and governance frameworks. In addition, the PFA team believes that it would be useful for colleges to collate documentary evidence in support of their responses to the questions on the SARQ. Part A of annex G provides a list of suggested evidence. However, colleges are encouraged to gather any other evidence they feel is appropriate. This evidence is likely to include:

- a. the college's latest regularity audit SAQ;
- b. the results of recent audit work or related consultancy work at the college;
- c. any consultancy or other ad hoc reports on financial management and governance;
- d. any college-generated reports on, for example, performance against the targets in the three-year development plan.

25. The SARQ is a development of the SAAM, which was first introduced for 2002/03 reviews of financial management and governance. The SARQ was prepared, and has been updated for 2006/07 reviews, with advice from the College Clerks' and Finance Directors' Groups, and we gratefully acknowledge their input.

26. While we acknowledge that the annual completion of the SARQ is a cost for colleges, we believe that it also brings benefits:

- a. it gives colleges a sound basis against which to begin the annual self-assessment of the soundness, operation and effectiveness of their

financial management and governance frameworks, thereby contributing significantly to the overall judgement on and grading of 'leadership and management';

- b. it ensures that the college is prepared for the PFA regional team review of the soundness, operation and effectiveness of its financial management and governance frameworks in parallel with the education inspectorate, whenever the college is notified that it is to be inspected;
- c. the college's completion of the SARQ and the provision of supporting documentation is very helpful to the PFA regional team in planning the review. By dealing with matters of fact and allowing the college to gather in advance the documents the team needs to see, the completed SARQ will enable the team to confirm their understanding of these facts, and then focus with the college during our review on significant issues, which will impact on our opinion(s) on the college's financial management and governance frameworks;
- d. in respect of 'full scope' and 'limited scope' reviews, in particular, the undertaking of a significant amount of work in advance of the visit itself enables the PFA regional team to focus on issues of effectiveness in the use of the LSC's resources, in addition to the college's more formal compliance with requirements covered by the SARQ;
- e. the completed SARQ and supporting documentation also helps reduce requests to the college for explanations and additional information during the review;
- f. it ensures, as far as possible, that the PFA regional teams achieve a common standard in the discharge of their responsibilities for providing assurance to the LSC on the soundness, operation and effectiveness of colleges' financial management and governance frameworks.

27. Once colleges have completed the SARQ, and collated the supporting evidence, they are strongly recommended to review their responses and the supporting evidence each year, in support of their annual self-assessment. The ongoing review and update process should be a relatively easy task, and, by doing so, the amount of work which needs to be carried out in respect of the annual self-assessment of a college's financial management and governance frameworks, and, in particular, a forthcoming inspection, will be significantly reduced. Whilst the review and update process is not mandatory, the scope of the PFA regional team review of financial management and governance is likely to be affected at any college selected for inspection, which is unable to provide a completed SARQ and supporting evidence.

28. The annexes to this document include:

- a. the SARQ (annex B – provided as a separate document);

- b. key references to documents in the SARQ (annex C);
- c. notes on use of the SARQ for Catholic sixth form and other colleges (annex D);
- d. guidance on the completion of the SARQ (annex E).

29. The PFA team will annually update the SARQ in the light of sector developments, changes to LSC requirements and guidance (as reflected in LSC circulars and other documents), changes to the assurance regime and comments received from colleges.

Action to be Taken on Notification of Inspection

The PFA Regional Team

30. The principal task of the PFA regional team, when notified that a college is to be inspected, will be to determine the scope of the financial management and governance review and notify the college and the education inspectorate accordingly. The three tier review process, which has operated since 2003/04, will continue; that is, 'full scope', 'limited scope' and 'desk-based'.

31. The scope of the review will be determined by reference to the following:

- a. the college's latest SAR (see below);
- b. the college's current financial health category, as most recently determined/agreed by the relevant regional finance team;
- c. discussions with relevant regional and area LSC colleagues regarding the LSC's latest view of the college, including:
 - i. whether or not the college is in plan-led funding
 - ii. the outcomes of the area LSC's most recent annual planning review meeting
 - iii. information received by the area LSC in respect of recent and likely future financial performance
 - iv. timeliness and accuracy of submission of funding returns submitted to the area LSC;
- d. the results of the PFA regional team's previous review of financial management and governance at the college, in conjunction with the results of any follow up work which has been undertaken in the intervening period;
- e. the outcomes of the education inspectorate's most recent annual assessment visit;
- f. information received by the PFA regional team following internal, financial statements/regularity and, where relevant, funding audit visits to the college;
- g. any letters received from whistleblowers and adverse press reports.

In respect of a. above, the PFA regional team will review the college's SAR annually to inform its ongoing view of the college, irrespective of whether the

education inspectorate has informed the college that it is to be inspected. The PFA regional team will also provide feedback on the college's SAR at the closing meeting following its review of the college's financial management and governance frameworks.

