

Appendix E: Additional Financial Control Measures

College Financial Handbook 2024 - Compliance Checklist

Mandatory Requirements ('Must')

Requirement
1.1 In compliance with the college's accountability agreement, the board of governors must appoint, in writing, a named individual as accounting officer.
This should be the senior executive leader (principal or chief executive) and must be a suitable person for the role.
The college must obtain prior approval from the Department for Education (DfE) if it is proposing, in exceptional circumstances, to appoint an accounting officer who will not be an employee.
The accounting officer of the parent college must discharge their responsibilities as accounting officer in respect of all entities within the college group, including any subsidiary companies.
1.4 Accounting officers must be able to assure Parliament, and the public, of high standards of probity in the management of public funds, particularly regularity, propriety and value for money.
1.5 Accounting officers must adhere to The Seven Principles of Public Life.
1.6 The accounting officer must have oversight of financial transactions, by: <ul style="list-style-type: none">• ensuring that the college group's property and assets are under the governors' control and measures exist to prevent losses or misuse• ensuring bank accounts, financial systems and financial records are operated by more than one person• keeping full and adequate accounting records to support the college's annual report and accounts
The accounting officer's annual statement
1.7 The accounting officer must complete and sign a statement of regularity, propriety and compliance each year and submit this to ESFA with the college's audited annual report and accounts, as set out in the College accounts direction.
The accounting officer's duty to raise concerns
1.8 The accounting officer must take personal responsibility (which must not be delegated) for assuring the board that there is compliance with the accountability agreement and this handbook, though it should be noted that this obligation on the part of the accounting officer does not remove or reduce the responsibility of the governors for oversight of compliance.

Requirement
<p>1.9 The accounting officer must formally advise board members in writing if action the board is considering is incompatible with the governing document (for example, instrument and articles of government or articles of association), accountability agreement or this handbook.</p>
<p>The accounting officer must also formally advise board members in writing if the board fails to act where required by the instrument and articles, accountability agreement or this handbook.</p>
<p>Where the board is nevertheless minded to proceed, the accounting officer must consider the board's reasons as provided in writing.</p>
<p>If the accounting officer is required to implement the board's decision, but still considers the action proposed by the board is in breach of the instrument and articles of government, the accountability agreement or this handbook, the accounting officer must notify ESFA's accounting officer as soon as practical in writing.</p>
<p>1.10 The college must appoint a named individual to whom authority for financial management is delegated.</p>
<p>Skills and experience</p>
<p>1.11 The CFO and their finance staff must be appropriately qualified or experienced.</p>
<p>Colleges must assess whether the CFO, and others holding key financial posts, should have a business or accountancy qualification and hold membership of a relevant professional body, dependent on the risk, scale and complexity of financial operations.</p>
<p>The governance professional (clerk to the board)</p> <p>1.12 The college must appoint a governance professional to support the board who is someone other than a governor, principal or chief executive of the college.</p>
<p>The governance professional provides advice to the board with regards to:</p> <ul style="list-style-type: none"> • the operation of its powers • procedural matters • the conduct of its business • matters of governance practice <p>1.13 College accountability agreements require that individuals appointed to the position of governance professional must have a relevant qualification or equivalent experience.</p>
<p>Disqualification</p> <p>1.14 Colleges must not appoint or retain in post trustees or senior managers who are disqualified under the Charity Commission's automatic disqualification rules.</p>
<p>Financial oversight</p>

