
Issue 1.01 September 2008
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Paragraph Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Background</td>
<td>1 – 6</td>
</tr>
<tr>
<td>The scope of the Financial Management and Control Evaluation</td>
<td>7 – 14</td>
</tr>
<tr>
<td>Completing the Financial Management and Control Evaluation</td>
<td>15 – 50</td>
</tr>
<tr>
<td>Validation of the Financial Management and Control Evaluation</td>
<td>51 – 53</td>
</tr>
<tr>
<td>Future developments</td>
<td>54</td>
</tr>
</tbody>
</table>


### Annex B: Financial Management and Control Evaluation: For non-college providers that receive more than five per cent of their total income from the LSC

### Annex C: Financial Management and Control Evaluation: For non-college providers which receive less than five per cent of their total income from the LSC
Background

1. Effective financial management and control is essential to support the delivery of high quality learning provision. Good practice will demonstrate:
   - accountability
   - contribute to effective self assessment
   - give assurance to stakeholders
   - demonstrate value for money
   - assist progress towards self regulation

2. Colleges have been subject to reviews of their financial management and governance arrangements since the 1990s. All providers should have been assessing the soundness, operation and effectiveness of their financial management framework as part of their overall self-assessment process since 2005/06, in accordance with the LSC document, *Quality Improvement and Self-Assessment*, published in May 2005. LSC-funded providers should now be familiar with the concept and practice of producing a self-assessment report in preparation for inspection by Ofsted and as a part of their quality-improvement processes.

3. The new financial management and control arrangements will also contribute to the Framework for Excellence grades. Version 1 of the framework implemented from August 2008, requires all providers that are in scope to be graded in respect of their financial management and control arrangements, as part of the wider Finance Dimension. Further information on the Framework for Excellence can be found at [http://ffe.lsc.gov.uk/](http://ffe.lsc.gov.uk/). The principles of the Framework for Excellence include:
   - helping all users to access the clear information they need to help them make informed choices
   - offering providers a robust, benchmarked and validated assessment of their performance, to drive improvement from within the organisation
   - providing an independent, quantitative assessment of the performance of the sector.

4. The LSC has developed an approach which all in-scope providers should use to self-assess, evaluate and grade their financial management and control arrangements annually. This approach is called the Financial Management and Control Evaluation (FMCE). This approach builds on these previous arrangements, assisting providers’ processes to drive forward continual improvement, and also recognises and supports the moves towards the self-regulation of the FE sector.

5. Aside from its use for Framework for Excellence purposes, it is intended that the results of the self-assessment process, once validated, will become a key source of assurance to the LSC in respect of providers’ financial management and control arrangements. The FMCE will replace the
Business Environment Questionnaire, the Provider Control Risk Assessment and, from January 2009, the Self-assessment Report Questionnaire, which are currently used by the LSC’s PFA teams for assurance visit-planning purposes.

6. Use of the FMCE is mandatory for all LSC-funded providers who fall within the scope of Version 1 of the Framework for Excellence in 2008/09. It will also be of interest to other LSC-funded providers.

The scope of the Financial Management and Control Evaluation

7. The LSC considers that all providers’ financial management and control activities will fall within the following four areas:

- Accountability: strategic and operational oversight of financial management and control, and subcontracting arrangements (where appropriate)
- Financial Planning: long- and short-term financial-planning arrangements
- Internal Control: internal control system and risk management arrangements
- Financial Monitoring.

However, there is considerable variation in the LSC’s provider base and there will be variations in providers’ financial management and control arrangements. There are also variations in the extent to which LSC-funded provision is significant to a provider’s overall business, and different types of providers have different types of contractual or legal relationships with the LSC. These factors affect the extent of the LSC’s interest and the LSC’s expectation of what constitutes acceptable financial management and control. The LSC has therefore produced three versions of the FMCE, which are provided as annexes to this document.