32. Once the PFA regional team has determined the scope of the review, the team will inform the college in writing whether it is to receive a 'full scope', 'limited scope' or a 'desk-based' review. The letter from the PFA regional team will also include the following information:

- a. the rationale behind the determination of the scope of the review;
- b. the name(s) of the staff who will be undertaking the review;
- c. the dates that the staff will be at the college;
- d. the action to be taken by the college in advance of the PFA regional team review (see below);
- e. for 'full scope' and 'limited scope' reviews, the college staff and governors we need to meet during our visit;
- f. details of feedback and reporting arrangements.

33. Proforma introductory letters in respect of each type of review are included at annex F.

The College

34. Paragraph 16 of the *Memorandum of Understanding* states that, 'Ofsted will notify colleges and partners of planned inspections three to six weeks prior to the planned inspection date'.

35. On notification, the college should forward the following to the relevant PFA regional audit manager, to arrive not later than two weeks before the start of the inspection:

- a. the completed SARQ and evidence collated in support of the college's responses to the SARQ, which have been used to inform the judgements on 'leadership and management' in the college's latest SAR. The supporting evidence should include those items listed in part A of annex G, as well as any other evidence the college deems to be appropriate;
- b. other information which will be required by the PFA regional team to enable it to form its opinion(s) on the college's financial management and governance frameworks. A list of this information is provided in part B of annex G.

36. Following receipt of the introductory letter from the PFA regional team (see paragraph 32 above), advising the college on the scope of the PFA regional team review, the college should, in respect of a 'full scope' or 'limited scope' review:

- a. arrange the requested meetings with members of college staff and governors; and,
- b. ensure that the information listed in part C of annex G is made available to the PFA regional team at the start of its visit to the college.

Other Matters

Appeals Process

37. An appeals process exists for those colleges wishing to appeal against the grade(s) awarded for reviews of financial management and governance by the PFA regional team. A written appeal must be lodged with the regional audit manager responsible for the review, no later than five working days after the closing meeting. A copy of the appeals procedure is available on request.

National Audit Office Report

38. *Securing Strategic Leadership for the Learning and Skills Sector in England*, published by the NAO on 18 May 2005, recognises the value of PFA regional team reviews of colleges' financial management and governance frameworks, in parallel with their four-yearly inspection by the education inspectorate. Paragraph 27 of the executive summary notes that these joint reviews give an independent view 'on whether colleges are well run and provide a satisfactory service to learners'.

39. However, paragraph 3.5 of the publication states,

'Some college staff are not clear on the reasons why there are separate inspection and performance review reports and how their respective roles and findings complement each other',

and, consequently, paragraph 33, section 8, of the executive summary recommends that,

'The LSC's provider financial review team and the inspectorate should consider how to improve colleges' understanding of their respective roles'.

40. To this end, the PFA team held a series of seminars for colleges in the autumn 2005, and the team continues to work with the College Clerks' and Finance Directors' Groups to enhance understanding of these roles. In addition, PFA regional teams offer colleges, which have been notified that they are to be inspected, a pre-inspection meeting, at which all aspects of the forthcoming financial management and governance review can be discussed.

GRADES**For the Soundness and Operation of the Frameworks**

Grade 1	Full assurance	Outstanding. There are many outstanding areas of strength and no or only a few areas of weakness.
Grade 2	Full assurance	Good. There are many good areas of strength and no or only a few areas of weakness.
Grade 3	Satisfactory assurance	Adequate. There are some areas of strength and some areas of weakness.
Grade 4	Qualified assurance	Inadequate. There are some significant areas of weakness and a few areas of strength.
Grade 5	Limited assurance	Poor. There are many significant areas of weakness and no or only a few areas of strength.

For the Effectiveness of the Frameworks

Grade 1	Full assurance	Outstanding. There are many outstanding areas of strength and no or only a few areas of weakness.
Grade 2	Full assurance	Good. There are many good areas of strength and no or only a few areas of weakness.
Grade 3	Satisfactory assurance	Effective. There are some areas of strength and some areas of weakness.
Grade 4	Qualified assurance	Ineffective. There are some significant areas of weakness and a few areas of strength.
Grade 5	Limited assurance	Poor. There are many significant areas of weakness and no or only a few areas of strength.

THE SARQ

The SARQ is provided as a separate document.

