



Education & Skills  
Funding Agency

Education and Skills Funding Agency  
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education-and-skills-funding-agency](http://www.gov.uk/government/organisations/education-and-skills-funding-agency)

13 April 2017

## Principal and Chief Executive

Dear Accounting Officer

I am writing to all college accounting officers in my capacity as accounting officer of the Education and Skills Funding Agency (ESFA) to reiterate the importance of strong financial management and governance and to share with you some of the findings from our recent assurance work.

I should be grateful if you would share this letter with your finance director, chair of governors, chair of the audit committee, and discuss the matters raised at your college's next board meeting.

Your responsibilities for the regularity, propriety and value for money of your college's spending decisions underpin the annual assurance given to Parliament about the public money invested in colleges. Therefore, what we do as accounting officers sets the standards of financial management and governance for everyone in our organisations, including the board. Often our interventions into colleges result because those accountable have not fully understood their personal responsibilities.

You will be aware that the Further Education and Sixth Form College Commissioners' letter of 16 March 2017 highlighted evidence that colleges facing serious difficulties often have weak governance, poor leadership by the Principal, or ineffective self-assessment. Similarly, our recent review of college financial statements suggests that these issues often contribute to instances of weak financial management. I would like to reiterate the importance of compliance with the conditions of funding in your financial memorandum and/or funding agreement with ESFA. The [Code of Good Governance for English Colleges](#), published by the Association of Colleges, also provides a useful resource by setting out the principles against which colleges should test their own arrangements.

Another important finding from this work and our funding assurance reviews is that colleges which collect and effectively use high quality management information tend to perform strongly and successfully mitigate risks. One area where data could be improved is in colleges' ILR returns, where rates of error have been higher than in previous years. I would like to take this opportunity to draw your attention to the [provider data self-assessment toolkit](#) we have published to help colleges complete these returns accurately.

To make the best use of public funds, it is critical that institutions set their budget accurately and that this process is subject to appropriate scrutiny by governors. Our review of college financial plans shows that more colleges under-forecast than over-forecast their current liabilities. While this suggests short-term forecasts are often optimistic, in contrast overall borrowing forecasts tend to be higher than outturn, so pessimistic. Robust and accurate profiling of both long and short-term debt is key to institutions' ability to deliver a sustainable offer to their students, and achieve the best value for money. We also noted that those colleges rated as 'inadequate' final financial health were the least accurate at

predicting their final outcome. The [college financial planning handbook](#) provides a checklist to help the college's board and governors review and challenge financial plans.

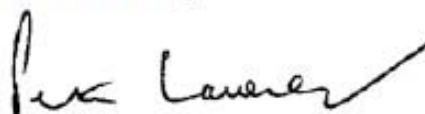
Key messages from our reviews of funding assurance, which again echo the evidence set out in the Further Education and Sixth Form College Commissioners' letter, are that colleges should:

- **Put strong governance in place to hold the college leadership team and Principal to account**  
Regular attendance by governors at board meetings is important to the success of these arrangements, as are having good quality clerking. Having the correct mix of skills on the leadership team and board, including an appropriately experienced and skilled finance director, is important to the leadership team's capacity to have a full and fair view of the college's financial position and to provide challenge on the viability of plans. Our review of monthly management accounts has highlighted a number of areas where these could be strengthened such as more detailed commentary on significant matters and on balance sheet figures.
- **Provide clarity of direction**  
This is most effective when focused on the delivery of an integrated college plan that focuses on improving students' achievements; achieving value for money from financial resources; recruiting and retaining a high quality workforce; and providing suitable accommodation.
- **Use high quality self-assessment and appropriate independent challenge to test the college's position**  
Having robust systems to collect, store and use college management information is vital to providing the board and Principal with assurance on the college's performance, sustainability and management of risk. Our work with colleges in financial difficulty often finds that weak, un-evidenced self-assessment has contributed to delays in spotting potential failures in financial management. We are currently revising the regularity self-assessment questionnaire included in the college accounts direction to assist you in this, and your audit committee or equivalent will also oversee the process, as described in the handbook. An open approach to independent challenge is also important to making sure that self-assessments are realistic.

I would like to draw your attention to the updated college accounts direction and post-16 audit code of practice we have recently published. We have revised these documents in consultation with the sector and, along with the college financial planning handbook, they set out the financial accountability requirements for your college.

Finally, I would like to take this opportunity to thank you and your students for your continuing hard work. I wish you every success for this academic year and beyond.

Yours sincerely



Peter Lauener  
Chief Executive