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

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

Guidance on the self-assessment of a provider's financial management and control arrangements using the Financial Management and Control Evaluation (FMCE) return

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Executive Summary

Background

- 1 The provider guidance in respect of the completion of the Financial Management and Control Evaluation (FMCE) return was previously prepared by the Learning and Skills Council (LSC). However, in accordance with the Apprenticeships, Skills, Children's and Learning Act 2009 the Skills Funding Agency, the YPLA and local authorities¹ took over the funding of further education, and the various responsibilities attached to this, with effect from 1 April 2010. As part of these new arrangements, the Skills Funding Agency has taken on board the responsibility of updating and developing the FMCE return and the associated provider guidance.

Purpose of the Guidance

- 2 Each of the successor funding bodies to the LSC also takes the "lead" on assurance matters for specific groups of providers.² In respect of the providers that the Skills Funding Agency takes the "lead" for, the completion of a FMCE return is mandatory for all of them provided they fall within the scope of Framework for Excellence in 2010/11 and have been in receipt of "public" funds (funds received previously from the former LSC) in excess of £50k for over 12 months³. The purpose of this guidance is to explain to providers the purpose of the FMCE return, how to choose which version of the return (Form A or Form B) and type of return (full or short) to complete and how to reach their self-assessed grade for their financial management and control arrangements.

YPLA

- 3 The providers that the YPLA take the "lead" for on assurance matters, for example, independent specialist colleges and sixth form corporations designated under the Apprenticeships, Skills, Children's and Learning Act 2009 are also required to complete a FMCE return this year.

Purpose of the FMCE Return

- 4 The FMCE return requires all in-scope providers to self-assess, evaluate and grade their financial management and control arrangements. The timescale for the self-assessment will normally be the previous funding year (1 August 2009 to 31 July 2010). This approach for financial management and control arrangements is built on the previous arrangements that existed for colleges since the 1990s and for all other providers since 2005/06.

Two Versions of the FMCE Return

- 5 There are two versions of the FMCE return which are attached to this Guidance:
 - Form A should be completed by further education corporations designated under the Further and Higher Education Act 1992 and sixth form corporations designated under the Apprenticeships, Skills, Children's and Learning Act 2009; and

¹ With effect from 1 August 2010 all 16 -18 funding goes through the YPLA and not through local authorities

² More details on "lead" arrangements can be found in the Joint Audit Code of Practice.

³ A provider who receives its first contract with effect from 1 August 2010 does not need to complete a FMCE Return even though it may be in scope for Framework for Excellence purposes.

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- Form B should be completed by all non-college providers who receive from direct contracts more than £50,000 annually from the Skills Funding Agency or YPLA and have been in receipt of this level of funding for over 12 months.

6 Each version of the FMCE return comprises the following parts:

- Part 1: Summary of Grades;
- Part 2: Improvement Plan; and
- Part 3: Control Arrangements and Effectiveness - there has been a name change to Part 3 in order to stress the importance of “effectiveness” in determining the overall self-assessed grade.

Changes in 2010/11

7 There have been some changes made to the questions in Part 3 of the FMCE Return in order to promote the identification of more effectiveness issues.

Full and Short FMCE Returns

8. Certain providers will, as they could do last year, be able to submit a short FMCE return in 2010/11 and both the Skills Funding Agency and YPLA recommend that all eligible providers consider this option. However, for all those providers falling in scope of the Framework for Excellence for the first time in 2010/11 and who need to complete a FMCE return because they have been in receipt of public funds in excess of £50k for 12 months, the completion of the full FMCE return is still mandatory.

Completion, Submission, Desk-Top Moderation and Validation

- 9 Providers should complete their FMCE Return electronically and once approved, the FMCE return should be uploaded to the Provider Gateway (in the PFM –FMCE folder within PFM reports on the Provider Gateway. Note that the URL for this site is: <https://gateway.lsc.gov.uk/providergateway/default2.aspx>. In respect of both FMCE returns, this action should be completed by no later than 30 November 2010. In addition, all providers should also submit a signed paper copy of Part 1 (Summary of Grades) to their audit manager at the relevant Skills Funding Agency 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. The PFA teams will complete a desk-top moderation of the FMCE Return and then write to all providers informing them of the PFA moderated opinion by 31 March 2011 at the latest.
- 10 In respect of colleges, the full validation of the FMCE return will usually take place when the college is being inspected by Ofsted. There will also be some non-college providers who will be visited by PFA teams during their inspection by Ofsted and the full FMCE return will be validated at this time. Other non-college providers may be subject to separate validation visits. However, PFA teams do reserve the right to validate any self-assessment when such is viewed appropriate and necessary.

Detailed Guidance

Background

- 11 With effect from 1 April 2010 the Skills Funding Agency, the YPLA and local authorities took over the funding of further education from the Learning and Skills Council (LSC) in accordance with the Apprenticeships, Skills, Children's and Learning Act 2009. However, the Education Secretary has confirmed that with effect from 1 August 2010 all 16 -18 funding will go through the YPLA and not through local authorities and thus from that date only the Skills Funding Agency and the YPLA will be involved in funding further education. Both these bodies have clear responsibilities for the funding it is responsible for and each takes the "lead" on assurance matters for specific groups of providers. As part of these new arrangements, the Skills Funding Agency has taken on board the responsibility of updating and developing the Financial Management and Control Evaluation (FMCE) return and preparing the associated provider guidance.

YPLA

- 12 The providers that the YPLA funds directly, that is, independent specialist colleges, sixth form corporations designated under the Apprenticeships, Skills, Children's and Learning Act 2009 (from 1 August 2010) and some non-college providers (from 1 August 2010) are also required to complete a FMCE return this year. If these providers have any queries on the FMCE Return then they should contact:
- Mike Croker – mike.croker@ypla.gov.uk; or
Jonathan McAllister – jonathan.mcallister@ypla.gov.uk; or
Ian Stafford – ian.stafford@ypla.gov.uk

Purpose of the FMCE Return

- 13 The electronic completion of a Financial Management and Control (FMCE) return is mandatory for all providers who:
- fall within the scope of the Framework for Excellence in 2010/11; and
 - have been in receipt, through direct contracts of public funds in excess of £50k for over 12 months (any sums received as a sub-contractor can be ignored).
- Thus providers who fall within the scope of Framework for Excellence in 2010/11 but have not been in receipt of public funds for the previous 12 months need not complete a FMCE Return.
- 14 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 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.