KEY REFERENCES TO DOCUMENTS IN THE SARQ

Where applicable, we give the source of compliance or good practice against each question or request for information. These references are set out below:

- ACOP *Audit Code of Practice*, published by the LSC as an accompaniment to Circular 04/07. (Obtainable from www.lsc.gov.uk under Documents > Series > Circulars).
- Art *The Further Education Corporations (Former Further Education Colleges) (Replacement of Instruments and Articles of Government) Order 2006*. (Obtainable from www.dfes.gov.uk/furthereducation)
- NB: sixth form colleges will have different references as their model articles of government are provided in *The Further Education Corporations (Former Sixth Form Colleges) (Replacement of Instruments and Articles of Government) Order 2006*. (Obtainable from www.dfes.gov.uk/furthereducation)
- Circular 96/06 Circular 96/06, *Franchising*, which sets out the control criteria for franchised provision.
- Circular 99/37 Circular 99/37, *Franchising and Fees*, which provides confirmation of LSC decisions following consultation on franchising and fees in Circular 99/09.
- Circular 99/48 Circular 99/48, *The Financial Memorandum*, which provides the financial memorandum between the LSC and colleges (NB: At the time of publication of this guidance, the LSC was consulting on amendment to *The Financial Memorandum Part 1*, which sets out the key financial terms and conditions under which the LSC provides funds to colleges).
- NB: All the above circulars were issued by the FEFC and can be obtained from www.lsc.gov.uk under Documents (see link to archived FEFC circulars). Those circulars listed below have been issued by the LSC and can be obtained from www.lsc.gov.uk under Documents > Series > Circulars.
- Circular 03/09 Circular 03/09, *Success for All*, which sets out the arrangements for agreeing three year development plans and three year funding.
- Circular 06 (1) *Accounts Direction to Further Education Colleges for 2005/06*, provides direction to colleges and financial statements auditors on the preparation of colleges' annual financial statements.

Circular 06 (2) *Financial Planning Handbook 2006 to 2009*, sets out guidance on financial planning information that the LSC wishes to receive by 31 July 2006 from further education colleges.

NB: LSC circulars issued during 2006 are not numbered. The numbers above have been included purely to facilitate identification of the correct circular, where referred to on the SARQ.

CG *The College Governor*, published by the FEFC in March 2000, which provides consolidated guidance for governors.

CTM *Clerks' Training Materials*, issued by the Learning and Skills Development Agency in November 2001.

GfC *College Governance: A Guide for Clerks*, published by the FEFC in March 1996.

Gov Today *Governance Today*, published by the Learning and Skills Development Agency in 2001. (Obtainable from www.lsga.org.uk)

GTM *Governor Training Materials*, issued by the LSC in June 2002 to support *The College Governor*.

Inst *The Further Education Corporations (Former Further Education Colleges) (Replacement of Instruments and Articles of Government) Order 2006* or *The Further Education Corporations (Former Sixth Form Colleges) (Replacement of Instruments and Articles of Government) Order 2006*. (Obtainable from www.dfes.gov.uk/furthereducation)

ISP *Improving Student Performance* (HC 276), published by the NAO in March 2001. (Obtainable from www.nao.gov.uk/publications/nao_reports/index.htm)

MAfFEC *Management Accounts for FE Colleges: A Guide for Governors and Senior Managers*, second edition, published by the Further Education Development Agency in 2000. (Obtainable from www.lsga.org.uk)

Mtbl *Managing to be Independent* (HC179), published by the NAO in February 1995. (Obtainable in electronic form from the NAO – contact: enquiries@nao.gsi.gov.uk, or in paper form from The Stationery Office – online bookshop at www.tso.co.uk/bookshop/bookstore.asp)

Nolan *Local Public Spending Bodies*, the Second Report of the Committee on Standards in Public Life, chaired by Lord Nolan,

published in May 1996. (Obtainable from Stationery Office Bookshops – www.tso.co.uk/bookshop/bookstore.asp and online at www.public-standards.gov.uk)

NOTES ON USE OF THE SARQ FOR CATHOLIC SIXTH FORM AND OTHER COLLEGES

Catholic Sixth Form Colleges

As noted at annex C, the references in the SARQ are to the instrument and articles of government for general further education colleges and sixth form colleges (including voluntary controlled sixth form colleges). Catholic sixth form colleges have their own instrument and articles of government, agreed individually with the diocesan authorities and the Department for Education and Skills. While the numerical references in the SARQ to the instrument and articles are therefore not those for Catholic sixth form colleges, the substance of the requirements is the same for these colleges, except where stated in the SARQ. Catholic sixth form colleges should also read all references to the corporation as references to the governing body.

Other Colleges

These other colleges are either those classed as specialist designated colleges, or are other colleges not previously under local authority control. These colleges have their own governing documents. Other colleges will need to interpret the substance of points in the SARQ against these governing documents. For example, the question on the determined membership of the corporation should be taken as referring to any requirement in the college's own governing document which requires the governing body or board to have a particular size and/or composition.

GUIDANCE ON THE COMPLETION OF THE SELF- ASSESSMENT REPORT QUESTIONNAIRE (SARQ)

The clerk to the corporation and head of finance (or equivalent) should complete the SARQ. The principal and the clerk to the corporation should certify the completed document by signing where indicated on page 2.