Annex A: FMCE for Further Education Colleges

8. Annex A should be used by further education colleges: sixth-form; tertiary; general FE; specialist land-based, specialist art and design, or specialist designated institutions. The LSC funds colleges by grant in aid according to the terms of the Financial Memorandum. The LSC has a high level of interest in the financial management and control arrangements covering the whole operations of each college. Colleges should therefore ensure that the self-assessment of their financial management and control arrangements using the FMCE encompasses their whole operations. The questions contained within Annex A have been tailored to assist colleges to do this.
Annex B: FMCE for non-college providers with greater than five per cent LSC income

9. Annex B should be used by all non-college providers for which the income derived from LSC funded training provision is greater than five per cent of overall income. The LSC expects that larger non-college providers will have more sophisticated financial management and control systems than smaller non-college providers. However, for every size of provider using Annex B, the LSC is concerned with how their wider financial management and control arrangements support the effective use and control of the funding which they receive from the LSC for the provision of training and contribute to effective leadership and management. Therefore, all non-college providers using Annex B should ensure that their self-assessment encompasses the financial management and control arrangements of their organisation as a whole. The questions contained within Annex B have been tailored to assist non-college providers to do this.

10. As Annex B will be used by a wide variety of non-college providers, from small, owner-managed organisations to large national training providers, not all questions will apply to every provider. The LSC has tried to indicate which questions may apply to which non-college provider according to scale of operations. Providers should use their common sense and judgement to determine how the FMCE reasonably applies to them and provide justification if they consider that any questions are not applicable to them. The intention is for providers to account fully for their financial management and control arrangements.

Annex C: FMCE for non-college providers with less than five per cent LSC income

11. Annex C should be used by those non-college providers, such as large employers, charities and local authorities, for which the income derived from LSC-funded training provision is less than five per cent of overall income. The LSC recognises that for this category of provider, the LSC’s interest in financial management and control arrangements is limited. Providers that fall within this category should focus their self-assessment on the financial management and control arrangements which relate to the LSC-funded provision, although the LSC is also interested in how the performance of the LSC-funded provision is monitored and reported more widely within the provider. The questions contained within Annex C have been tailored to assist this category of provider to do this.

The design, operation and effectiveness of the financial management and control framework

12. All providers’ self-assessments of financial management and control need to consider both the:
- **design** and **operation** of the framework of financial management and control, which the provider has in place. This is primarily concerned with the processes by which financial management and control is exercised in theory and in practice.

- **effectiveness** of the framework of financial management and control, which can be assessed with respect to the impact which the operation of the framework has had on the provider’s performance. This is primarily concerned with what has been achieved as a result of having the framework of financial management and control in place.

13. It is expected that all providers will be able to make explicit links between the design, operation and effectiveness of the framework of financial management and control in terms of impacts and outcomes. Those grading their arrangements as good or outstanding through self assessment should be able to demonstrate these links to a high degree.

**Completing the Financial Management and Control Evaluation**

14. All providers are advised to follow the process outlined in the following paragraphs when undertaking the self-assessment of their financial management and control arrangements using the FMCE. This process is summarised in Figure 1 below. Providers should download the FMCE document which is most relevant to them from the Provider Financial Management section of the LSC’s website: [http://www.lsc.gov.uk/providers/pfm/financial-assurance/](http://www.lsc.gov.uk/providers/pfm/financial-assurance/).
Figure 1: How to complete the Financial Management and Control Evaluation

A Prepare and access the FMCE

Provider

1. Read all sections within the guidance
2. Determine which version of the FMCE is most appropriate to use
3. Access the relevant annex via download from the Provider Financial Management section of the LSC’s website

Note: The PFM section of the LSC’s website can be found at: [http://www.lsc.gov.uk/providers/pfmfinancialassurance](http://www.lsc.gov.uk/providers/pfmfinancialassurance)

B Complete the FMCE

4. Input responses to the electronic version of the annex. Complete all parts of the annex (unless determined not to be applicable)

