Guidance on the self-assessment of a provider’s financial management and control arrangements using the Financial Management and Control Evaluation (FMCE) annual return
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### Form A
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Executive Summary

Purpose of the Guidance

1. Completion of a Financial Management and Control Evaluation (FMCE) return is mandatory for all LSC funded providers who fall within the scope of Framework for Excellence in 2009/10. The purpose of this guidance is to explain to providers the purpose of the FMCE return, how to complete it and how to reach their self-assessed grade for their financial management and control arrangements.

Purpose of the FMCE Return

2. The FMCE return requires all in-scope providers to self-assess, evaluate and grade their financial management and control arrangements on an annual basis. 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.

3. Providers are encouraged to use their FMCE return as an integral part of their wider annual self-assessment process. It is expected that the completion of the FMCE return will facilitate continuous improvement and help providers improve the effectiveness of their financial management and control arrangements.

Two Versions of the FMCE Return

4. There are two versions of the FMCE return which are attached to this Guidance:

- Form A should be completed by further education colleges (sixth-form; tertiary; general FE; specialist land-based, specialist art and design, or specialist designated institutions); and
- Form B should be completed by all non-college providers who receive more than £50,000 annually from the LSC, including National Employer Service employers and independent specialist colleges.

5. Each version of the Form comprises the following parts:

- Part 1: Summary of Grades;
- Part 2: Improvement Plan; and
- Part 3: Control Arrangements and Evaluation. This includes a series of closed questions covering four main areas: Accountability, Financial Planning, Internal Control and Financial Monitoring. It also contains a Summary of the Effectiveness of the Financial Management and Control Framework for each of the four areas.

Changes in 2009/10

6. The LSC has reviewed the approach followed last year to reflect comments from providers. These revisions are discussed in greater detail in the Detailed Guidance. However, the most significant change is the option for some providers who completed the full FMCE return in 2008/09 to submit a short FMCE return in 2009/10. The short FMCE return will consist of a signed copy of Part 1 (Summary of Grades) and Part 2 (a revised and updated Improvement Plan). This option of submitting a short return is only available to providers who do not wish to change
last year’s overall self-assessed grade and where no significant changes have occurred since last year. For all those providers falling in scope of the Framework for Excellence for the first time in 2009/10, completion of the full FMCE return is mandatory.

Completion, Submission and Validation

7. Providers should read this guidance and the relevant appendix (appendix I for further education colleges or appendix II for non-college providers) before completing their FMCE return. If providers need any support, guidance and assistance in completing their FMCE return then they should contact their Regional Audit Manager.

8. The completion of the FMCE return should not increase the bureaucracy placed on providers as it replaces the previous audit documents that providers were required to complete prior to an audit namely:

   - for further education colleges; the Self-Assessment Report Questionnaire;
   - and
   - for non-college providers; the Business Environment Questionnaire and the Provider Control Risk Assessment.

9. The FMCE return should be completed electronically and once it has been approved internally it should be uploaded to the Provider Gateway (in the PFM – FMCE folder within PFM reports on the Provider Gateway [http://thegateway.lsc.gov.uk]). In respect of a full FMCE return, this action should be completed by 30 November 2009. If only the short FMCE return is being submitted to the LSC, then this action should be completed by 31 December 2009 at the latest. Early submission is encouraged in both circumstances but especially if a full FMCE return is being submitted for the first time. In addition, all providers should also submit a signed paper copy of Part 1 (Summary of Grades) to their Regional Audit Manager at the relevant LSC Regional or National Office. There is no requirement to submit paper copies of either Part 2 or Part 3 if these have been uploaded to the Provider Gateway.
Detailed Guidance

Purpose of the FMCE Return

10. Completion of a Financial Management and Control (FMCE) return is mandatory for all LSC funded providers who fall within the scope of the Framework for Excellence in 2009/10.

11. The FMCE return requires all in-scope providers to self-assess, evaluate and grade their financial management and control arrangements on an annual basis. The validated FMCE return is also a key source of information to the LSC in respect of providers' financial management and control arrangements.

12. This new 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.

13. The completion of the FMCE return should lead to improvements in the effectiveness of a provider's financial management and control arrangements. This would be to the benefit of providers, the LSC and the National Audit Office, as effective financial management and control arrangements will:

   - 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.