15 When undertaking their self-assessment providers need to recognise that their financial management and control arrangements are supposed to:

- support the delivery of high quality learning provision; and
- contribute to effective self assessment, quality improvement and corporate governance; and
- give assurance to stakeholders; and
- demonstrate value for money.

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

Changes in 2010/11

16 The Skills Funding Agency has reviewed the approach followed last year and decided that some amendments to the questions⁴ in Part 3 of the FMCE Return were needed to assist providers identify more effectiveness issues. The moderation and validation of FMCE Returns by the PFA teams in 2009/10 did demonstrate that providers had been concentrating on the identification of compliance issues, and effectiveness issues were often overlooked.

Scope

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

- **Accountability Arrangements** - *appropriate accountability arrangements should be in place to enable management to effectively discharge their responsibilities⁵*

This is divided into three sections:

- strategic oversight
- operational oversight
- sub-contracting arrangements (where applicable)

- **Financial Planning Arrangements** - *financial planning arrangements 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 Arrangements** - *adequate and effective internal control arrangements should be in place to safeguard and protect public⁶ funds*

⁴ The amendments or changes made to the questions in Part 3 of the FMCE Return are shown in italics

⁵ Further education colleges and sixth form colleges should note that the scope of Accountability Arrangements extends beyond just simple financial management and control issues to their entire operations.

⁶ A provider who previously received funds from the LSC could now be in receipt of equivalent funds from the Skills Funding Agency and the YPLA. The funds received from both these funding bodies must be included in this self-assessment.

This is divided into two sections:

- risk management
 - internal control system
- **Financial Monitoring Arrangements** - *financial monitoring arrangements should enable management to monitor, control and improve financial and contractual performance effectively.*

How to complete the FMCE Return

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

- 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 corporations designated under the Further and Higher Education Act 1992, and sixth form corporations designated under the Apprenticeships, Skills, Children's and Learning Act 2009; and
 - Form B⁷ should be used by all non-college providers who have been in receipt of public funds of more than £50,000 for over 12 months..

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

<http://skillsfundingagency.bis.gov.uk/providers/finance/financialassurance/fmce/>

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

- 19 Certain providers will, as they could do last year, be able to submit a short FMCE return in 2010/11. This option is only available to providers who:
- do not wish to change last year's overall self-assessed grade and the Regional PFA teams of the former LSC concurred with the self-assessed grade; and
 - have not undergone any significant internal changes⁸ since last year (organisational changes; changes in the governance framework; mergers; changes in ownership; deterioration in financial health; adverse audit or inspection outcomes; notices to improve).

Both the Skills Funding Agency and YPLA recommend that all eligible providers should consider this option. However, for all those providers who have to complete a FMCE Return for the first time in 2010/11, completion of a full FMCE return is mandatory.

- 20 If a provider elects to submit a short FMCE Return then it would be beneficial to the relevant PFA team if they were informed of this as soon as this decision has been made.

⁷ Form B will also be completed by independent specialist colleges.

⁸ It is appreciated that with the Apprenticeships, Skills, Children's and Learning Act 2009 there have been significant external changes. However, as this Act primarily transferred the funding of further education from the LSC to successor bodies it does not need to be classed as a significant change for the purposes of deciding what type of FMCE Return to complete.

The PFA teams would thus know which providers were going to submit full FMCE Returns and would be able to ensure that these are received and that sufficient resources are available to moderate these.

- 21 If a further education college, sixth form college or independent specialist college decides to complete a short FMCE return in 2010/11 and is subsequently informed it is to be inspected by Ofsted, a full FMCE return will have to be completed as the PFA teams will need this as the validation of a further education college's financial management and control arrangements has to be based on a full FMCE return⁹. This requirement will also apply to some non-college providers too as the PFA teams aim to validate some FMCE returns at the same time as these providers are being inspected by Ofsted.
- 22 The option to submit a short FMCE return currently only extends to two consecutive years. Thus a provider who submitted a short FMCE return last year and intends do likewise this year will need, unless this requirement is changed, to submit a full FMCE return in 2011/12.

Part 3: Control Arrangements and Effectiveness¹⁰

- 23 The completion of Part 3: Control Arrangements and Effectiveness is required by those providers who intend to submit a full FMCE return. Providers who intend to submit the short FMCE return should ignore this part of the Detailed Guidance and consider only paragraphs 38 to 42 below.

Financial management and control arrangements in place

- 24 There are two stages in the completion of Part 3. The first and relatively straightforward stage requires providers to consider the financial management and control arrangements in place by answering a number of closed questions in the four areas covered by the FMCE with a "yes", "no" or "not applicable" answer. Providers should note that:
- for each "yes" answer, an outline of the evidence that exists to support the answer is required;
 - a "no" answer should normally be treated as a weakness or an area for improvement that should then be included in the Improvement Plan. However, if 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 thus not include this item in the Improvement Plan; and
 - a "not applicable" answer is appropriate when there is no need to have in place all the controls specified in Part 3. Providers should specify the reasons why a "not applicable" answer has been provided in the evidence column.
- 25 There may also be occasions when a provider has controls in that are not referred to specifically by the questions stated in Part 3. The Skills Funding Agency 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

⁹ If a college has to submit a full return because it is being inspected in 2010/11 then it can submit a short return for the next two years.

¹⁰ The title of Part 3 of the FMCE Return has been changed to emphasise the importance that needs to be placed on the effectiveness of a provider's financial management and control arrangements.

the FMCE return that allows for the existence of these additional controls. Providers should refer to these additional controls, provided documentary evidence exists to support them, when answering the final question in each of the sections. Also, when providers complete the Summary of the Effectiveness Section they should refer to the effectiveness of these additional controls.