C Review and sign the FMCE

FE college or NonFE college provider

5A. Ensure that the completed FMCE form and grade are reviewed and recommended for approval by the college Audit Committee
5B. Ensure that the completed FMCE form and grade are reviewed and approved by any supervisory/oversight Board
6A. Gain signoff of the completed FMCE form by the Principal prior to submission to the LSC
6B. Gain signoff of the completed FMCE form by the Chief Executive of the organisation prior to submission to the LSC

D Return the completed FMCE

7. Submit a signed, paper copy of the completed FMCE to the appropriate LSC. Regional Audit Manager at the relevant LSC Office. Receipt of the completed paper copy documentation will not be acknowledged by the LSC
8. Upload a copy of the completed FMCE document to the LSC’s Provider Gateway

Note: Do NOT send supporting material to the LSC unless this is specifically requested as part of validation

Note: Submit by 12th December 2008 at the latest. Early submission is encouraged

Legend

- Procedure
- Notes
Components of the FMCE document

15. Each version of the FMCE document comprises the following parts:

Part 2: Provider Information
Part 3: Control Arrangements and Evaluation
  Area 1: Accountability
  Area 2: Financial Planning
  Area 3: Internal Control
  Area 4: Financial Monitoring
Part 4: Improvement Plan


16. The Summary of Grades records the self-assessed grades from each of the areas (transferred from part 3) and an overall grade for financial management and control.

17. The LSC expects college audit committees to review and recommend approval of the completed FMCE document. 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 document. Completed FMCE documents should be signed off by the college principal or chief executive of the organisation / training provider prior to submission to the LSC.

Completing Part 2: Provider Information

18. Providers are requested to supply some general information at part 2 of the FMCE document, which will help to provide some context to their self-assessment.

Completing Part 3: Control Arrangements and Evaluation

19. For each category of provider, and for each area, the LSC has prepared a list of questions to help providers assess the control arrangements which they have in place. These questions provide an outline financial management and control framework against which each category of provider can evaluate their financial management and control arrangements. Providers should answer ‘yes’, ‘no’ or ‘not applicable’ to each
of these questions in the second column. All positive or negative answers should be supported by justification to support their response, which should be clear and sufficiently detailed. As part of their justification, providers should take account of and record their consideration of how effective the control arrangements in place have been. Forms should be completed electronically. The tables within the FMCE document are expandable to allow providers to support their responses adequately.

20. The LSC has made every effort to ensure that the questions in each version of the FMCE are comprehensive and relevant to the provider type. However, the LSC recognises that providers may have controls in place that are not referred to specifically by the questions stated. In these circumstances, providers should record any additional information that they have used to self-assess their financial management and control arrangements in the appropriate place at the end of each section. This may be particularly important in justifying the proposed grade. Providers need to ensure evidence exists to support the additional information supplied, as the information may be subject to validation by the LSC’s PFA teams.

Accountability

21. All providers need to evaluate the extent to which their accountability arrangements support effective financial management and control by their design and in practice.

22. The LSC recognises that accountability arrangements, where applicable, will vary due to the different operational size of providers that are in receipt of LSC and other public funds, and the significance to them of these funds. However, for all providers in receipt of LSC funds, there should be appropriate accountability arrangements in place which would include scrutiny of LSC-funded provision.

23. In respect of strategic oversight, the LSC is particularly interested in the scope for those not involved in day-to-day management to challenge and scrutinise management actions. For further education colleges and larger non-college providers, the primary consideration should not be whether there is a governance framework in place, in accordance with the statutory requirements such as the Instrument and Articles of Government or company law, as these are expectations, but how effectively the framework operates in practice, with reference to outcomes. Smaller providers will also require strategic decisions to be reviewed and appropriate actions taken. Providers are encouraged to provide specific examples of the effectiveness of their strategic oversight arrangements, with reference to impact and outcomes, as supporting evidence.