Changes in 2009/10

14. The LSC has reviewed the approach followed last year in the light of feedback from providers. Changes which should enable providers to complete the FMCE return more easily and swiftly than last year are discussed below:

   - the single greatest change this year is the option for some providers who completed the full FMCE return in 2008/09 to elect to submit a short FMCE return in 2009/10 provided they meet certain criteria (see paragraph 19);
   - a single FMCE return for all non-college providers rather than a choice of two versions. The number of questions has also been reduced;
   - removal of the previous Part 2: Provider Information. Part 2 of the FMCE return is now the Improvement Plan;
   - changes to the format of Part 3: Control Arrangements and Evaluation – in respect of the design and operation of the financial management and control
framework, providers are now asked a series of closed questions for which a simple ‘yes’, ‘no’ or ‘not applicable’ answer is required together with a brief description of the evidence supporting the answer;

- introduction of a Summary on the Effectiveness of the Financial Management and Control Framework at the end of each of the four areas covered by the FMCE. Effectiveness is now considered on an area-by-area basis as opposed to a question-by-question basis which was the case last year; and

- in Form A for Further Education Colleges - Area 1 Section 1 now contains one general question on compliance with the statutory requirements of the *Instrument and Articles of Government* and the requirements of the *Financial Memorandum*. Once completed it should provide the LSC Regional PFA teams with the information they require before a review of a college’s financial management and governance arrangements takes place. If a full FMCE return is available to the Regional PFA teams then no further documents will be sent to colleges for completion before such a review is undertaken.

**Scope**

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

- **Accountability** - *appropriate accountability arrangements should be in place to enable management to effectively discharge their financial management and control responsibilities*

  This is divided into three sections:
  - strategic oversight of financial management and control
  - operational oversight of financial management and control
  - sub-contracting arrangements (where applicable)

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

  This is divided into two sections:
  - long-term financial planning
  - short-term financial planning

- **Internal Control** - *an adequate and effective internal control system should be in place to safeguard and protect public funds*

  This is divided into two sections:
  - risk management
  - internal control

- **Financial Monitoring** - *financial monitoring controls should enable management to monitor, control and improve financial and contractual performance effectively.*
How to complete the FMCE Return

16. This section of the Detailed Guidance explains how providers should complete their FMCE return.

17. The FMCE return should be completed electronically. The tables within the FMCE return are expandable to allow providers to support their responses adequately.

Choose the correct FMCE Return to complete

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

- Form A should be used by further education colleges (sixth-form; tertiary; general FE; specialist land-based, specialist art and design, or specialist designated institutions); and
- Form B should be used by all non-college providers including NES Employers and Independent Specialist Colleges who receive more than £50,000 from the LSC.

Providers should download the relevant Form from the Provider Financial Management section of the LSC’s website:

http://www.lsc.gov.uk/providers/pfm/financial-assurance/

Choose the type of Return to complete

19. Providers now should decide to complete either a full FMCE return or a short FMCE return. The completion of the full FMCE return (all three parts) is mandatory for all those providers completing a FMCE return for the first time in 2009/10. However, for some providers who completed the full FMCE return in 2008/09, there is an option of submitting a short FMCE return (Parts 1 and 2 only) in 2009/10. This option is only available to providers who completed the full FMCE last year and who:

- do not wish to change last year’s overall self-assessed grade; and
- have not undergone any significant changes since last year (organisational changes; changes in the governance framework; mergers; changes in ownership; deterioration in financial health; adverse audit or inspection outcomes).

20. If a college has decided to complete a short FMCE return in 2009/10 and is subsequently informed it is to be inspected by Ofsted, a full FMCE return will have to be completed as the Regional PFA teams will need this to facilitate their financial management and governance review.

Part 3: Control Arrangements and Evaluation

21. The completion of Part 3: Control Arrangements and Evaluation is required by those providers who will submit the full FMCE return to the LSC. Providers who
intend to submit the short FMCE return should ignore this part of the Detailed Guidance and consider only paragraphs 33 to 37 below.

22. There are two stages in the completion of Part 3. The first stage requires providers to consider the design and operation of their financial management and control framework 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. The LSC believes it would be useful if providers collect this evidence and retain it in an Evidence File. If any evidence is already held elsewhere for other purposes a simple cross-reference to the existing documentary evidence would suffice;

- 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 providers believe 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

- 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.

23. There may also be occasions when a provider has controls in place that are not referred to specifically by the questions stated in Part 3. The LSC 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 of the Financial Management and Control Arrangements they should refer to the effectiveness of these additional controls.