Requirement	
2.1	Governors, the accounting officer and executive management must maintain robust oversight of the college's finances.
2.2	The college corporation must take responsibility for the college's financial affairs and for stewardship of assets and must use resources effectively, efficiently and economically, to maximise outcomes for learners.
	However, authority to make financial commitments will usually be delegated to various leaders within the college and, if so, the board must approve a written scheme of financial delegation (which may be or may form part of the college's financial regulations) that maintains robust internal controls.
	<p>The scheme of financial delegation must be approved by the board, and reviewed by the board:</p> <ul style="list-style-type: none"> • regularly • at least once every 3 years • when there has been a change in college management or organisational structure (such as a college merger) that would impact the effectiveness of any existing scheme of delegation
2.4	The college's governance model must ensure effective financial scrutiny and oversight.
Basic control principles	
2.5	<p>The college must have a sound internal control, risk management and assurance framework, comprising:</p> <ul style="list-style-type: none"> • clearly communicated procedures, structures and training of staff • appropriate day-to-day supervision and checks by management • risk management procedures • a programme of internal review overseen by an audit committee, ideally supported by an internal auditor • external audit and assurance
2.6	The internal control framework will cover both financial and non-financial elements.
	<p>But the financial elements of the framework must:</p> <ul style="list-style-type: none"> • ensure delegated financial authorities are complied with • maintain appropriate segregation of duties • coordinate the planning and budgeting process • apply discipline in, but not limited to, financial management, including managing debtors, creditors, cash flow, monthly balance sheet control account reconciliations, payroll, procurement and submission of individualised learner records (ILRs) and other funding returns and claims • plan and oversee capital projects • manage the estate, taking note of the further education estates planning guide, as appropriate • manage, oversee, monitor, review, inspect, and verify the existence of all assets (estates and non-estates) and maintain a fixed asset register • ensure regularity, propriety and value for money in the college's activities • ensure a risk register is maintained and reviewed by the board, drawing on advice provided to it by the audit committee • reduce the risk of error, fraud and theft

Requirement
<ul style="list-style-type: none"> • deliver independent checking of controls, systems, transactions and risks <p>Find additional guidance at Internal financial controls for charities (CC8)</p> <p>Financial planning</p> <p>Responsibilities of the board</p> <p>2.7 The board must:</p> <ul style="list-style-type: none"> • ensure that financial plans are prepared and monitored, satisfying itself that the college or college group remains financially sustainable • take a longer term view of the college's financial plans, consistent with the requirement to submit budget and forecast information to ESFA in accordance with the College financial planning handbook
2.8 The board should set and regularly review the college policy for holding reserves.
<p>Setting a budget</p> <p>2.9 The board, and any separate committee responsible for finance, must ensure rigour and scrutiny in budget management, taking into account both recurrent and capital budgets.</p>
2.10 In accordance with the College financial planning handbook, the board must approve a budget, and any significant changes to it, for its financial year.
The board must consider the impact the budget will have on the college's future financial sustainability.
2.11 The board must ensure budget forecasts for the current year and beyond are compiled accurately, based on realistic assumptions, including any in relation to the sustenance of capital assets, and reflect lessons learned from previous years.
<p>Sending your budget to ESFA</p> <p>2.13 The college must submit its budget forecast to ESFA, in a form and manner specified by ESFA in the College financial planning handbook and in accordance with deadlines published annually.</p>
<p>Monitoring the budget</p> <p>2.16 The board must ensure appropriate action is being taken to maintain financial viability, including addressing variances between the budget and actual income and expenditure.</p>
2.18 The college must select key financial performance indicators and measure its performance against them frequently and regularly, including analysis in its annual strategic report as explained in paragraphs 3.23 to 3.26 of the Further and Higher Education Statement of Recommended Practice (SORP).
<p>Cash and working capital management</p> <p>2.19 The college group must manage its cash position robustly, taking into account the working capital requirements of the whole group.</p>

Requirement
It must not undertake any new borrowing, including overdrafts, without ESFA consent.
The college must advise ESFA in good time of any projected shortfall in working capital that might indicate a requirement for support from ESFA.
The college must also have accounting processes in place that allow for the separate identification of capital grant receipts, as well as the proceeds of asset disposals.
Procurement and spending decisions 2.20 As a public sector entity bound by the requirements of public sector procurement, the college must be able to show that public funds have been used as intended by Parliament.
This means that steps must be taken to ensure that the letting of any contract follows due process, and that appropriate contract monitoring is in place, once a contract has been awarded.
Procurement basics 2.21 The college must ensure that: <ul style="list-style-type: none"> • spending has been for the purpose intended • there is propriety in the use of college funds • spending decisions represent value for money • internal delegation levels exist and are applied • a competitive tendering policy is in place and applied, and the procurement rules and thresholds in the Public Contracts Regulations 2015 (which will be 18 superseded by the Procurement Act 2023 when it comes into force in October 2024) and Find a Tender service are observed • appropriate due diligence is in place • there is proper monitoring and assurance when the delivery of learning is subcontracted to a third party <p>In order to achieve these ends, the board should consider approving a procurement policy and keeping it under regular review, or building these requirements into the college financial regulations.</p>
Colleges must ensure that any delivery for which they are funded, whether delivered directly or through a third party, meets the necessary standards.
All providers who subcontract £100,000 or more within any funding year, must engage a reporting accountant to obtain a report which complies with the Assurance reviews of the subcontracting standard for post-16 providers: framework and guide for reporting accountants.
Setting executive pay 2.23 Colleges must adopt one of the following remuneration codes or explain in their annual report and accounts why they have not done so:

Requirement
<ul style="list-style-type: none"> • the Association of Colleges' (AoC's) Colleges' Senior Post Holder Remuneration Code • for colleges that are registered with the Office for Students (OfS), the Higher Education Senior Staff Remuneration Code issued by the Committee of University Chairs (CUC) <p>Any college not adopting one of the codes must set out how its alternative arrangements meet the principles of transparency, accountability, proportionality, understandability, value for money and the extent to which remuneration for senior people is evidence-based.</p>
Colleges must also follow the requirements to disclose certain matters relating to executive pay set out in the College accounts direction.
Since 1 May 2023, DfE must support remuneration proposals, as noted below, prior to applications being reviewed and agreed by Chief Secretary to the Treasury (through HM Treasury).
For existing staff, approval must be sought in relation to any adjustment of total remuneration or terms and conditions which takes an individual to, or above, the defined threshold.
<p>2.27 Before submitting applications colleges should familiarise themselves with:</p> <ul style="list-style-type: none"> • HM Treasury's Guidance for approval of senior pay: Senior pay controls process • DfE guidance on senior pay controls • the DfE approval process <p>Tax arrangements for senior employees</p> <p>2.28 The college must ensure its senior employees' payroll arrangements fully meet their tax obligations and comply with HM Treasury's guidance about the employment arrangements of individuals on the avoidance of tax.</p>
The college must also comply with its subsidy control obligations and should refer to the UK subsidy control statutory guidance to assist with this.
<p>Risk management</p> <p>Oversight of risk and the risk register</p> <p>2.30 The college must manage risks to ensure its effective operation and must maintain a risk register.</p>
Overall responsibility for risk management, including ultimate oversight of the risk register, must be retained by the board of governors, drawing on advice provided to it by the audit committee.
Aside from any review by individual committees, the board itself should review the risk register frequently and must conduct a full review least annually.
For the avoidance of doubt, the board of governors must have ownership of risk management in respect of all entities in the college group, drawing upon appropriate advice, including that of the audit committee.

Requirement
The management of risks must include contingency and business continuity planning.
Insurance 2.32 The college must have adequate insurance cover in compliance with its statutory and contractual obligations, including that required by its accountability agreement with DfE.
The college must have procedures for whistleblowing, to protect staff who report individuals they believe are doing something wrong or illegal.
2.34 The governors must approve the whistleblowing procedure, review it regularly and publish it on the college's website.
<p>The board should:</p> <ul style="list-style-type: none"> • state in its policy the process for reporting concerns • ensure all staff are aware of: <ul style="list-style-type: none"> o the whistleblowing process o how concerns will be managed o what protection is available to them, if they report someone o what areas of malpractice or wrongdoing are covered in the policy o who they can approach to report a concern
2.35 The board must ensure all concerns raised by whistleblowers are responded to properly and fairly.
<p>Find out more at:</p> <ul style="list-style-type: none"> • Whistleblowing for employees, including a definition of whistleblowing • the whistleblowing charity Protect (formerly Public Concern at Work), which provides confidential independent advice about wrongdoing in the workplace
Provision of information General information requests
2.36 The college must provide DfE, or its agents, with information required to meet funding and other regulatory requirements.
This information must be of sufficient quality, and provided when, and in the form, requested.
2.37 College managers and their staff must ensure information submitted to DfE and ESFA that affects funding, including learner number returns and funding claims (for both revenue and capital grants) completed by the college and (for college groups with multiple colleges) by constituent colleges, is accurate and complies with funding criteria.
2.40 All colleges must comply with at least one of the following governance codes: <ul style="list-style-type: none"> • Charity Governance Code (endorsed by the Charity Commission) • Code of Good Governance for English Colleges (developed by Association of Colleges) • The UK Corporate Governance Code (2018) – colleges that adopt this code are not expected to comply with those requirements that are not relevant to further education and sixth-form college corporations.