Part A of the SARQ, which covers the college's financial management and governance frameworks, is set out in four columns:

- Column 1 (Item) identifies an area of interest and asks specific questions and/or seeks information. Each area of interest is prefaced by a statement which sets out the purpose of these questions;
- Column 2 (Reference) gives the reference to statute, LSC requirement or good practice for each question. A key to the references is provided at annex C;
- Column 3 (College Assessment) is for recording the college's response. A Yes or No answer will suffice for most questions, together with a reference to the documentation that supports the college's answer. If the college has different procedures from those expected by the question, please record what they are and give examples of documentation. Where the college wishes to make a lengthier response then please attach additional sheets;
- Column 4 (Notes) is for any general notes the college may wish to make in support of its assessment.

In completing part A of the SARQ, colleges may give a negative answer in respect of a question relating to good practice. A negative answer does not necessarily mean there is an omission or weakness in the college's arrangements, as the college may have other arrangements that serve the same purpose, but are more appropriate to the college's needs. Where this is the case, this should be identified in the response.

Part B of the SARQ, which covers the effectiveness of the college's financial management and governance arrangements, is set out in three columns:

- Column 1 (Item) provides a checklist of the key indicative questions that the college should address when assessing the overall effectiveness of its financial management and governance arrangements. These questions are grouped under five related areas of review, each of which is prefaced by a statement which sets out the purpose of the questions;

- Column 2 (College Assessment) is for recording the college's response to the key indicative questions;
- Column 3 (Notes) is for any general notes the college may wish to make in support of its assessment.

**PROFORMA LETTERS FROM THE PFA REGIONAL TEAM IN RESPECT OF
'FULL SCOPE', 'LIMITED SCOPE' AND 'DESK-BASED' REVIEWS**

'FULL SCOPE' REVIEW – INTRODUCTORY LETTER (2006/07)

[Date]

[Name]

Principal

[College]

[Address]

Dear **[Name]**

**[College name]: Provider Financial Assurance Regional Team Review of
Financial Management and Governance: Visit Arrangements**

Guidance for colleges on the self-assessment of their financial management and governance frameworks, and on provider financial assurance (PFA) regional team reviews of these frameworks in parallel with the education inspectorate during 2006/07 (the Guidance) was placed on the LSC's website on **[date]** 2006. It is the LSC's expectation that colleges are fully aware of the contents of this guidance.

Following notification from the education inspectorate that the college is to be inspected during the week commencing **[date]**, I am writing to you to ask for your help in making the final preparations for the forthcoming PFA regional team review at the college, in parallel with the college inspection.

Scope of Our Review

Paragraph 31 of the Guidance details the factors we take into account when determining the scope of the PFA regional team review of financial management and governance, including the college's latest self-assessment report. Following consideration of these factors, we will undertake a 'full scope' review at the college. We have reached this decision for the reasons set out below.

[Include a short paragraph explaining the principal reasons for our decision, for example:

The college currently has a financial health assessment of ‘C’. In addition, the college was not in scope for plan-led funding for 2005/06, and has received a qualified opinion in its 2005/06 internal audit annual report]

[Note – the scope of the review must be agreed by the relevant regional audit manager]

Process of Review

Our review will be undertaken by **[name(s)]** of the PFA regional team (**[name]** region), based at the **[name]** LSC. The review team will be at the college from **[date (usually Monday)]** to **[date (usually Friday)]**.

Our review primarily is to provide assurance to the LSC that:

- The college has a sound framework of financial management and governance arrangements and that this framework operates in accordance with relevant statutory responsibilities and LSC requirements
- The college makes effective use of LSC resources.

At the end of the visit, we will feed back strengths and weaknesses identified and give grades for:

- The college’s financial management and governance frameworks and their operation in practice (the framework grade), and
- The effectiveness of the college’s financial management and governance frameworks (the effectiveness grade).

We will also provide feedback on the college’s self-assessment report.

Our visit is in parallel with the college inspection and, during our visit, we will liaise with the inspectors and share evidence and exchange findings with them. The inspectors’ opinions are of fundamental importance to us in reaching our opinion on the effectiveness of the college’s financial management and governance frameworks. We are, however, separate teams and do need separate base rooms. Our feedback is independent from the inspectors and, because of our different remit, we may raise different issues to theirs and report different grades. Our grades are not included in the inspection report and we do not contribute text to the report.

We will prepare our own written report, based upon our feedback and the results of the inspection, and send this to the college for confirmation of the report’s factual accuracy. Once we have amended the report to take account of any factual errors

we agree we have made, we will send you the report in final form. We will ask you to prepare an action plan based on the recommendations in the final report. The report is sent only to you and the LSC does not make the report public.

Lastly, you should note that an appeals process exists for those colleges wishing to appeal against the grade(s) awarded for reviews of financial management and governance by the regional PFA team. A written appeal must be lodged with the regional audit manager responsible for the review, no later than five working days after the closing meeting. A copy of the appeals procedure is available on request.