24. As a FMCE return is required on an annual basis, the Evidence File that the LSC recommends providers should maintain will need updating each year. Whilst this annual update is a cost to providers, the LSC believes it will be beneficial because:

- it contributes in a systematic and consistent way to the provider’s overall self-assessment procedures;

- 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; and

- for providers subject to a review of their financial management and governance arrangements, the completion of Part 3 and the provision of supporting evidence will enable the Regional PFA teams to confirm their understanding of these facts, reduce and/or eliminate PFA requests for further documentation during the reviews and allow them to focus their attention during these reviews on significant issues and effectiveness issues.
25. The second stage in the completion of Part 3 requires providers to consider the effectiveness of their financial management and control framework 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. “Effectiveness" is now considered on an area-by-area basis as opposed to a question-by-question basis as was the case last year.

26. Providers need to record on the Summary of the Effectiveness of the Financial Management and Control Arrangements that is found at the end of the questions on each area:

- strengths, and whether these are considered to be outstanding; and
- weaknesses, and whether these are significant or not.

Choosing a Grade

27. Providers now should choose a grade for both the eight sections and four areas in the FMCE return. The grades being used in 2009/10 are consistent with those used last year.

28. To assist providers choose the correct grade the LSC will issue at the beginning of August 2009 a further guidance document, *Indicative Examples of Grade Components* which lists, section by section, those components the LSC would expect to see under the four grades used by the LSC. However, the lists are neither exhaustive nor prescriptive in what constitutes a grade component and they should not prevent providers identifying further components. Furthermore, the LSC, as it did last year, also intends to issue some worked examples of Forms A and B.

Outstanding

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

- has not identified any weaknesses or areas for improvement when answering a particular section of the FMCE or only identified a few minor weaknesses;
- has all the components listed in the Outstanding column of the LSC guidance document, *Indicative Examples of Grade Components* for that particular section;
- has clearly recorded the strengths of the financial management and control framework for that section on the Summary of the Effectiveness of the Financial Management and Control Arrangements; and
- has, for that particular section, documentary evidence to support the effectiveness of all the strengths listed on the Summary of the Effectiveness of the Financial Management and Control Arrangements and the components listed in the Outstanding column of the LSC guidance document, *Indicative Examples of Grade Components*.  


Good

30. A self-assessment grade of “Good” for any section would be appropriate if a provider:

- has all the components listed in the Good column of the LSC guidance document, *Indicative Examples of Grade Components* for that particular section; and
- has probably identified a few weaknesses or areas for improvement from Part 3.

Satisfactory

31. A self-assessment grade of “Satisfactory” for any section would be appropriate if a provider:

- has all, or most of, the components listed in the Satisfactory column of the LSC 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

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

- has all, or most of, the components listed in the Inadequate column of the LSC guidance document, *Indicative Examples of Grade Components* for that particular section;
- has either not identified any strengths or has identified very few strengths; 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.

Part 2: Improvement Plan

33. All providers should complete Part 2 (Improvement Plan). 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. Examples of weaknesses are:

- 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 of the Financial Management and Control Framework, or
a weakness or area for improvement identified in the LSC guidance document, *Indicative Examples of Grade Components*

34. For providers who complete the short FMCE return a revised and updated Improvement Plan, consistent with last year’s submission, should be completed. However, before any college chooses to take this option it should review:

- Area 1 Section 1: Strategic Oversight which includes one extra question this year on compliance issues; and
- Areas 2 and 4 where some of last year’s questions have been amended slightly to ensure all the questions that were included in the SARQ relating to financial planning and reporting are covered in this year’s FMCE return.

If there are any areas of non-compliance then these should be treated as weaknesses and included in the revised and updated Improvement Plan.

35. If any provider has failed to complete action to address weaknesses or areas for improvement identified in last year’s Improvement Plan then the reasons for this should be specified in the revised and updated Improvement Plan.

*Part 1: Summary of Grades*

36. Part 1 has to be completed by all providers in 2009/10 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 LSC.

37. For those providers who submit a short FMCE return, the signing off of Part 1 indicates that no significant changes have occurred in their organisation in the last 12 months.

*Post 31 July 2009 Events*

38. The timescale for the self-assessment of financial management and control will normally be the previous LSC funding year (1 August 2008 to 31 July 2009). However, when completing the FMCE return providers should take account of the following possible events which may have occurred since the end of the funding year:

- any changes that have been made to their financial management and control arrangements; and/or
- the identification of fundamental or significant weaknesses in to their financial management and control arrangements.

39. Failure to record any such changes and/or weaknesses in the self-assessment would indicate to the LSC that the provider’s self-assessment processes are not robust and would be considered to be a further weakness.

*Submission and Validation of the FMCE Return*

40. Once completed the FMCE return (both types) should be approved. So for colleges, audit committees should review the FMCE return and recommend it to the Corporation for approval. Similarly, non-college providers with 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. Providers who do not have formal strategic oversight arrangements in place may wish to inform the LSC how they have obtained an independent view of the completed FMCE return.