Effectiveness of a provider's financial management and control arrangements¹¹

- 26** The second and most crucial stage in the completion of Part 3 requires providers to consider and evaluate the effectiveness of the financial management and control arrangements in place by recording on the Summary of the Effectiveness Sections (there is one section for each of the four areas) the effectiveness of their arrangements in terms of impacts and outcomes. Positive impacts and outcomes should be viewed as strengths and negative impacts and outcomes should be viewed as weaknesses. As “effectiveness”, in the view of the Skills Funding Agency, should be the key element in justifying a provider’s overall self-assessed grade, providers need to ensure that sufficient time is allowed for this task.
- 27** Despite the significance of these Sections in determining the overall grade, the completion of these Sections did cause some providers problems last year as many either focussed on compliance issues as opposed to actual effectiveness issues or simply ignored effectiveness altogether. This meant that the overall content of these Sections did not support providers’ self-assessed grades, that is, based on a simple reading of the FMCE return the self-assessed grades appeared unjustified and over-stated.
- 28** If the Summary of the Effectiveness Sections are not completed or only partially completed then when the PFA teams undertake either a full validation or a desk-top moderation of the FMCE Return they will have to ask providers to update the Summary sections and provide further details on the effectiveness of their financial management and control arrangements. Without this additional information being provided it will not be possible for a PFA team to either validate or concur with a provider’s self-assessed grades.

Choosing a Grade

- 29** Providers now should choose a grade for both the eight sections and four areas in the FMCE return. The grades being used in 2010/11 are consistent with those used last year.
- 30** Last year, to assist providers choose the correct grade, the former LSC issued two further guidance documents, *Indicative Examples of Grade Components for Further Education Colleges* and *Indicative Examples of Grade Components for all non-college providers*. These two documents which listed, section by section, those components the LSC expected to see under the four grades, have been updated by the Skills Funding Agency and will be available for providers shortly. However, providers should note that these lists are not meant to be either exhaustive or prescriptive in what constitutes a grade component and they should not prevent providers identifying further components.

¹¹ This section of the Guidance has been put in bold in order to stress the importance of “effectiveness” in determining the overall self-assessed grade.

31 Furthermore, the Skills Funding Agency, as the former LSC did last year, also intends to issue some worked examples of Forms A and B.

Outstanding

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

- has clearly recorded the effectiveness of the financial management and control arrangements for that section on the Summary of the Effectiveness Section;
- has not identified any weaknesses or areas for improvement when answering a particular section of the FMCE or only identified a few minor weaknesses; and
- has all the components listed in the Outstanding column of the relevant guidance document, *Indicative Examples of Grade Components* for that particular section (it should have the components for the “Good” and “Satisfactory” grades too);

Good

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

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

Satisfactory

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

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

Inadequate

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

- has either not identified any or few effectiveness issues on the Summary of the Effectiveness Section;
- has some of the components listed in the Inadequate column of the relevant guidance document, *Indicative Examples of Grade Components* for that particular section; and

-
- has answered “No” to many of the questions in Part 3 and included all the associated weaknesses or areas for improvement in the Improvement Plan.

36 In choosing their overall grade, providers should just not simply have regard to the grades reached for each of the four areas. Providers should appreciate that equal weightings are not applied to each of the four areas. Thus, for example, if an “Outstanding” grade has been reached for three areas it does not automatically mean that the overall grade itself has to be “Outstanding”. There may be a weakness of such significance in the fourth area which not only has a major impact on the grade for that area but also on the overall grade itself. Thus a significant weakness in one area can have a major influence on the overall grade, irrespective of what grades have been reached for the other three areas.

37 The following are examples of issues that could have a major impact on the overall grade:

- a sudden and unplanned deterioration of a provider’s financial health;
- a failure to deal with financial health issues;
- financial plans show that financial health will deteriorate but there is no evidence to demonstrate how this scenario will be dealt with;
- an overall qualified audit report from the provider’s auditors (for further education colleges this would be the internal, external or funding auditors);
- poor inspection outcomes; and
- fundamental issues included in a Notice to Improve.

Part 2: Improvement Plan

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

39 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 Section; or
- a weakness or area for improvement identified in the LSC guidance document, *Indicative Examples of Grade Components*; or
- a weakness or area for improvement identified by a third party, for example, a provider’s auditors.

40 For providers who complete the short FMCE return a revised and updated Improvement Plan, consistent with last year’s submission, should be completed. This revised and

updated Improvement Plan needs to show what has actually happened in the period since the last Improvement Plan was prepared, that is, all the action taken or being taken to address the previously identified weaknesses/areas for improvement needs to be detailed. The revised and updated Improvement Plan will thus show:

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

Part 1: Summary of Grades

- 41 Part 1 has to be completed by all providers in 2010/11 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 Skills Funding Agency. For those providers who submit a short FMCE return, the signing off of Part 1 indicates that no significant changes have occurred in the organisation in the last 12 months.
- 42 This year we have asked for details of the person(s) we should contact if the Skills Funding Agency has any queries on the FMCE return as in many cases the person signing off Part 1 may not be the person who actually completed the FMCE Return (there may be more than one person involved).

Evidence File

- 43 The Skills Funding Agency believes it would be useful if providers collect evidence to support their completion of Part 3 of the FMCE Return and retain it in an Evidence File. If any evidence is already held elsewhere for other purposes or held electronically a simple cross-reference to where the existing documentary evidence or electronic evidence can be accessed would suffice.
- 44 As a FMCE return is required on an annual basis, the Evidence File will need updating each year. Whilst this annual update is a cost to providers, the Skills Funding Agency 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.
- 45 Guidance on the evidence that should be included on an Evidence File has been provided as annex to both appendixes I and II. Providers should refer to the relevant annex when preparing their own Evidence File.

Post 31 July 2010 Events

- 46 The timescale for the self-assessment of a provider's financial management and control arrangements will normally be the previous funding year (1 August 2009 to 31 July 2010). However, when completing the FMCE return providers should take account of

any developments (improvements to, or a deterioration of, their financial management and control arrangements) which have taken place since 1 August 2010.

- 47 If a provider wishes to take into account positive developments since 1 August 2010, there does need to be evidence to demonstrate that these developments have had an impact. If there is no evidence to show that such developments (recent staff changes etc) have had an impact then no weighting should have been given to such when a provider is considering its self-assessed grade.
- 48 Providers should appreciate that a failure to recognise any fundamental or significant weaknesses in to their financial management and control arrangements which have arisen since 1 August 2010 would indicate to the Skills Funding Agency that the provider's self-assessment processes are not robust and this would be considered to be a further weakness.