Action to be Taken by the College in Advance of the PFA Regional Team Review

In accordance with paragraph 35 of the Guidance, the college should, on notification that it is to be inspected, forward the following to the regional audit manager at **[name of main regional PFA location]** LSC, to arrive not later than two weeks before the start of the inspection:

- The completed SARQ and evidence collated in support of the college's responses to the SARQ, which have been used to inform the judgements on 'leadership and management' in the college's latest self-assessment report. The supporting evidence should include those items listed in part A of annex G to the Guidance, as well as any other evidence the college deems to be appropriate
- Other information which will be required by the PFA regional team to enable it to form its opinions on the college's financial management and governance frameworks. A list of this information is provided in part B of annex G to the Guidance.

If the college has not already forwarded the above documentation to us, please ensure that it is despatched as soon as possible. Late receipt of the documentation may result in the PFA regional team having to extend its visit to the college.

In addition, the college should ensure that the information listed in part C of annex G is made available to the PFA regional team at the start of its visit to the college.

Lastly, as part of our review, we will need to meet certain college staff and governors. Appendix A to this letter provides relevant details of these meetings, including the suggested timing and length of each meeting. The college should arrange the requested meetings in advance of inspection week.

Other

We recognise the costs to you in allowing us to do our work. Although it is not always possible, we intend our review to benefit you by identifying both strengths and weaknesses for attention and by making practical recommendations that you are able to agree with. Once we have issued the final report, we will ask you for your views on our review process and the benefits it brought.

In the meantime, should you wish to discuss any part of the PFA regional team review with us, then please contact **[name]** at the above address.

Yours sincerely

[name]

[role title]

[telephone]

e-mail name.name@lsc.gov.uk

Appendix A

LIST OF INTERVIEWS DURING THE VISIT – ‘FULL SCOPE’ REVIEW

Who	When we would like to meet them	How long for
Clerk to the corporation	Towards the start of the visit – first afternoon or second morning	1½ hours
Director of finance	On the second day of the visit	1½ hours
Chair of the corporation*	As available, to fit in with meetings requested by the inspectors	¾ hour
Chair of the audit committee	As available, to fit in with meetings requested by the inspectors	¾ hour
Principal#	On the third day of the visit	¾ hour
Principal, clerk to the corporation and director of finance (feedback meeting)	At the end of the visit	1 hour

*The meeting is mainly to discuss governors' view of the college's financial position and future prospects, governors' involvement in development planning, and governors' appraisal of senior staff. If governors feel it would be helpful, we would be happy to meet the chair of the finance committee instead of, or additionally to, the chair of the corporation.

#The principal and other colleagues may, if they wish, choose to meet the PFA regional team at the start of the visit, for an introductory meeting. As we, and you, are under much time pressure, we do not need to have this meeting unless you want it.

‘LIMITED SCOPE’ REVIEW – INTRODUCTORY LETTER (2006/07)

[Date]

[Name]

Principal

[College]

[Address]

Dear **[Name]**

[College name]: Provider Financial Assurance Regional Team Review of Financial Management and Governance: Visit Arrangements

Guidance for colleges on the self-assessment of their financial management and governance frameworks, and on provider financial assurance (PFA) regional team reviews of these frameworks in parallel with the education inspectorate during 2006/07 (the Guidance) was placed on the LSC’s website on **[date]** 2006. It is the LSC’s expectation that colleges are fully aware of the contents of this guidance.

Following notification from the education inspectorate that the college is to be inspected during the week commencing **[date]**, I am writing to you to ask for your help in making the final preparations for the forthcoming PFA regional team review at the college, in parallel with the college inspection.

Scope of Our Review

Paragraph 31 of the Guidance details the factors we take into account when determining the scope of the PFA regional team review of financial management and governance, including the college’s latest self-assessment report. Following consideration of these factors, we will undertake a ‘limited scope’ review at the college. We have reached this decision for the reasons set out below.

[Include a short paragraph explaining the principal reasons for our decision, for example:

The college has been included in plan-led funding and currently has a financial health assessment of ‘A’. However, the financial plan 2006/07 to 2008/09

indicates a decline in the college's financial performance over this period. In addition, discussions with area LSC colleagues have revealed that the college is failing to meet some of the targets in its development plan]

[Note – the scope of the review must be agreed by the relevant regional audit manager]

Process of Review

Our review will be undertaken by **[name(s)]**, of the PFA regional team (**[name]** region), based at the **[name]** LSC. The review team will be at the college from **[date (usually Tuesday)]** to **[date (usually Thursday)]**.

Our review primarily is to provide assurance to the LSC that:

- The college has a sound framework of financial management and governance arrangements and that this framework operates in accordance with relevant statutory responsibilities and LSC requirements
- The college makes effective use of LSC resources.