41. Once approved, 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.lsc.gov.uk)). In respect of:

- a full FMCE return, this action should be completed by 30 November 2009; and
- a short FMCE return, this action should be completed by 31 December 2009 at the latest.

Early submission is encouraged in both circumstances but especially if a full FMCE return is being submitted for the first time.

42. All providers, irrespective of which FMCE return has been uploaded to the Provider Gateway, should also submit a signed paper copy of Part 1 (Summary of Grades) to their Regional Audit Manager at the relevant LSC Regional or National Office. There is no requirement to submit paper copies of either Part 2 or Part 3 if these have been uploaded to the Provider Gateway.

43. Details of the Regional Audit Managers can be found in Table 1 below. The addresses of the LSC’s Offices can be found on the LSC’s website.

Table 1: LSC Regional Audit Managers and their Contact Details

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<thead>
<tr>
<th>Region</th>
<th>Name</th>
<th>Telephone Number</th>
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<tbody>
<tr>
<td>North East</td>
<td>David Lythe</td>
<td>07770 816579</td>
</tr>
<tr>
<td>North West</td>
<td>Mark Weddell</td>
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<tr>
<td>Yorkshire and the Humber</td>
<td>Rachel Eastman</td>
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<tr>
<td>West Midlands</td>
<td>Jo Shaw</td>
<td>07748 958956</td>
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<tr>
<td>East Midlands</td>
<td>Anna Fitch</td>
<td>07917 597446</td>
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<td>East of England</td>
<td>Shirley Landry</td>
<td>07867 692139</td>
</tr>
<tr>
<td>London</td>
<td>Steve Passmore</td>
<td>07876 391937</td>
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<tr>
<td>South East</td>
<td>Daniel Canham</td>
<td>07876 578016</td>
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<tr>
<td>South West</td>
<td>Stephen Bailey</td>
<td>01752 754003</td>
</tr>
<tr>
<td>National Employer Service</td>
<td>John Green</td>
<td>07900 663108</td>
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44. In respect of a full FMCE return, the LSC’S Regional PFA teams will, as they did last year, complete a desk based review of it. This review will be limited to considering whether the details within the FMCE return are consistent with the self-assessed grade. If there are any apparent inconsistencies or omissions then these will be followed up with providers in order to agree the overall grade. Normally, the full validation of the FMCE return will be undertaken at the provider’s next routine audit. However, the Regional PFA teams reserve the right to validate any self-assessment it receives outside the normal cycle of audits.

45. In respect of the short FMCE return, the Regional PFA teams will consider whether or not the criteria relating to the submission of a short FMCE return have been met. If the LSC’s Regional PFA teams have concerns about whether the criteria have been met then these will be followed up with providers in order to agree which type of FMCE return should be submitted.

46. The Regional PFA teams will use the results of their desk based reviews as part of its risk assessment of providers to inform audit planning (frequency and timing of an audit).

Support for Providers

47. If providers need any support and guidance in completing the FMCE return they should contact the relevant Regional Audit Manager.

Future Developments

48. The LSC 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.

49. Future revisions being considered include:

- reducing the areas covered from four to three by combining Financial Planning and Financial Monitoring into one new Financial Operations area. There will just be two sections; Financial Planning and Financial Monitoring; and
- a move to self-assessment on an area-by-area basis as opposed to the section-by-section basis. So next year only three assessed grades would be needed.

50. The option not to submit a full FMCE return will also be available in 2010/11 therefore:

- providers who completed the full FMCE return in 2008/09 can, assuming they meet all the required criteria, submit the short FMCE return in both 2009/10 and 2010/11; and
- providers who complete the full FMCE return in 2009/10 will be able to take up the option of not completing a full FMCE return again in 2010/11 and 2011/12 assuming they also meet all the required criteria.

However, it is not expected that the option to submit a short FMCE return will apply in the third year.
Appendix I – Guidance for 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 complete it properly and fully.

Background

2. Colleges should ensure that the self-assessment of their financial management and control arrangements using the FMCE return encompasses their whole operations. The questions contained within Form A have been tailored to assist colleges to do this.

3. The FMCE return, like the Self-Assessment Report Questionnaire (SARQ) which it replaced, covers both governance and financial management issues. The LSC would expect that both the clerk to the corporation and the director of finance will be involved in the completion of the FMCE return.

Area 1: Accountability

General

4. Colleges should evaluate the extent to which their accountability arrangements support effective financial management and control by their design and in practice.

Area 1 Section 1: Strategic Oversight

5. Colleges will recall that Part A of the SARQ contained questions relating to the 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.