Submission of the FMCE Return¹²

49. 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, those non-college providers who are reliant on public funds and have non-executive scrutiny or supervision arrangements at board or committee level should ensure that these are used to review and approve the completed FMCE return. Obviously the Skills Funding Agency would not expect such approval at non-college providers where public funds are not a material part of overall income.
- 50 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 (<https://gateway.lsc.gov.uk/providergateway/default2.aspx>)). This action should be completed for both returns by 30 November 2010 at the latest, and this deadline should be observed even if the FMCE return has not been approved. Retrospective approval of the FMCE return should be obtained in such circumstances¹³. Early submission is encouraged in both circumstances, but especially if a full FMCE return is being submitted for the first time. If any provider fears they will not be able to meet this deadline then they should contact the relevant audit manager and explain the reasons for the delay.
- 51 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 audit manager (contact details are shown in Table 1 below). There is no requirement to submit paper copies of either Part 2 or Part 3 if these have been uploaded to the Provider Gateway.

¹² If a provider funded by the YPLA has a query in respect of the submission of their FMCE Return then they should contact Mike Croker, Jonathan McAllister or Ian Stafford

¹³ If a college is submitting a short FMCE return then in order to meet the 30 November 2010 deadline, it may wish to consider delegating the approval of the short FMCE return to the audit committee.

Table 1: Skills Funding Agency Audit Managers and their Contact Details

Region	Name	Telephone Number
North East Moongate House 5th Avenue Business Park Team Valley Gateshead NE11 0HF	david.lythe@skillsfundingagency.bis.gov.uk	07770 816579
North West Arndale House Arndale Centre Manchester M4 3AQ	mark.weddell@skillsfundingagency.bis.gov.uk	07796 276452
Yorkshire and the Humber Mercury House 4 Manchester Road Bradford West Yorkshire BD5 0QL	rachel.eastman@skillsfundingagency.bis.gov.uk	01274 444170
West Midlands 15 Bartholomew Row Birmingham B5 5JU	jo.shaw@skillsfundingagency.bis.gov.uk	07748 958956
East Midlands 17A Meridian East, Meridian Business Park, Leicester LE19 1UU	anna.fitch@skillsfundingagency.bis.gov.uk	07917 597446
East of England 2 Railton Rd Woburn Rd Industrial Estate Kempston Bedfordshire MK42 7PN	shirley.burdett@skillsfundingagency.bis.gov.uk	07867 692139
London 4 th Floor, Kingsgate House 66-74 Victoria Street London SW1E 6SW	steve.passmore@skillsfundingagency.bis.gov.uk	07876 391937
South East Eagle Point Little Park Farm Road Segensworth Fareham Hampshire PO15 5TD	daniel.canham@skillsfundingagency.bis.gov.uk	07876 578016
South West Foliot House Budshead Road Plymouth PL6 5XR	stephen.bailey@skillsfundingagency.bis.gov.uk	01752 754003

Desk-top moderation of the FMCE Return

- 52 In respect of a full FMCE return, the PFA teams will, as they did last year, complete a desk-top moderation of it. Providers should note that this desk-top moderation is though limited to ensuring that:
- the provider has fully completed its FMCE return, that is, all parts of the FMCE return have been fully completed, all the questions in it have been answered, and it has been signed and approved;
 - the provider's responses are internally and externally consistent, that is:
 - a. the provider's overall self-assessed grade is as expected;
 - b. all the issues we are aware of have been identified in the FMCE Return;
 - c. there are sufficient strengths identified in each of the four areas to justify the four self-assessed grades;
 - d. the number of weaknesses and/or areas for improvement identified does not suggest that any of the grades reached are overstated; and
 - e. the overall self-assessed grade is consistent with the grades awarded for the four areas; and
 - the provider's responses are reasonable, that is:
 - a. the provider's description of the evidence to support each "Yes" answer is reasonable, appropriate and consistent with our knowledge of the college;
 - b. the provider has justified all its "No" and "Not Applicable" answers;
 - c. the provider has summarised the effectiveness of its financial management and control arrangements properly;
 - d. the answers provided by the provider, together with the summaries of the effectiveness of its financial management and control arrangements, indicate that the objectives in each of the four areas covered by the FMCE Return have been met.
- 53 If there are any apparent inconsistencies or omissions then these will be followed up with providers in order to agree the overall moderated opinion..
- 54 Once the desk-top moderation has been completed the PFA teams will write to all providers informing them of the PFA moderated opinion by 31 March 2011 at the latest. There are two opinions the PFA teams can provide after the moderation namely they either concur with the provider's self-assessed grade or they do not concur with the provider's self-assessed grade. When the PFA teams do not concur with the self-assessed grade then the reasons for this are outlined in the opinion itself. Both opinions are shown at Appendix III.
- 55 Please note that even when the PFA teams concur with the provider's self-assessed grade the opinion makes clear the scope of PFA's work was limited and if a full validation had taken place which involves more substantive work, then the opinion may have been different. To a large extent the desk-top moderation simply provides comfort on the compliance aspects of the FMCE return, alongside other indicators of effectiveness such as recent audit results which are known to us at the time of the desk-top moderation. The PFA validation visits alongside Ofsted go further and it is during

these that PFA teams will explore in greater detail effectiveness issues. Included in this will be the 'use of funds' indicators which the inspectors comment on, such as success rates. Also, financial health would be considered as an effectiveness indicator, and the outcomes of funding audits.

- 56 A desk-top moderation will also be carried out on short FMCE returns. However, the scope of the work here is limited as the main consideration for PFA teams is ensuring whether or not the criteria relating to the submission of a short FMCE return has been met. If the PFA teams have concerns about whether the criteria has been met then these will be followed up with providers in order to agree which type of FMCE return should be submitted. So it may be possible that a provider who has submitted a short Return may be requested to complete a full Return. However, the Skills Funding Agency would hope that such occurrences can be avoided.

Full validation of a full FMCE return

- 57 In respect of colleges, the full validation of the FMCE return will usually take place when the college is being inspected by Ofsted. There will also be some non-college providers who will be visited by PFA teams during their inspection by Ofsted, and the full FMCE return will be validated at this time. Other non-college providers may be subject to separate validation visits, as PFA teams do reserve the right to validate any self-assessment when such is viewed appropriate and necessary.
- 58 Further details of the validation process at further education colleges and non-college providers can be found at appendix I and appendix II.

Support for Providers

- 59 If providers need any support and guidance in completing the FMCE return they should contact the relevant audit manager.