At the end of the visit, we will feed back strengths and weaknesses identified and give a grade for the effectiveness of the college's financial management and governance frameworks (the effectiveness grade). Within the limited scope of our review, we will not report a separate grade on the college's frameworks for financial management and governance and their operation. However, we will give informal feedback on any issues identified in relation to the soundness and operation of the frameworks at the feedback meeting. We will also provide feedback on the college's self-assessment report.

Our visit is in parallel with the college inspection and, during our visit, we will liaise with the inspectors and share evidence and exchange findings with them. The inspectors' opinions are of fundamental importance to us in reaching our opinion on the effectiveness of the college's financial management and governance frameworks. We are, however, separate teams and do need separate base rooms. Our feedback is independent from the inspectors and, because of our different remit, we may raise different issues to theirs and report a different grade. Our grade is not included in the inspection report and we do not contribute text to the report.

We will prepare our own written report, based upon our feedback and the results of the inspection, and send this to the college for confirmation of the report's factual accuracy. Once we have amended the report to take account of any factual errors we agree we have made, we will send you the report in final form. We will ask you to prepare an action plan based on the recommendations in the final report. The report is sent only to you and the LSC does not make the report public.

Lastly, you should note that an appeals process exists for those colleges wishing to appeal against the grade(s) awarded for reviews of financial management and

governance by the regional PFA team. A written appeal must be lodged with the regional audit manager responsible for the review, no later than five working days after the closing meeting. A copy of the appeals procedure is available on request.

Action to be Taken by the College in Advance of the PFA Regional Team Review

In accordance with paragraph 35 of the Guidance, the college should forward the following to the regional audit manager at **[name of main regional PFA location]** LSC, to arrive not later than two weeks before the start of the inspection:

- The completed SARQ and evidence collated in support of the college's responses to the SARQ, which have been used to inform the judgements on 'leadership and management' in the college's latest self-assessment report. The supporting evidence should include those items listed in part A of annex G to the Guidance, as well as any other evidence the college deems to be appropriate
- Other information which will be required by the PFA regional team to enable it to form its opinion on the effectiveness of the college's financial management and governance frameworks. A list of this information is provided in part B of annex G to the Guidance.

If the college has not already forwarded the above documentation to us, please ensure that it is despatched as soon as possible. Late receipt of the documentation may result in the PFA regional team having to extend its visit to the college.

In addition, the college should ensure that the information listed in part C of annex G is made available to the PFA regional team at the start of its visit to the college.

Lastly, as part of our review, we will need to meet certain college staff and governors. Appendix A to this letter provides relevant details of these meetings, including the suggested timing and length of each meeting. The college should arrange the requested meetings in advance of inspection week.

Other

We recognise the costs to you in allowing us to do our work. Although it is not always possible, we intend our review to benefit you by identifying both strengths and weaknesses for attention and by making practical recommendations that you are able to agree with. Once we have issued the final report, we will ask you for your views on our review process and the benefits it brought.

In the meantime, should you wish to discuss any part of the PFA regional team review with us, then please contact **[name]** at the above address.

Yours sincerely

[name]

[role title]

[telephone]

e-mail name.name@isc.gov.uk

Appendix A

LIST OF INTERVIEWS DURING THE VISIT – ‘LIMITED SCOPE’ REVIEW

Who	When we would like to meet them	How long for
Clerk to the corporation	Towards the start of the visit – first afternoon or second morning	1½ hours
Director of finance	On the second day of the visit	1½ hours
Chair of the corporation*	As available, to fit in with meetings requested by the inspectors	¾ hour
Principal#		½ hour (to be arranged during the visit if necessary)
Principal, clerk to the corporation and director of finance (feedback meeting)	At the end of the visit	1 hour

*The meeting is mainly to discuss governors' view of the college's financial position and future prospects, governors' involvement in development planning, and governors' appraisal of senior staff. If governors feel it would be helpful, we would be happy to meet the chair of the finance committee instead of, or additionally to, the chair of the corporation.

#The principal and other colleagues may, if they wish, choose to meet the PFA regional team, at the start of the visit, for an introductory meeting. As we, and you, are under much time pressure, we do not need to have this meeting unless you want it.

‘DESK-BASED’ REVIEW – INTRODUCTORY LETTER (2006/07)

[Date]

[Name]

Principal

[College]

[Address]

Dear **[Name]**

[College name]: Provider Financial Assurance Regional Team Review of Financial Management and Governance: Visit Arrangements

Guidance for colleges on the self-assessment of their financial management and governance frameworks, and on provider financial assurance (PFA) regional team reviews of these frameworks in parallel with inspections by the education inspectorate during 2006/07 (the Guidance) was placed on the LSC’s website on **[date]** 2006. It is the LSC’s expectation that colleges are fully aware of the contents of this guidance.

Following notification from the education inspectorate that the college is to be inspected during the week commencing **[date]**, I am writing to you to ask for your help in making the final preparations for the forthcoming PFA regional team review at the college, in parallel with the college inspection.