24. Operational oversight refers to the way in which financial management and control is delegated throughout a provider’s organisational structure. This includes the operation of the provider’s finance team but also, more widely,
includes consideration of the financial responsibilities undertaken by non-financial managers within the business.

25. Subcontracting 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 subcontracted 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.

Financial Planning

26. Providers need to 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. This area is split between long- and short-term financial planning.

27. The LSC requires further education colleges to prepare a three-year financial forecast each year and colleges should note that the existence of this longer-term forecast in itself is therefore not a strength. Colleges are also required to prepare an annual budget by the Articles of Government and therefore should note that the existence of an annual budget in itself is therefore also not a strength.

28. For non-college providers using Annex B, the LSC recognises that financial-planning arrangements should be appropriate for a provider’s size and level of public funding. Thus, as a provider’s size increases, planning arrangements need to be developed and enhanced.

Internal Control

29. Providers need to 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. This area is split between providers’ risk management and internal control arrangements.

30. Further education colleges are required to include a Statement of Corporate Governance and Internal Control, signed by the chair of the corporation and the principal, in their Report and Financial Statements each year. As this is a requirement, this should not be considered as a strength. Similarly, 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.
31. 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 an organisation, 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 their responses in the FMCE document.

*Financial Monitoring*

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

*Evidencing the design, operation and effectiveness of the financial management and control arrangements*

33. Providers should ensure that documentary evidence is maintained to support each answer given in order that they can be validated. Evidence may already be held in evidence portfolios for the purposes of other self-assessment processes and, if so, cross-referencing to the existing documents is acceptable.

*The consideration of what are strengths, expectations and weaknesses*

34. After completing the document, providers should identify what they consider to be strengths and weaknesses in each area and record these in the appropriate place in the FMCE document. Each strength and weakness should be cross-referenced to the relevant question. Strengths and weaknesses may relate to the design, operation or effectiveness of the framework of financial management and control.

35. In identifying strengths in relation to the design and operation of the framework, providers should not recognise simple compliance with statutory financial management and control requirements, such as the requirements of the *Financial Memorandum*, the *Instrument and Articles of Government* and the *Audit Code of Practice* for further education colleges, as being strengths as compliance is a requirement. The LSC believes a strength should be identified when a provider can *evidence* the fact that it goes beyond simple compliance. However, non-compliance would be viewed as a weakness.

36. The LSC recognises that making a direct link between a provider’s framework for financial management and control and its impact may be
difficult, as it is likely that successful outcomes will be as a result of a range of financial management and control activities. However, in identifying strengths and weaknesses in relation to the effectiveness of the framework, as far as is possible, providers must demonstrate the positive and negative impacts that the design and operation of the financial management and control framework have had. These links should be explicitly made and recorded as strengths and weaknesses in the appropriate place in the form.

37. Providers need to determine and record whether a strength is to be considered ‘outstanding’ and the significance of each weakness. Table 2 below provides details of what is meant by strengths and weaknesses and their significance.

**Table 2: Definitions of strengths and weaknesses**

<table>
<thead>
<tr>
<th>Strengths</th>
</tr>
</thead>
<tbody>
<tr>
<td>An <strong>outstanding strength</strong>: an improvement, control arrangement and/or related outcome that is considerably above that which would be regarded as an expectation or requirement.</td>
</tr>
<tr>
<td>A <strong>strength</strong>: an improvement, control arrangement and/or related outcome above that which would be regarded as an expectation or requirement.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>A <strong>fundamental weakness (F)</strong>: control weaknesses that have had or could have a fundamental, detrimental impact upon the achievement of the provider’s financial management and control objectives, which management should take immediate action to rectify.</td>
</tr>
<tr>
<td>A <strong>significant weakness (S)</strong>: control weaknesses that have had or could have a significant, detrimental impact upon the achievement of the provider’s financial management and control objectives, which management should address as a matter of priority.</td>
</tr>
<tr>
<td>A <strong>minor weakness (M)</strong>: control weaknesses that have had or could have a minor, detrimental impact upon the achievement of the provider’s financial management and control objectives, which management should address.</td>
</tr>
</tbody>
</table>

**Determining an overall grade for financial management and control**

38. On the basis of the strengths and weaknesses identified, and their significance, providers should:

   a) determine a grade for each area, recording these in the appropriate place at part 3 and on the summary sheet (part 1) of the FMCE
b) take into account the grades awarded to each individual area, and then determine what they consider to be their overall financial management and control grade. The overall grade should be recorded on the summary sheet (part 1) of the FMCE document.