Future Developments

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

APPENDIX I – GUIDANCE FOR FURTHER EDUCATION COLLEGES AND SIXTH FORM COLLEGES

Purpose of the Appendix

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

Background

- 2 Further education colleges and sixth form 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 covers both governance and financial management issues. The Skills Funding Agency would expect that both the clerk to the corporation and the director of finance will be involved in the completion of the FMCE return. If this is the case then the names and contact details of these people need to be specified on Part 1 of the FMCE return.

Area 1: Accountability Arrangements

- 4 It is important to note that issues covered in the other areas of the FMCE return will also have an impact on the grade for this area. If a college, for example, has received an overall qualified audit report from any of its auditors or a Financial Notice to Improve, this would suggest that the college's overall accountability arrangements had not been effective

Area 1 Section 1: Strategic Oversight

- 5 Colleges will recall that Part A of the Self-Assessment Report Questionnaire (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. When the PFA teams undertake their financial management and control return validations they need assurance that the college has complied with all these various statutory and other requirements. However, many of these areas no longer feature in the FMCE return. 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.
- 6 The areas of compliance this one question covers (the original question number from the SARQ has been included to facilitate reference) are shown on annex A to this appendix. Colleges should treat any non-compliance with these areas as a weakness and these should be included in the revised and updated Improvement Plan. Furthermore, the Skills Funding Agency believes it would be useful if colleges retained the evidence supporting these areas of compliance on their FMCE Evidence File.

Area 1 Section 2: Operational Oversight

- 7 The Skills Funding Agency would expect all the activities of a college to be subject to appropriate and effective operational oversight. This is why the PFA teams, when carrying out a validation visit in parallel with Ofsted, will liaise with the inspectors and share evidence and exchange findings with them. The PFA team will be particularly interested in the inspectors' view on leadership and management as this will be of importance to them in validating the self-assessed grade for Accountability. If the inspectors were to give a grade of inadequate for Leadership and Management then that would suggest to the PFA team that the college is not effective. Thus due to the significance attached to this grade of inadequate, the PFA team would probably have to give a grade of inadequate for both Operational Oversight and then Accountability overall. If the inspectors were to give a grade of satisfactory for Leadership and Management then the PFA teams would find it difficult to provide a grade of outstanding for Operational Oversight.

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

- 8 Sub-contracting arrangements cover any arrangements that providers have in place to deliver their agreed volumes, across all of the Skills Funding Agency'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.
- 9 If this Section is not applicable then "Not Applicable" should be entered as the grade in both Part 1 and Part 3 of the FMCE. The overall self-assessed grade for Area 1: Accountability will then be based on the self-assessed grades for the first two Sections of this Area.

Area 2: Financial Planning Arrangements

Area 2 Section 2: Long-term Financial Planning

- 10 The PFA team will take cognisance of the comments of their PFM colleagues on a college's three year financial plan. These comments, depending on their nature, may be included in the PFA report.

Area 2 Section 2: Short-term Financial Planning

- 11 A college's approved budget should be a realistic and accurate reflection of the levels of income and expenditure that will be received and incurred in the forthcoming twelve months. Thus an annual budget should be prepared in accordance with a documented timetable and process, be based on realistic and valid assumptions with appropriate recognition being taken of known sensitivities and risks and involve all relevant stakeholders. There have been a few amendments made to the questions in this section to try to generate evidence to demonstrate that the original budget was realistic and accurate. If a budget, once approved, has to be revised on a regular basis throughout

the year it may indicate it was not realistic to start with and this would be a significant weakness.

Area 3 Section 1: Risk Management

- 12 There is a requirement under the *Financial Memorandum* that Colleges should have a risk management policy in place and therefore the existence of such a policy in a college should not be considered to be a strength in itself. What is more important to the Skills Funding Agency is knowing whether the risk management processes have been used effectively to mitigate risks faced by the college. Clearly if any risks have arisen which could have reasonably been foreseen by a college but have not been included in the risk register, then this should be treated as a significant weakness.

Area 3 Section 2: Internal Control System

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

- can a college demonstrate that its internal auditors are effective?;
- can a college demonstrate a commitment to implementing audit recommendations?;
- can a college demonstrate that the number of recommendations raised by its internal auditors are falling?.

However, non-compliance would be viewed as a weakness and a failure to record any such weaknesses would indicate to the Skills Funding Agency that the college's self-assessment processes are not robust and would be considered to be a further weakness.

- 14 Given the fundamental importance of financial management and control arrangements to the successful operation of a college, the Skills Funding Agency 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 Section. If this is not the case then this absence of internal audit work in these relevant areas should be treated as a weakness.
- 15 The Skills Funding Agency expects all colleges will receive unqualified reports from their auditors. However, if a college has received any qualified opinions from any of its auditors (internal, external and funding) then these need to be treated as significant weaknesses as they presumably will result in an inadequate grade being awarded for this section and area too.
- 16 The college should ensure that all weaknesses raised by its auditors which have not yet been fully addressed are included in the FMCE Improvement Plan.

Funding Audits

- 17 With the arrival of Demand Led Funding in 2008/09 the LSC reintroduced a programme of funding audits at colleges based on the approach which had been in place prior the implementation of Plan Led Funding in 2004/05. The funding audits have replaced the cyclical reviews of learner eligibility and existence. In total 75 colleges had a funding audit which was completed by outsourced audit firms in accordance with a standard funding audit programme.
- 18 If a college has had a funding audit then this should be recognised when the FMCE return is completed and any weaknesses raised by the funding auditors, if these have not already been addressed, should be included in the college's Improvement Plan.
- 19 As a result of the funding audit work on the 2008/09 funding claims a small number of colleges received qualified opinions. Such opinions have to be treated as a significant weakness and one that should result in an inadequate grade being awarded for this section the area too. Indeed the existence of such a qualified opinion will also have an impact on the self-assessed grade for the college's Accountability arrangements too, as these cannot be viewed as being effective when arguably the college's most crucial system has fundamental weaknesses in it.
- 20 Due to the absence of the funding audit, the Skills Funding Agency would have expected that all colleges would have gained some assurance over their learner numbers and data systems during the period 2004/05 to 2008/09. This assurance could have been provided by either the college's internal auditors or by engaging an accountancy firm to carry out a separate consultancy exercise. If a college has not gained this assurance on its most crucial operating system during this period then this should be recognised as a weakness.