Requirement
<p>However, they should have due regard to the principles and guidance insofar as they apply to the further education and charity sectors</p>
<p>2.41 Colleges must adopt the code that best reflects their legal structure and operations.</p>
<p>If a college does not fully comply with the code adopted, it must have due regard to its principles and disclose in its annual report and accounts which aspects of the code it does not comply with, and the reasons for non-compliance.</p>
<p>Principles applying to related party relationships</p>
<p>2.43 Colleges must be even-handed in their relationships with related parties and must ensure that:</p> <ul style="list-style-type: none"> • governors comply with their duties as charity trustees to avoid, or appropriately manage, any conflicts of interest, so that they act only in the best interests of the college, rather than in their personal or private interest • they do not accept benefits from third parties and declare any interest in proposed transactions or arrangements • all governors and senior employees complete the register of interests, in accordance with sections 2.47 to 2.50 of this handbook • no governor, employee or related individual or organisation, uses their connection to the college for personal gain, including payment under terms that are preferential to those that would be offered to an individual or organisation with no connection to the college • no governor, or party related to a governor, will receive payment for goods or services provided to the college except as provided for by section 185 of the Charities Act 2011 • there are no payments or other personal benefits to governors, or anyone closely related to them, by the college, other than reasonable out-of-pocket expenses, unless approved in advance by the Charity Commission, and any such payments comply with any relevant agreement with the Secretary of State.
<p>Colleges will need to consider these obligations where payments are made to other business entities that employ, or are owned by, the governor (or someone closely connected with them), or in which the governor (or someone closely connected with them) holds a controlling interest</p>
<p>2.44 The board must comply with the Charity Commission's guidance for trustees Trustee expenses and payments (CC11).</p>
<p>2.45 The board must ensure requirements for managing related party transactions are applied across the college group, including any subsidiaries.</p>
<p>The board chair and the accounting officer must ensure their capacity to control and influence does not conflict with these requirements.</p>
<p>They must manage personal relationships with related parties to avoid both real and perceived conflicts of interest, promoting integrity and openness in accordance with The Seven Principles of Public Life.</p>
<p>2.46 Colleges must recognise that some relationships with related parties may attract greater public scrutiny, such as:</p> <ul style="list-style-type: none"> • transactions with individuals in a position of control and influence, including the board chair and accounting officer

Requirement
<ul style="list-style-type: none"> • payments to organisations with a profit motive, as opposed to those in the public or voluntary sectors <p>2.47 The college must keep sufficient records and make sufficient disclosures in its annual report and accounts, to show that transactions with these parties, and all other related parties, have been conducted in accordance with the high standards of accountability and transparency required within the public sector.</p>
<p>Managing conflict of interests</p> <p>2.48 The board must have a policy for managing actual and potential conflicts of interest and keep it under regular review.</p>
<p>2.49 The board's register of interests must capture relevant business and financial interests of governors and senior employees, including:</p> <ul style="list-style-type: none"> • ownership, directorships, partnerships and employments with businesses, including with subsidiaries and joint ventures of the college • trusteeships and governorships at other educational institutions and charities • for each interest: the name and nature of the business, the nature of the interest and the date the interest began <p>2.50 The register must be reviewed at least annually and must identify relevant interests arising from close family relationships between the college's governors.</p>
<p>It must also identify relevant interests arising from close family relationships between governors and employees.</p>
<p>Boards of governors must keep their register of interests up to date.</p>
<p>The role and responsibilities of the audit committee</p> <p>3.1 The college must establish an audit committee, appointed by the board, to provide independent assurance to the board that its financial and non-financial controls are operating effectively.</p>
<p>It must:</p> <ul style="list-style-type: none"> • oversee the college's programme of internal review • ensure that risks are being addressed appropriately • report to the board on the adequacy of the college's internal control framework, including financial and non-financial controls and risk management • provide ESFA with an annual report on its activities <p>Operating the committee</p> <p>3.2 The committee must:</p> <ul style="list-style-type: none"> • have written terms of reference • agree an annual programme of work • review the ratings and responses on the risk register to inform the programme of work • agree who will perform the work • consider reports at each meeting from those carrying out the programme of internal review • consider progress in addressing recommendations • consider outputs from other assurance activities by third parties including funding audits and investigations