39. Table 3 below provides guidance to help all providers determine an overall grade for financial management and control in accordance with the Framework for Excellence grades.

Table 3: How to interpret the grade definitions in respect of financial management and control

<table>
<thead>
<tr>
<th>Grade</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding</td>
<td>Many outstanding areas of strength and a few minor weaknesses</td>
</tr>
<tr>
<td></td>
<td>This grading is inappropriate for providers which have identified fundamental or significant weaknesses.</td>
</tr>
<tr>
<td>Good</td>
<td>Many areas of strength and very few weaknesses if any</td>
</tr>
<tr>
<td></td>
<td>This grading is inappropriate for providers which have identified fundamental or significant weaknesses.</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>Some areas of strength and some significant weaknesses, which are being addressed</td>
</tr>
<tr>
<td>Inadequate</td>
<td>No/only a few areas of strength and at least one fundamental and/or many significant weaknesses</td>
</tr>
</tbody>
</table>

40. Further education colleges that have been issued with a Financial Notice to Improve should ensure that any weaknesses relating to financial management and control that have been included in the Financial Notice to Improve and accompanying improvement plan are reflected in their FMCE.

The interaction between the Financial Management and Control Evaluation and Financial Management and Governance reviews for further education colleges

41. Further education colleges should have regard to the scope and results of the last PFA review of their financial management and governance arrangements in determining their grade for financial management and control. However, colleges should note that the scope of the FMCE is more limited than the scope of reviews of financial management and governance and therefore there may not necessarily be a direct correlation between the results of these processes.
42. Colleges which are to be inspected in the autumn term 2008 will be subject to reviews of financial management and governance, which will be carried out and reported in the same way as in 2007/08, using the completed Self-Assessment Report Questionnaire (SARQ) as the basis for the work. It is the LSC’s intention that revised arrangements for reviews of financial management and governance will be implemented from the beginning of January 2009. Any queries should be directed to the relevant LSC regional audit manager. Details of these are provided in table 4 below.

Completing Part 4: Improvement Plan

43. The FMCE document contains an Improvement Plan at part 4. For each identified, including historic weaknesses, providers should outline their proposed actions to address the weakness, identify who is responsible for ensuring that the required action is taken and specify a planned completion date for the action. The LSC expects that actions which address fundamental weaknesses should be implemented immediately.

44. Providers are responsible for the implementation of any specified actions developed in response to the weaknesses identified through self-assessment or validation. The LSC’s PFA teams may undertake follow-up work to ensure that all specified actions have been implemented.

Time period to be considered by the Financial Management and Control Evaluation

45. Providers’ self-assessment reports primarily consider performance retrospectively. The timescale for the self-assessment of financial management and control should be broadly aligned with this wider self-assessment process and would normally be the previous LSC funding year (1 August 2007 to 31 July 2008). When completing the self-assessment, providers should take account of any changes that have been made to their financial management and control arrangements over the annual cycle. Fundamental or significant weaknesses that have occurred since the end of the period should be reflected in the evaluation. If effective action has been taken to address fundamental or significant weaknesses since the period ended, providers should reflect the weaknesses in the evaluation but should also record the action taken and take account of this when determining grades. Failure to record any such 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 of the finalised Financial Management and Control Evaluation document and arrangements for update

46. Providers should submit a signed copy of their completed FMCE to the relevant LSC regional audit manager at the relevant LSC regional or national office. Details of the LSC’s regional audit managers can be found in table 4 below. The addresses of the LSC’s regional and national offices can
be found on the LSC’s website. Providers are also required to upload a copy of their completed FMCE document to the Provider Gateway (in the PFM – FMCE folder within PFM reports on the Provider Gateway (http://thegateway.lsc.gov.uk/)). Both these actions should be completed by 12 December 2008 at the latest. **Early submission is encouraged.** Receipt of the completed hard copy documents will not be acknowledged.