Area 4: Financial Monitoring Arrangements

- 21 Whilst the Skills Funding Agency needs to know how colleges monitor their financial performance what is of more importance to the Skills Funding Agency is whether the monitoring arrangements in place are effective. Thus a college needs to be able to demonstrate that the review of financial information by senior staff and governors results in action being taken to improve financial performance when such is required.
- 22 The Skills Funding Agency also cannot avoid considering the college's financial health when reviewing the effectiveness of a college's financial monitoring arrangements. The Skills Funding Agency is not stating that there is always an automatic correlation between a college's financial monitoring arrangements and financial health. However, a sudden and unplanned deterioration of a college's financial health may indicate that the arrangements in place were not effective. Whilst an improvement in a college's financial position would normally be treated as strength. The key issue here then is the "direction of travel".
- 23 The issue of a Financial Notice to Improve should be treated as a major weakness as in most cases it would suggest financial monitoring, and most likely indicate that financial planning had not been effective.
- 24 There have been some amendments to the questions in this area to reflect this consideration of a college's financial position and facilitate the identification of

effectiveness issues.

Validation of the Financial Management and Control Evaluation Return

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

-
- they concur with the college's overall self-assessed grade for the financial management and control arrangements and agree with the identified strengths and (if applicable) weaknesses/areas for improvement; or
 - they do not concur with the college's overall self-assessed grade for the financial management and control arrangements and thus they have to provide a different grade, which could be either higher or lower than the self-assessed grade.
- 30 In respect of the latter option, a lower grade may be given if they cannot validate all the strengths and/or they identify additional weaknesses/areas for improvement. Conversely, a higher grade may be given if they identify additional strengths and/or find many of the identified weaknesses are no longer relevant.

ANNEX A TO APPENDIX I

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?

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

ACCOUNTABILITY ARRANGEMENTS

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

Strategic Oversight

- Q1 Please note that if the answer is “Yes” to this question then the college is stating that it complies with all the statutory and other requirements identified in Annex A. As this list of requirements is quite extensive the college may wish to keep a list of the evidence to support this "Yes" answer, as opposed to keeping all the evidence on the Evidence File, as there will be a significant amount of evidence to collect here. A list would be useful for PFA too as we probably will need to review some of this evidence identified on the list.
- Q2 Terms of reference for all the committees including audit and finance.
- Q3 Results of latest governors' skills audit and details of any outcomes – are skills shortages addressed?
- Q4 Search committee minutes should demonstrate that succession plans are in place.
- Q5 Clerk's CV. Evidence to show clerk has been appraised. Any formal reporting of appraisal of clerk to the governors?
- Q6 Evidence to show governors have considered their information needs.
- Q7 Confirmation that papers etc sent out on a timely basis. If tabling of papers occurs please provide details.
- Q8 Relevant corporation minutes – the last 12 months minutes would assist our validation work. Evidence of governors challenging financial and internal control issues would be useful.
- Q9 Minutes if not supplied elsewhere. Provide details of any committee meetings not clerked by the clerk.
- Q10 Evidence to show review of governance effectiveness takes place.
- Q11 Finance committee minutes – the last 12 months minutes of the finance committee would assist our validation work.
- Any other evidence demonstrating governors' contributions.
- Q12 Audit committee agenda and minutes – the last 12 months minutes etc would assist our validation work. Annual report of the audit committee.
- Report on progress of implementing recommendations – does this show that the overall number of recommendations is falling?
- Q13 If this question is answered then evidence should be provided to support the answer.

Operational Oversight

- Q1 Job description of the principal.
- Q2 Job description of the director of finance plus other members of the SMT.
- Q3 Finance department & MIS department structure.

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- Q4 SMT minutes. Schedule of meetings of the SMT. Examples of SMT decisions following consideration of financial management and control information.
 - Q5 Confirmation of existence of an appraisal system may suffice if actual details of it are quite extensive. You could identify who we need to see should we want to review this area are.
 - Q6 Evidence to show that staff are kept aware of the former LSC's funding guidance and requirements
 - Q7 Details of the college's self-assessment of Leadership and Management.
 - Q8 If this question is answered then evidence should be provided to support the answer.

Sub-contracting

- Q1 Details of how sub-contractors were appointed.
- Q2 Copy of the annex referred to.
- Q3 Details of how sub-contractors are assessed before contracts awarded.
- Q4 Sub-contracting agreements - evidence of any review by legal representatives.
- Q5 Sub-contracting agreements - did someone compare such to the former LSC model?
- Q6 Sub-contracting agreements.
- Q7 Evidence of reviews undertaken at sub-contractors - if internal control covered.
- Q8 Evidence of how you ensure that ILR data and other learner documentation completed by the sub-contractors is accurately and also readily accessible at the sub-contractors premises?
- Q9 As Q6 and evidence of assessments made on sub-contractors.
- Q10 Evidence of reviews undertaken at sub-contractors - if quality of provision covered.
- Q11 Details of reports prepared for SMT and Corporation – has the performance of sub-contractors improved due to this monitoring?
- Q12 If this question is answered then evidence should be provided to support the answer.

Summary of the Effectiveness Section

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

FINANCIAL PLANNING ARRANGEMENTS

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

Long-term financial planning

- Q1 Any procedures governing the production of the three year financial plan. Evidence of corporation approval of the three year financial plan (and detailed consideration by the finance committee).
- Q2 Sensitivity analysis used in the preparation of the three year financial plan. Details of the uncertainties which have been recognised.
- Q3 Details relating to the college's financial health.
- Q4 A copy of the report which was presented to the corporation (and finance committee too) on the financial plan.

-
- Q5 If you have specific examples of why years 2 and 3 of previous financial plans have not proved realistic then please identify these.
- Q6 Comments received from the Skills Funding Agency on the three year financial plan.
- Q7 If this question is answered then evidence should be provided to support the answer.

Short-term financial planning

- Q1 Budget timetable and process.
- Q2 Details of budget approval – and include consideration of it by the finance committee.
- Q3 Evidence of management involvement in the budget process.
- Q4 Details of assumptions underpinning the budget.
- Q5 Details of known sensitivities and risks which were taken into account when the budget was prepared.
- Q6 Key performance indicators. Evidence to demonstrate that progress is monitored against these.
- Q7 Details of the capital budget and approval of such.
- Q8 Evidence of action taken if any part of budget has proved unrealistic. Details of any events which have occurred which were not planned for.
- Q9 Details of changes made to annual budget (and reasons for this) and evidence of approval of such.
- Q10 Details of college's approach to course costing/contribution analysis.
- Q11 If this question is answered then evidence should be provided to support the answer.