6. When the Regional PFA teams undertake their financial management and governance reviews at a college they need assurance that the college has complied with all the above statutory and other requirements. However, many of these areas no longer feature in the FMCE. Rather than replicate questions covering these particular areas 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.

7. The compliance areas this one question covers (the original question number from the SARQ has been included to facilitate reference) are as follows:

Composition of the corporation

- 1a - has the corporation made a determination of the corporation which complies with the requirements in the Instrument of Government as to the total number of members and the number of members in each category?
- 1b - has the corporation made appointments of eligible governors in accordance with the Instrument of Government?
• 2 - are there currently any vacancies on the corporation? How many of these positions have been vacant for over six months?
• 3 - does the college have procedures for ensuring governors’ eligibility on appointment and on an annual basis?
• 4 - when did the corporation appoint the chair and vice-chair of the corporation?
• 5 - when was the most recent skills audit of the corporation membership undertaken? Were the results of the skills audit:
  (a) used to inform the most recent determination of membership requirements by the corporation?
  (b) used by the search committee/corporation to inform their proposals for governor appointments?
• 6 - has the corporation established a programme of induction and training for governors, which includes:
  - an induction pack, including the college’s instrument and articles?
  - new governors participating in training and development on financial and other key responsibilities, within six months of appointment?
  - governors’ own assessment of their training needs?
  - the use of the LSC’s Governor Training Materials?
• 7 - for any governors re-appointed in the last 12 months, in particular those governors who have already served two terms, were these re-appointments scrutinised by the search committee, including the consideration of other candidates? (This question does not apply to foundation governors in Catholic sixth form colleges and voluntary controlled sixth form colleges)

### Operation of the corporation
• 11 - have all meetings of the corporation in the last 12 months been quorate for the duration of the meeting?
• 12 - has the corporation set the policy by which tuition and other fees payable to the corporation are determined?
• 13 – has the corporation determined the membership of each of its committees, including the terms on which members hold and vacate office?
• 14 - has the corporation approved the strategic and annual internal audit plan, the audit needs assessment, the annual internal audit report and the annual report of the audit committee?
• 15 - does the corporation schedule its meetings to ensure that it fulfils its decision-making and monitoring responsibilities through the year?
• 16 - does the clerk to the corporation record and monitor governors’ attendance at corporation and committee meetings to:
  (a) review and report performance against targets set by governors?
  (b) identify poor attendees and the need to take action in respect of this?
• 17 - has the corporation adopted targets or measures to review its own performance? How frequently are these monitored and assessed?
18 - has the corporation approved terms of reference for each of its committees, which:

(a) state clearly the precise nature and extent of the committee’s responsibilities?
(b) make it clear whether the committee exercises a decision-making or an advisory function in relation to each responsibility?
(c) set out the limits of the financial powers and any other financial limitations on the delegated powers?
(d) ensure that the committee is properly accountable?
(e) identify who may be the members of the committee (including co-opted members), and the size and composition of the quorum?
(f) establish arrangements for the appointment of the chair and vice-chair?
(g) state how meetings are to be called and how often they should be held?

Development Plan

22 (b) – has the corporation approved the college’s latest development plan?
24 – has the college reviewed its development plan? Has the corporation been involved in this process?
27 – does the corporation receive reports on the college’s progress against its development plan?
28 – has the corporation reviewed the college’s mission?

Retention and achievement

36 – does the corporation set targets for academic performance, including retention and achievement?
37 – has the corporation established a standards or quality committee to review the academic performance of the college? If not, does the corporation have arrangements for reviewing the academic performance of the college?
38 – have reports on academic performance covering achievements, student destinations, “value-added”, student progress, retention, enrolment against targets, student attendance, withdrawals and teacher observation grades been presented to corporation/ standards committee?

Appraisal of principal and senior post-holders

39 – are the corporation’s arrangements for the appraisal of the principal and other senior post-holders in accordance with statute and best practice to ensure adequate oversight?

Open and accountable governance

40 – does the corporation have a code of conduct which includes the seven principles of public life?
41 – where governors have relevant interests in matters to be discussed by the corporation, do they declare their interests at the start of the meeting?
42 – has the corporation agreed suitable criteria against which decisions on confidentiality of papers can be made? Does the corporation have arrangements for reviewing confidential papers once the reason for confidentiality no longer exists?

43 - can a member of the public gain access to corporation papers (other than those relating to confidential items) and is this access published? Are the minutes placed onto the college’s website? Are the minutes up-to-date? Has the corporation agreed a written policy regarding the publication of corporation and committee minutes? Has the Freedom of Information Act 2000 been reviewed for its impact on corporation business and records?

