

Provider Financial Assurance

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06

Presentation Objectives



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To explain

- the role of Provider Financial Management and Financial Assurance (PFA)/Financial Services (PFS)
- the responsibilities of PFA: what PFA does and how PFA works - what it means for you
- PFA findings – summary advice
- The changing audit landscape – demand led funding
- Framework for Excellence – The finance dimension

PFMD Structure



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Provider Financial Management – Director - Simon Tolaini

Provider Financial Assurance - Head - Steve Passmore

Principal Auditors (PFA)

Colin Cornelius – London East boroughs

Clive Gordon – London West/South boroughs

Steve Holder – London North/Central boroughs

Provider Financial Support Managers (PFS)

Basheer Dilmahomed (South of the Thames + London West)

Les Denny (North of the Thames)

PFA Assurance Approach (1)



What do PFA do?

•1. Internal Control

- Are sound systems of internal control in place?
- Opinion based on PFA assessment of inherent and control risks through review of provider self-assessment documentation and direct audit work on controls systems and the management of risk.

•2. Use of Funds

- Has the money been used in a way that is materially consistent with the objectives of the contract?
- Opinion based on the direct results of PFA testing/ indirect work and the level of funding errors identified

PFA Assurance Approach (2)



How do PFA Work and what it means for you?

- Cycle of audits— based on financial risk determined via the Framework for Excellence/past record (Default to high risk for new providers)
- Contact providers (and partnership teams) 4-6 weeks in advance of audit – controls or assurance
- Controls visit to validate self-certification – if needed. Provider to maintain portfolio of evidence – updated annually.
- Full assurance visit (statistical sample – 1 days notice) – cyclical, based on risk assessment
- Use of learner surveys and data analysis to inform risk assessment

PFA Findings



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Summary Advice

- Read, understand and be familiar with the LSC funding guidance (changes from August) and transitional arrangements – including recommended evidence requirements
- Ensure all sub-contractors/consortium members are made aware of the funding/eligibility requirements and have relevant contracts.
- Understand the contract. And make sure that everyone has the same understanding as you
- Early monitoring and advice is critical
- Record your advice and conclusions (both parties). If necessary, arrange for a variation of contract

Changing Audit Landscape



DLF Guidance (1)

From August 2008 the LSC have introduced a demand led funding methodology that links payments to on-going learning and training activity.

Key reference – ILR Funding Compliance Advice and Audit Guidance for Providers (Draft V2) – June 2008.

DLF Guidance (2)



This involves:

- 75% on programme payments
- 25% of funding for achievement

Wherever possible, LSC auditors seek to place reliance on evidence that is generated by the natural administration of the learning process, within the provider's own systems, provided that evidence is sufficient, relevant, reliable and robust

DLF Guidance (3)



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Audit evidence requirements over:

- Eligibility to the programme
- Entry to the programme
- Participation on the programme
- Progress within the programme
- Achievements
- Withdrawal from the programme

ILR Funding Compliance, Advice and Audit Guidance for Providers –Annex B

Framework for Excellence



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Finance Dimension

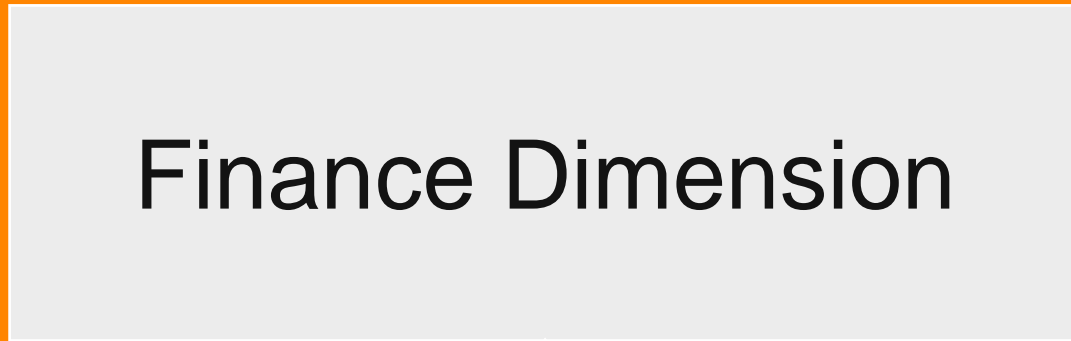
Most information used to calculate FFE scores and Overall Performance Ratings will be generated from existing ILR and Finance data

Finance Dimension

Financial Health

Financial
Management and
Control

Use of Resources



Financial Health



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Assessment of providers' financial health based on defined key ratios:

- 3 health groups translated to 4 (ABC to 1234)
- Six ratios to three

Solvency (liquidity) Sustainability (profitability) Status (borrowings)

- Publication of FH ratings, for the first time
- Recognition for consistency of performance
- Common approach for all providers
- Moderation to recognise latest available information and/or capital investments

Use of Resources



Overview

- FfE seeks to describe value for money in the FE system
- Use of Resources includes indicators of Economy and Efficiency

It allows the LSC to answer:- are we getting what we are paying for?

Use of Resources (three performance indicators)

Funding Economy

- LSC funding applied to priority provision
- Funding Delivery against funding allocation

Resource Efficiency

- Funding a successful outcome
- Comparative Unit Cost

Capital

- Condition of estate and recognition of plans for renewal



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Financial Management Control Evaluation (FMCE)

The self regulation of financial management and control by providers

- Guidance and documentation issued mid to late September
- Certified self regulation documentation on financial management and control required by the LSC by 12 December 2008

FMCE – Documentation



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- 1. One set of guidance for all providers**
- 2. Three annexes contained with guidance instructions for the following:**
 - Colleges
 - Non colleges with significant LSC funding (>5%) in relation to turnover
 - Non colleges with small LSC funding (<5%) in relation to turnover
- 3. Each annex has a consistent format / layout and four parts:**
 - Grading Summary
 - Provider Summary – contextual information
 - 4 Key Areas –
Accountability, Planning, Internal control, Financial monitoring
 - Improvement Plan
- 4. Each area requires a self assessment grade with an overall grade reflected in part 1**

FMCE Overview



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- Assessment of providers' Financial Management & Control
- Use of self assessment tool and process - Financial Management & Control Evaluation (FMCE) document which consolidates 3 control evaluation documents
- FM&G Reviews – separate Governance check list
- Aim for consistency as far as possible but recognising that colleges and commercial providers are not the same
- Consideration of design, operation and effectiveness of financial management and control systems
- Subsequent validation of information by PFA auditors

FMCE – Grades and interpretation



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Outstanding	Many outstanding areas of strength and no / only a few minor weaknesses It is unlikely that this grading is appropriate for providers which have identified fundamental or significant weaknesses.
Good	Many areas of strength and a few minor weaknesses It is unlikely that this grading is appropriate for providers which have identified fundamental or significant weaknesses.
Satisfactory	Some areas of strength and some significant weaknesses
Inadequate	No or only a few areas of strength and at least one fundamental and/or many significant weaknesses

Publication of Framework Scores



- There will be **limited** publication of Framework outcomes for 2008/09
- The LSC will share each provider's Framework outputs and scores with the individual institution, relevant LSC colleagues and partners organisations
- From Spring 2010, **all** Framework outputs will be published



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Any Questions?