Summary of the Effectiveness Section

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

INTERNAL CONTROL ARRANGEMENTS

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

Risk Management

- Q1 Details of governors involvement in risk management system.
- Q2 Risk management policy as approved.
- Q3 Evidence to show that new risks have been identified and how risks are assessed.
- Q4 Any evidence to show that risk management system has been successful.
- Q5 Evidence to show that the risk register has been reviewed and the outcomes of the review.
- Q6 Evidence of action taken to address significant risks.
- Q7 Any further details of the college's risk management system not previously supplied.
- Q8 Internal audit report on risk management.
- Q9 If this question is answered then evidence should be provided to support the answer.

Internal Control

- Q1 Reports and management letters produced by all the college's auditors – the annual report of the internal auditors will suffice for internal audit. If not available a schedule of internal audits produced together with the opinion will suffice.
- Q2 Details of any adjustments made to the college's draft financial statements by the financial statements auditors.
- Q3 Evidence to show that DSAT's have been used and how the results of this have been used to address issues and improve data quality. Audit reports on the ILR and student data system.
- Q4 Whistle-blowing policy and details of any incidents of whistle-blowing.
- Q5 Fraud policy and details of any frauds (unless too confidential).
- Q6 Details of any review of financial regulations and subsequent approval.
- Q7 Details of the submission of data returns.
- Q8 Refer to what procedures and policies you have if these documents are viewed too bulky to copy.
- Q9 If this question is answered then evidence should be provided to support the answer.

Summary of the Effectiveness Section

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

FINANCIAL MONITORING ARRANGEMENTS

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

- Q1 Copy of the college's financial reports including the management accounts.
- Q2 Covered in Q1
- Q3 Covered in Q1. May need details of any revisions to the approved budget if the budget figures shown in the financial reports differ from the original approved budget figures.
- Q4 Provide us with a copy of the management accounts provided to governors if different to those produced for management. Evidence to demonstrate that governors have commented upon suitability of the financial information provided to them.
- Q5 Report (if produced) on differences between final projected year-end out-turn position as per the college's last management accounts and the actual out-turn as per the audited Financial Statements.
- Q6 Report to the corporation or the finance committee on the year-end out-turn position.
- Q7 Details of the college's financial health position including when relevant, details of any Financial Notices to Improve.
- Q8 If this question is answered then evidence should be provided to support the answer.

Summary of the Effectiveness Section

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

APPENDIX II – GUIDANCE FOR NON-COLLEGE PROVIDERS INCLUDING INDEPENDENT SPECIALIST COLLEGES

Purpose of the Appendix

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

Form B

- 2 There is, like last year, one form (Form B) for all non-college providers (includes Independent Specialist Colleges) to complete. Brief guidance has been added to each of the questions being asked in Form B which should help non-college providers appreciate the purpose of a particular question and assist them with their answers.
- 3 This is the third year that a FMCE return has had to be completed, so most providers will now be used to completing it. However, there may be some providers who have not completed a full FMCE return before, for example, providers who were in receipt of their first direct contract for £50,000+ from the former LSC in 2009/10. These providers were not required to complete a FMCE return in 2009/10, but now need to complete a FMCE return this year as they have been in receipt of this level of public funds for over 12 months. Such providers should liaise with their relevant audit manager before completing the FMCE return as assistance and guidance in this task can be provided.
- 4 Providers should ensure that the self-assessment of their financial management and control arrangements using the FMCE return encompasses funds received from the YPLA as well as the Skills Funding Agency (previously LSC funded provision). The questions contained within Form B have been tailored to assist providers do this.

.Area 1: Accountability Arrangements

Area 1 Section 1: Strategic Oversight

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

Area 1 Section 2: Operational Oversight

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

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

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

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

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

Area 2: Financial Planning Arrangements

Area 2 Section 2: Long-term Financial Planning

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

Area 2 Section 2: Short-term Financial Planning

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

Area 3: Internal Control Arrangements

Area 3 Section 1: Risk Management

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

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

Area 3 Section 2: Internal Control Arrangements

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

Area 4: Financial Monitoring Arrangements

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

Financial Health

- 24 The Skills Funding Agency cannot avoid considering the issue of financial health when reviewing the effectiveness of the provider's financial management and control arrangements. The Skills Funding Agency needs to ensure that a provider has sufficient financial resources so that it can operate throughout the life of its funding agreements and fully discharge its obligations under these funding agreements.
- 25 Providers also need to be aware of the risks involved if there is a significant deterioration in their financial position namely:

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

Validation of the Financial Management and Control Evaluation Return

- 26 As noted in the guidance it is likely that the FMCE Return for some non-college providers will be validated at the same time these providers are inspected by Ofsted. In these circumstances providers will have to complete a full FMCE return because the validation undertaken by the PFA teams is based on a full FMCE return.
- 27 At the current time the PFA teams will aim to follow the financial guidelines at annex A to this appendix in deciding which providers to visit during inspection time (these financial guidelines apply to the cumulative value of contracts from the successor funding bodies to the LSC). So those providers who have contracts for £1m or less are unlikely to be visited by a PFA team whilst providers who have contracts for £5m and above are likely to be visited by a PFA team. The situation is not as clear for those providers who have contracts in the range of £1m to £5m. Accordingly, these providers should contact their audit manager when they are informed that they are to be inspected to ascertain if a validation of their FMCE Return will take place.
- 28 The PFA teams will need access to both the full FMCE return and the FMCE Evidence File two weeks before the start of the validation visit, so that the validation process can commence. Providers therefore should ensure the FMCE Evidence File is kept up-to-date and to assist providers with this task a guide to what evidence should be retained is provided on annex B to this appendix. The efficiency of the PFA validation could be affected adversely if all the required evidence is not available to them.
- 29 The PFA team will initially undertake a desk-top moderation of the FMCE Return. If the PFA team identify any apparent inconsistencies or omissions during the desk-based moderation then they will follow these up with the provider during the validation visit itself.
- 30 The PFA team will aim to complete the validation of the full FMCE return during the visit by:
- ensuring the evidence retained in the Evidence File supports all the “Yes” answers entered in Part 3 of the full FMCE return;
 - ensuring that all weaknesses and/or areas for improvement in the financial management and control arrangements have been identified and included in the FMCE Improvement Plan;
 - ensuring that adequate justification has been provided as to why any “no” answers or “not applicable” answers to the questions in Part 3 of the FMCE return have not been treated as weaknesses and been included in the FMCE Improvement Plan;
 - reviewing the responses in the *Summary of the Effectiveness Sections* to ascertain how effective the financial management and control arrangements are in the four areas covered by the FMCE return; and