47. Providers should review and update the FMCE document at least annually, in line with their other self-assessment processes. After the documents have been completed for the first time providers only have to update the documents, rather than starting again from the beginning, unless significant changes to the systems of financial management and control have occurred.

**Support for providers in the use of the Financial Management and Control Evaluation**

48. The LSC will provide regional support / training activities in early autumn 2008. The support/training activities will be tailored for each region’s needs, and will aid providers’ understanding of the wider Framework for Excellence Finance Dimension and how to use the FMCE forms. The LSC will make a series of example, completed FMCE forms available which will be published in due course (http://www.lsc.gov.uk/providers/pfm/financial-assurance/ )

49. Provider queries about any aspect of the FMCE may be directed to the relevant LSC regional audit manager, details of which, as at the date of publication, can be found in table 4 below.

**Table 4: LSC regional audit managers and their contact details**

<table>
<thead>
<tr>
<th>Region</th>
<th>Name</th>
<th>Phone number</th>
</tr>
</thead>
<tbody>
<tr>
<td>North East</td>
<td>David Lythe</td>
<td>07770 816 579</td>
</tr>
<tr>
<td>North West</td>
<td>Mark Weddell</td>
<td>07796 276 452</td>
</tr>
<tr>
<td>Yorks and Humber</td>
<td>Rachel Eastman</td>
<td>01274 444 170</td>
</tr>
<tr>
<td>West Midlands</td>
<td>Jo Shaw</td>
<td>07748 958 956</td>
</tr>
<tr>
<td>East Midlands</td>
<td>Anna Fitch</td>
<td>07917 597 446</td>
</tr>
<tr>
<td>East of England</td>
<td>Shirley Landry</td>
<td>07867 692 139</td>
</tr>
<tr>
<td>London</td>
<td>Steve Passmore</td>
<td>07876 391 937</td>
</tr>
<tr>
<td>South East</td>
<td>Daniel Canham</td>
<td>07876 578 016</td>
</tr>
<tr>
<td>South West</td>
<td>Stephen Bailey</td>
<td>01752 754 003</td>
</tr>
<tr>
<td>National Employer Service</td>
<td>John Green</td>
<td>07900 663 108</td>
</tr>
</tbody>
</table>

**Validation of the Financial Management and Control Evaluation**

50. Providers’ self-assessments of their financial management and control arrangements, including grades, will be subject to validation by the LSC’s PFA teams. Following validation the overall grade will be input to form part of the Finance Dimension of the Framework for Excellence. In the event that
LSC validation does not support the self-assessed grade, the LSC reserves the right to use its assessment of the grade in the Framework, in preference to the provider’s assessment of the grade.

51. Poor or non-completion of the FMCE document will lead to a provider being selected for early validation. Paragraph 57 of the Framework for Excellence: Provider Guide 2008/09 states:

‘High-quality Framework information will be of benefit to providers themselves, their learners and other users. Providers should therefore ensure that their data for the Framework are accurate, complete and provided on time. If a provider fails to supply the required data, or prevents the LSC or its contractors from collecting them, the LSC may note the absence of the data in both the Framework report that is sent to the provider and in any Framework publications of the PIs’

52. The LSC will apply an internal peer review process to ensure that its FMCE validation procedures are applied consistently.

53. Further guidance on LSC validation and means of provider appeal will be communicated in due course.

**Future developments**

54. The LSC will keep this approach under review and will welcome providers’ comments on its further development and refinement, particularly in respect of its scope, usefulness and content.