8. Colleges should treat any non-compliance with the above areas as a weakness. Furthermore, the LSC believes it would be useful if colleges retained the evidence supporting these areas of compliance on their FMCE Evidence File.

9. Some of the areas previously covered by the SARQ have been carried forward to the FMCE return namely:

- questions 8, 9 & 10 covering the grading, appraisal, suspension, dismissal and determination of pay and conditions of clerk to corporation; clerk’s job description and training of clerk – question 5 of Area 1 Section 1 of the FMCE covers a college’s clerking arrangements;
- questions 19 to 21 covering the audit committee – question 12 of Area 1 Section 1 of the FMCE covers the audit committee;
- questions 22 (most parts of this question), 23, 25, 26 and 29 - 35 covering financial planning and reporting – these are now covered by questions in Areas 2 and 4 (NB some of the questions from last year’s form have been amended slightly to ensure all these questions from the SARQ have been addressed); and
- questions 44 to 46 franchised provision – the questions in Area 1 Section 3 cover these questions (sub-contracting arrangements).

10. Due to the identification of all the compliance issues this year, if any college elects for the option of completing and submitting the short FMCE return it should carefully review all these compliance issues. If there are additional weaknesses emerging from this review of these compliance issues then these should be included in the revised and updated Improvement Plan. However, the identification of any additional governance weaknesses need not lead to a grade change if they are not viewed as significant.

11. The confirmation that all the required compliance issues have been addressed will provide the LSC with useful information about the governance framework in place at colleges.

12. Moving on from pure compliance issues, the LSC needs to know how this governance framework operates in practice, with reference to impacts and outcomes. Colleges should therefore provide specific examples of the effectiveness of their governance framework, with reference to impact and outcomes, in the Summary of the Effectiveness of the Financial Management and Control Arrangements.
Area 1 Section 2: Operational Oversight

13. Operational oversight refers to the way in which financial management and control is delegated throughout a college’s organisational structure. This includes the operation of the college’s finance team.

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

14. Sub-contracting arrangements (franchised provision in the SARQ) cover any arrangements that providers have in place to deliver their agreed volumes, across all of the LSC’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.

15. 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

General

16. Colleges should evaluate the extent to which their financial planning arrangements support effective financial management and control in their design and in practice. Financial planning controls should contribute to the proper, economic, efficient and effective use of resources.

Area 2 Section 2: Long–term Financial Planning

17. Colleges will note that this Section covers the three year financial forecast. However, as the LSC requires Colleges to prepare a three year financial forecast each year the existence of this longer term forecast in itself cannot be viewed as strength.

Area 2 Section 2: Short-term Financial Planning

18. Colleges will note that this Section covers the annual estimates of income and expenditure (the budget). However, as colleges are required to prepare a budget by the Articles of Government the existence of a budget in itself cannot be viewed as strength although its absence would be a key weakness.

Area 3: Internal Control

General

19. Colleges should evaluate the extent to which their systems of internal control are robust and support effective financial management and control, in their design and in practice. Adequate and effective control systems need to be in place to safeguard and protect public funds.
Area 3 Section 1: Risk Management

20. There is a requirement under the Financial Memorandum with the LSC that Colleges have a risk management policy in place and therefore the existence of such a policy in a college should also not be considered to be a strength in itself.

Area 3 Section 2: Internal Control System

21. Colleges should not recognise simple compliance with the requirements of the Financial Memorandum as being strengths as compliance is a requirement. Compliance would include, for example:

- the keeping of proper accounting records and the preparation of financial statements;
- the existence of a policy of risk management; and
- the existence of an audit committee, internal auditors and external auditors.

The LSC believes strength should be identified when a college can evidence the fact that it goes beyond simple compliance. However, non-compliance would be viewed as a weakness.

22. Compliance with the mandatory requirements of the LSC’s Audit Code of Practice should likewise not be viewed as strength. However, non-compliance should be viewed as a weakness.

23. Failure to record any areas of non-compliance with either the Financial Memorandum or the LSC’s Audit Code of Practice would indicate to the LSC that the college’s self-assessment processes are not robust and would be considered to be a further weakness.

24. The LSC recognises that the LSC’s Audit Code of Practice requires further education colleges to have an internal audit service. Given the fundamental importance of financial management and control to the successful operation of a college, the LSC expects that college internal auditors will have considered many relevant areas during the course of delivering their audit plans, generally in some detail. If this is the case, colleges should refer to the scope and results of their internal auditors’ work in the Summary on the Effectiveness of the Financial Management and Control Framework.