-
- comparing and contrasting the effectiveness of the financial management and control arrangements with the grade components included in the guidance document, *Indicative Examples of Grade Components for all non-college providers.*
- 31 At the end of the validation visit, the PFA team will feed back the strengths and weaknesses/areas for improvement they have identified during the course of their validation of the FMCE return, and confirm their opinion on the provider's financial management and control arrangements. This opinion will be that:
- they concur with the provider's overall self-assessed grade for the financial management and control arrangements and agree with the identified strengths and (if applicable) weaknesses/areas for improvement; or
 - they do not concur with the provider's overall self-assessed grade for the financial management and control arrangements, and thus they have to provide a different grade, which could be either higher or lower than the provider's self-assessed grade.
- 32 In respect of the latter option, a lower grade may be given if they cannot validate all the strengths and/or they identify additional weaknesses/areas for improvement. Conversely, a higher grade may be given if they identify additional strengths and/or find many of the identified weaknesses are no longer relevant.

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

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

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

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

ACCOUNTABILITY ARRANGEMENTS

Strategic Oversight

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

Operational Oversight

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

Sub-contracting

- Q1 Details of how sub-contractors were appointed.
- Q2 The annex to the contract which lists the sub-contractors.
- Q3 Details of how sub-contractors are assessed before contracts awarded.
- Q4 Sub-contracting agreements - evidence of any review by legal representatives.
- Q5 Sub-contracting agreements.
- Q6 Evidence of reviews undertaken at sub-contractors - if internal control covered.
- Q7 Evidence of assessments made on performance of sub-contractors.
- Q8 Evidence of how you ensure ILR data from sub-contractors is accurately completed.
- Q9 Evidence of monitoring of the quality of provision at sub-contractors.
- Q10 Evidence to show how you deal with conflicts of interest – may not be applicable to many providers.
- Q11 If this question is answered then evidence should be provided to support the answer.

Summary of the Effectiveness Section

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

FINANCIAL PLANNING ARRANGEMENTS

Long-term financial planning

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

Short-term financial planning

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

Summary of the Effectiveness Section

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

INTERNAL CONTROL ARRANGEMENTS

Risk management

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

Internal Control System

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

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

Summary of the Effectiveness Section

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

FINANCIAL MONITORING ARRANGEMENTS

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

Summary of the Effectiveness Section

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

APPENDIX III – DESK-TOP MODERATION OPINION

Unqualified Moderated Opinion – PFA concur with the provider’s self-assessed grade

“We have undertaken a desk-top moderation of your full FMCE Return and we can confirm that we can concur with your self-assessed grade of..... for the college’s financial management and control arrangements. However, the scope of our desk-based moderation was limited to ensuring that:

- the provider had fully completed its FMCE return, that is, all parts of the FMCE return had been fully completed, all the questions in it had been answered, and it had been signed and approved;
- the provider’s responses were internally and externally consistent that is:
 1. the provider’s overall self-assessed grade was as expected;
 2. all the issues we are aware of had been identified in the FMCE Return;
 3. there were sufficient strengths identified in each of the four areas to justify the four self-assessed grades;
 4. the number of weaknesses and/or areas for improvement identified did not suggest that any of the grades reached were overstated; and
 5. the overall self-assessed grade was consistent with the grades awarded for the four areas; and
- the provider’s responses were reasonable, that is;
 1. the provider’s description of the evidence to support each “Yes” answer was reasonable, appropriate and consistent with our knowledge of the provider;
 2. the provider had justified all its “no” and “not applicable” answers;
 3. the provider had summarised the effectiveness of its financial management and control arrangements properly;
 4. the answers provided by the provider together with the summaries of the effectiveness of its financial management and control arrangements did indicate that the objectives in each of the four areas covered by the FMCE Return had been met.

If we carried out a full validation of your full FMCE Return we would undertake far more extensive audit work than we did during the desk-top moderation. Accordingly, the opinion we may reach after a full validation may differ from your own self-assessed grade which we are currently concurring with.”

Qualified Moderated Opinion– PFA do not concur with the provider’s self-assessed grade

We have undertaken a desk-top moderation of your full FMCE Return which consisted of ensuring that:

1. the**provider** had fully completed its FMCE return, that is, all parts of the FMCE return had been fully completed, all the questions in it had been answered, and it had been signed and approved;
2. the provider’s responses were internally and externally consistent that is:
 1. the provider’s overall self-assessed grade was as expected;
 2. all the issues we are aware of had been identified in the FMCE Return;
 3. there were sufficient strengths identified in each of the four areas to justify the four self-assessed grades;
 4. the number of weaknesses and/or areas for improvement identified did not suggest that any of the grades reached were overstated; and
 5. the overall self-assessed grade was consistent with the grades awarded for the four areas; and
- the **provider’s** responses were reasonable, that is;
 1. the provider’s description of the evidence to support each “Yes” answer was reasonable, appropriate and consistent with our knowledge of the provider;
 2. the provider had justified all its “no” and “not applicable” answers;
 3. the provider had summarised the effectiveness of its financial management and control arrangements properly;
 4. the answers provided by the provider together with the summaries of the effectiveness of its financial management and control arrangements did indicate that the objectives in each of the four areas covered by the FMCE Return had been met.

Based on our desk-top moderation we have to advise you that we cannot concur with your self-assessed of grade of..... for your financial management and control arrangements (REASON - because we are aware of issues the provider has ignored i.e. funding audit outcomes etc). Accordingly, the grade we are able to provide on your financial management and control arrangements is.....

Skills Funding Agency

Skills Funding Agency
Coventry Office
Cheylesmore House
Quinton Road
Coventry CV1 2WT
T 0845 377 5000
www.skillsfundingagency.bis.gov.uk

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