Scope of Our Review

Paragraph 31 of the Guidance details the factors we take into account when determining the scope of the PFA regional team review of financial management and governance, including the college’s latest self-assessment report. Following consideration of these factors, we will undertake a ‘desk-based’ review. We have reached this decision for the reasons set out below.

[Include a short paragraph explaining the principal reasons for our decision, for example:

The college has been included in plan-led funding and currently has a financial health assessment of 'A'. In addition, the college's success rates are above national benchmarks, and all the reports received in respect of 2005/06 audit work were unqualified]

[Note – the scope of the review must be agreed by the relevant regional audit manager]

Process of Review

Our review will be undertaken by **[name(s)]**, of the PFA regional team (**[name]** region), based at the **[name]** LSC. The initial stage of the review will be undertaken during the two weeks prior to the start of the college's inspection. The review team will visit the college on **[date (usually Wednesday or Thursday of inspection week)]**.

Our review primarily is to provide assurance to the LSC that the college makes effective use of LSC resources.

Following our initial review, and taking account of other information held by the LSC, we will undertake a one day visit to the college, as specified above, for the purposes of:

- a. sharing evidence and exchanging findings with the inspectors;
- b. feeding back our findings to the principal and relevant college staff.

We may also meet members of college staff, for example, the clerk to the corporation and/or the director of finance, before our feedback, to request additional documentation and/or follow up specific issues. We will inform you in advance of our visit:

- a. which members of staff, if any, we wish to see prior to the feedback meeting;
- b. which additional items of documentation we require sight of.

At the end of our visit, we will feed back strengths and weaknesses identified and give a grade for the effectiveness of the college's financial management and governance frameworks (the effectiveness grade). We will also provide feedback on the college's self-assessment report. We will not provide any feedback on, nor will we give a grade for the soundness and operation of the frameworks.

Our review is in parallel with the college inspection, and the inspectors' opinions are of fundamental importance to us in reaching our opinion on the effectiveness of the college's financial management and governance frameworks. We are, however, separate teams and during our one day visit we will need a separate base room. Our feedback is independent from the inspectors and, because of our different remit, we may raise different issues to theirs and report a different grade. Our grade is not included in the inspection report and we do not contribute text to the report.

We will prepare a letter, based upon our feedback and the results of the inspection, and send this to the college for confirmation of the letter's factual accuracy. Once we have amended the letter to take account of any factual errors we agree we have made, we will send you the letter in final form. Where the college receives a grade 3, 4 or 5, we will ask you to prepare an action plan based on the recommendations in the final letter. The letter is sent only to you and the LSC does not make the letter public.

Lastly, you should note that an appeals process exists for those colleges wishing to appeal against the grade(s) awarded for reviews of financial management and governance by the regional PFA team. A written appeal must be lodged with the regional audit manager responsible for the review, no later than five working days after the closing meeting. A copy of the appeals procedure is available on request.

Action to be Taken by the College in Advance of the PFA Regional Team Review

In accordance with paragraph 35 of the Guidance, the college should forward the following to the regional audit manager at **[name of main regional PFA location]** LSC, to arrive not later than two weeks before the start of the inspection:

- The completed SARQ and evidence collated in support of the college's responses to the SARQ, which have been used to inform the judgements on 'leadership and management' in the college's latest self-assessment report. The supporting evidence should include those items listed in part A of annex G to the Guidance, as well as any other evidence the college deems to be appropriate
- Other information which will be required by the PFA regional team to enable it to form its opinions on the college's financial management and governance frameworks. A list of this information is provided in part B of annex G to the Guidance.

If the college has not already forwarded the above documentation to us, please ensure that it is despatched as soon as possible. Late receipt of the documentation may result in the PFA regional team having to extend its visit to the college.

Other

We recognise the costs to you in allowing us to do our work. Although it is not always possible, we intend our review to benefit you by identifying both strengths and weaknesses for attention and by making practical recommendations that you are able to agree with. Once we have issued the final letter, we will ask you for your views on our review process and the benefits it brought.

In the meantime, should you wish to discuss any part of the PFA regional team review with us, then please contact **[name]** at the above address.

Yours sincerely

[name]

[role title]

[telephone]

e-mail name.name@isc.gov.uk

DOCUMENTATION REQUIREMENTS TO SUPPORT SARQ RESPONSES AND ASSIST THE PFA REGIONAL TEAM IN UNDERTAKING ITS REVIEW OF THE COLLEGE'S FINANCIAL MANAGEMENT AND GOVERNANCE ARRANGEMENTS

The purpose of this annex is three-fold:

- a. to list the evidence which the PFA team believes colleges should collate each year in support of their responses to the questions on the SARQ (see Part A);
- b. to detail the additional information which the PFA regional team will require, to enable it to form its opinion(s) on colleges' financial management and governance frameworks (see Parts B and C);
- c. to advise those colleges, which have been notified that they are shortly to be inspected, of the evidence/information:
 - i. they should forward to the PFA regional team, together with the completed SARQ, *in advance* of the team's visit to the college (see Parts A and B)
 - ii. they should make available to the PFA regional team *at the start of its visit* to the college (see Part C).