25. A prime consideration here is the findings and outcomes of any recent Regional PFA reviews of a college’s financial management and governance arrangements. Any weaknesses that have not yet been fully addressed should be included in the FMCE Improvement Plan. If a provider has received a poor 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 of the Financial Management and Control Framework.
Area 4: Financial Monitoring

General

26. Colleges should evaluate the extent to which their financial monitoring arrangements support effective financial management and control, in their design and in practice. Colleges should maintain an effective system enabling management to monitor, control and improve financial and contractual performance.

Submission of the Financial Management and Control Evaluation

27. The deadlines for the uploading of the completed FMCE return to the Provider Gateway are stated in the Detailed Guidance (30 November 2009 for the full FMCE return and 31 December 2009 for the short FMCE return). These deadlines should be observed even if the FMCE return has not been approved by the corporation on the recommendation of the audit committee. Retrospective approval of the FMCE return should be obtained in such circumstances.

Financial Management and Governance Reviews

28. Colleges that are to be inspected in 2009/10 will not be required to complete either the SARQ or the Governance Appendix which was sent to some colleges being inspected after January 2009. However, colleges being inspected in 2009/10 will have to complete a full FMCE return because the review of financial management and governance undertaken by the Regional PFA teams is based on a full FMCE return.

29. If a college is of the opinion that it is likely to be inspected in the autumn term of 2009/10 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.

30. The Regional PFA teams will, as in the past, need access to the college’s FMCE Evidence File two weeks before the start of a financial management and governance review. The Regional PFA teams need this access so that they can undertake a sample check on the evidence supporting the college’s answers to the questions in Part 3 of the FMCE. Colleges therefore should ensure the FMCE Evidence File is kept up-to-date. The efficiency of the PFA review could be affected adversely if all the required evidence is not available to them.

31. With only undertaking sample checks, the Regional PFA teams will not normally need to spend a significant amount of time reviewing the design and operation of the governance framework when they carry out their financial management and governance reviews. Of course, if significant issues are identified in the FMCE return then these will have to be followed up by the Regional PFA teams who reserve the right to review the design and operation of the governance framework if other circumstances warrant this course of action.

32. As well as following up the on any significant issues identified in the FMCE return, the Regional PFA teams will aim to concentrate on effectiveness issues which consist of:
• a review of the college’s responses contained in the Summary of the Effectiveness of the Financial Management and Control Framework; and
• a review of the areas previously covered in Part B of the SARQ which do not feature directly in the FMCE, for example, the use of LSC resources, financial health and data quality.

**Future Developments**

33. Financial planning and reporting was treated as one area in the SARQ and this is why the LSC is considering combining the Financial Planning and Financial Monitoring areas into one new Financial Operations area. Colleges’ views on this proposal are welcome.
Appendix II – Guidance for non-colleges

Purpose of the Appendix

1. This appendix provides useful information on the areas covered in the FMCE and it will help providers complete it properly and fully.

Form B

2. Last year there were two forms for non-college providers to complete and some had confusion over which one to choose. Accordingly, to remove this confusion the LSC has decided that there will only be one form (Form B) for non-college providers to complete in 2009/10. The LSC has reviewed the questions contained in the previous two forms for non-college providers and tried to ensure only the ones viewed as relevant have been transferred to the new Form B.

3. The LSC recognises that many different types and size of provider including NES employers, independent specialist colleges, local authorities, national training providers, charities and small, owner-managed organisations will now be required to complete Form B. However, many of these providers who have received LSC funds in the past will be used to completing the two previous audit documents that the FMCE return has replaced, that is, the Business Environment Questionnaire and the Provider Control Risk Assessment. Both these former audit documents did ask questions in areas that fall within the scope of the FMCE return so many providers should be used to answering questions in these areas.

4. There will be some providers who are in receipt of LSC funds for the first time and will not have had any experience in completing the two previous audit documents. Such providers should liaise with their Regional Audit Manager before completing the FMCE as assistance and guidance in this task can be provided.

5. Also independent specialist colleges have since 2005/06 had to self-assess their financial management framework in accordance with the guidance contained in the LSC document, Quality Improvement and Self-Assessment. The LSC’s PFA teams did provide guidance to independent specialist colleges on how to undertake this self-assessment of the financial management framework and this was included in a Good Practice Guide on Financial Management which set out a series of best practice indicators in relation to the areas that formed part of the PFA’s review of financial management. As the scope of the FMCE return is not significantly different to the areas covered in the Good Practice Guide on Financial Management, the LSC is of the view that the completion of Form B should not cause independent specialist colleges undue difficulties.

6. All providers should focus their self-assessment on the financial management and control arrangements that relate to the LSC funded provision.

7. Brief guidance has been added to each of the questions being asked in Form B. This guidance should help non-college providers appreciate the purpose of a particular question and assist them with their answers.

8. For all of the sections covered by the FMCE return, providers are encouraged to provide specific examples of the effectiveness of their financial management and control arrangements, with reference to impact and outcomes, in the Summary of the Effectiveness of the Financial Management and Control Arrangements.
Area 1: Accountability

Area 1 Section 1: Strategic Oversight

9. 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).

10. This section has now been reduced to only four questions and so it should not take long to complete. The LSC is trying to establish:

• if there are any strategic oversight arrangements in place; and
• whether these cover the performance of LSC contracts and/or funding.

The LSC is not making any assumptions as to what kind of strategic oversight arrangements should be in place and neither is the LSC seeking to undertake a “governance” type audit. This is why this year the detailed questions on the board of directors and trustees have been removed from this section of the FMCE.

11. Although different statutory regulations apply, the governance arrangements at some independent specialist colleges may be similar to those at further education colleges. Therefore, independent specialist colleges may find it helpful to peruse Form A before completing their FMCE return because governance arrangements are covered in greater detail in that form.

12. At large providers where there are strategic oversight arrangements in place but LSC funding forms only an insignificant part of its overall income, it is unlikely LSC 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 LSC contracts and/or funding.

Area 1 Section 2: Operational Oversight

13. The LSC wants to know how effectively the LSC contract and/or funding is 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 LSC; and
• a reliable finance function so that LSC income, and related expenditure, can be properly recorded.

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

Area 1 Section 3 Sub-contracting Arrangements (if applicable)
14. Sub-contracting arrangements were covered in both the Business Environment Questionnaire and the Provider Control Risk Assessment so providers who have previously been subject to PFA audits should be used to answering questions on this topic. However, 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.

15. Sub-contracting arrangements cover any arrangements that providers have in place to deliver their agreed volumes, across all of the LSC’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.

**Area 2: Financial Planning**

Area 2 Section 2: Long–term Financial Planning

16. The capacity for long-term financial planning in respect of LSC funds may be limited in many providers and the LSC does recognise this. However, the LSC would expect all providers to have some idea or views as to what will happen in respect of LSC 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 LSC 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.

17. Due to the expected variations in providers’ long-term financial planning arrangements, the LSC 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

18. All providers should know what income is expected to be received from the LSC in a particular year and the LSC would expect this amount to appear in either a budget or something equivalent. This section will therefore apply to all providers.

19. The LSC 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, LSC income form an insignificant part of a provider’s overall income then it may not even have a budget head of its own. The LSC would still hope that expected LSC income is recorded at some level in the provider. However, where LSC income forms the most significant income source, the LSC would expect the LSC income budget head to be soundly based and supported by valid assumptions.
Area 3: Internal Control

Area 3 Section 1: Risk Management

20. According to the LSC effective risk management is intended to:

- support strategic and business planning;
- support the effective use of resources;
- make clear who is responsible for managing risk;
- reassure stakeholders;
- prevent unexpected events;
- promote continual improvement; and
- promote communication.

21. Managing risk means:

- identifying barriers to achieving objectives as well as opportunities;
- assessing the likelihood and effect of risks;
- assessing the controls that are in place;
- deciding what action needs to be taken to remove the risk; and
- ongoing monitoring by senior management.

The LSC appreciates that providers will manage risks in different ways.

22. For those providers who are very dependent on LSC funds a prime consideration is what would happen to the provider and its learners if LSC income was either lost or reduced significantly.

Area 3 Section 2: Internal Control System

23. Many providers will be familiar with answering questions on this topic because it was covered in the Provider Control Risk Assessment. It is recommended that providers who have not previously completed a full FMCE return should refer to their most recently completed PCRA when completing their FMCE return and use it as an aide memoire.

24. 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 of the Financial Management and Control Framework. Any weaknesses that have not yet been fully addressed should be included in the Improvement Plan.

25. 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

26. The LSC would expect all providers to monitor their performance against the LSC contract and/or funding targets and to do this effectively they need access to reliable, suitable and accurate information.
27. At large providers where LSC funding forms only an insignificant part of its overall income, the LSC’s interest will be concentrated on the contract performance reports produced for the team responsible for managing the LSC contract. However, where LSC income forms a provider’s most significant income source, the LSC obviously has an interest in the form and content of the financial reports produced.

28. All providers should know not only what has been received (cash) from the LSC but also what is due from/to the LSC, that is, does the LSC owe amounts to a provider or does a provider owe amounts to the LSC. Providers should account for sums actually due from the LSC as opposed to cash actually received.