By informing colleges of our documentation requirements in advance, the PFA regional team hopes to keep its information requests to a minimum during its on-site review work.

In addition, the PFA regional team has tried to limit its requests for information to documents that are not routinely held by area LSCs. If, however, a document requested has already been sent to the LSC, please indicate to whom it was sent and when, and the PFA regional team will seek to obtain it internally.

To assist colleges in collating the documentation listed in parts A, B and C, we have split this documentation between that which we believe should be supplied by:

- a. the clerk to the corporation; and
- b. college management.

The PFA regional team wishes to minimise the preparatory work for the college at this busy time; therefore, we would normally expect the volume of documentation you send to us with your completed SARQ (Parts A and B) to amount to no more than two lever arch files.

Please note that all documentation supplied to us in Parts A and B will be retained by the PFA regional team as evidence in support of its opinion(s).

Part A (All Colleges)

Colleges should gather together this evidence each year in support of their responses to the questions on the SARQ. The evidence should be forwarded to the PFA regional team, together with the completed SARQ, in advance of the team's visit to the college.

Clerk to the Corporation

1. Clerk to the corporation's record of governors, their categories of membership, dates of appointment/re-appointment, length of term of office etc.
2. A copy of the form used by the college to ascertain whether governors are eligible to serve on the corporation.
3. Results of the most recent governor skills audit.
4. Details of induction (where applicable) and training received by governors and the clerk to the corporation in the last 12 months (including names of attendees at each event).
5. Clerk to the corporation's job description.
6. Committee structure and current membership/vacancies.
7. Annual schedule of corporation and committee meetings, incorporating major items of business at each meeting, to ensure that the corporation fulfils its decision-making and monitoring responsibilities during the year.
8. Documentation demonstrating corporation assessment of its own performance, including any reports to the corporation on attendance at corporation and committee meetings in last 12 months.
9. Committee terms of reference.
10. Governors' code of conduct.
11. Register of interests for governors and staff.

College Management

12. Most recent college annual budget approved by governors and accompanying papers to corporation.

13. Most recent management accounts presented to the corporation, finance committee (if extant) and the senior management team (if different).
14. Most recent report to governors monitoring progress against the development plan.
15. Most recent report to governors on retention and achievement.
16. Most recent termly report to governors on franchised provision (including sub-contracting and partnerships) (where, in total, amounting to more than 5 percent of the total income of the college).

Please note that colleges are encouraged to gather and supply to the PFA regional team any other evidence in support of their responses to the SARQ, which they feel is appropriate.

Part B (All Colleges)

On notification of inspection, colleges should collate the following additional information, which the PFA regional team will require, to enable it to form its opinion(s) on colleges' financial management and governance frameworks. This information should also be forwarded to the PFA regional team, in advance of the team's visit to the college.

Clerk to the Corporation

17. Corporation, finance committee, audit committee, standards committee, search committee and remuneration committee – minutes of all meetings in last 12 months.

NB Any confidential corporation or committee minutes should also be provided.

18. Most recent internal audit assignment report on the college's 'governance processes' (as distinct from the internal audit annual report).

College Management

19. Most recent regularity audit self-assessment questionnaire.

NB Copies of the evidence supporting the college's responses to the regularity audit self-assessment questionnaire are not required.

20. Most recent termly report to governors on college companies (if not included elsewhere, for example, in the college management accounts).
21. Memorandum of understanding between the college and each of its companies (where applicable).

Part C (Colleges Receiving a 'Full Scope' or a 'Limited Scope' Review only)

Colleges receiving either a 'full scope' or a 'limited scope' review should also make the information listed below available to the PFA regional team at the start of its visit to the college (Note – the PFA regional team will not require the college to prepare separate copies of this information).

Clerk to the Corporation

22. The agendas and full papers for all corporation and committee meetings in the last 12 months.
23. Governor appointment process, governor role description/person specification.
24. CVs of all governors and any external co-opted committee members.
25. Corporation standing orders.
26. Most recent annual report of the audit committee.

College Management

27. College senior management team meetings – agendas, minutes and papers (all meetings in last 12 months).
28. Organisational charts of senior management and the finance department.
29. Brief details of the members of the finance team, their qualifications, experience and responsibilities.
30. College financial regulations and procedures.
31. Budgeting instructions (if not included in financial regulations).
32. Reconciliation between July 2005 management accounts and financial statements 2004/05 (July 2006 management accounts and financial statements 2005/06, where the latter have been finalised).
33. College risk management policy.

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