Requirement	
	<ul style="list-style-type: none"> • have access to the external auditor, as well as those carrying out internal review, evaluate their plans and reports and also consider their quality
3.3	The committee's oversight must extend to the financial and non-financial controls and risks at all constituent colleges, subsidiary companies and any subcontractors (where relevant).
	It must also ensure that all recommendation arising both from the programme of internal review or from external audit are followed up effectively.
3.4	In accordance with the College accounts direction (CAD) and the Post-16 audit code of practice, the committee must produce an annual report for the board and accounting officer, summarising the committee's activities relating to the financial year under review, including the issues set out in the CAD.
3.5	The annual report to the board must be submitted to the board before the statement of corporate governance and internal control in the annual accounts is signed.
3.6	The committee must also provide a statement which draws upon that annual report, and where appropriate, the work of internal review, and submit it to ESFA with the college's audited annual report and accounts.
Internal review	
3.7	Colleges must have a process in place to deliver a programme of internal review to enable the audit committee to discharge its responsibilities, but there is flexibility for colleges regarding how this is delivered.
3.8	When a college has chosen not to appoint internal auditors, the audit committee must explain in its annual report to ESFA how it has discharged its responsibilities to oversee a programme of internal review and obtain the necessary assurances concerning internal control and risk.
Part 4: Annual accounts and external audit	
How colleges must report on their finances to give assurance to Parliament and the public about their use of resources.	
Preparation and audit of accounts	
4.1	The college must maintain adequate accounting records and prepare an annual report and accounts in line with the statement of recommended practice: accounting for further and higher education (SORP) and ESFA's college accounts direction.
4.2	The accounts must be audited in line with the requirements of the Post-16 audit code of practice.
4.4	<p>The audited report and accounts must be:</p> <ul style="list-style-type: none"> • submitted to ESFA by 31 December • published on the college's website as soon as possible after the accounts are signed and no later than 31 January • provided to anyone who requests a copy

Requirement
<p>4.5 The college accounts direction handbook and the Casterbridge model accounts provide guidance to colleges on the preparation of their annual report and accounts.</p>
<p>Find out more about:</p> <ul style="list-style-type: none"> • Statement of recommended practice: accounting for further and higher education • College accounts direction • Post-16 audit code of practice • College accounts direction handbook • 'Casterbridge' model accounts <p>External auditors</p> <p>Appointment of external auditors</p> <p>4.7 In accordance with the Post-16 audit code of practice, colleges must appoint an external auditor to give an opinion on whether their annual report and accounts present a true and fair view of the college's financial performance and position.</p>
<p>The regularity engagement</p> <p>4.8 The external auditor must also perform the role of reporting accountant and will provide a conclusion on regularity in accordance with a separate engagement to the opinion on the accounts, the scope of which is set out in the Post-16 audit code of practice.</p>
<p>Since the provisions of this handbook form part of the regularity framework for colleges the regularity review performed by the reporting accountant must encompass (but will not be limited to) consideration of whether the college has complied with the provisions of this handbook.</p>
<p>Review of regularity</p> <p>Accounting officer's statement</p> <p>4.9 In accordance with the college accounts direction, an accounting officer's statement of regularity, propriety and compliance must be included in the college's annual report and accounts.</p>
<p>That statement will encompass compliance with this handbook as well as the other aspects of the framework of authorities that the college must follow.</p>
<p>Reporting accountant's review of regularity</p> <p>4.11 In accordance with the Post-16 audit code of practice, a review of the accounting officer's statement of regularity, propriety and compliance must be included within the remit of the regularity engagement of the reporting accountant.</p>
<p>The reporting accountant's conclusions on regularity must be addressed jointly to the college and ESFA.</p>
<p>The board of governors, taking advice from the audit committee, must ensure there is an appropriate, reasonable and timely response by the college's management team to findings by external auditors, taking opportunities to strengthen systems of financial management and control.</p>

Requirement
<p>4.13 The audit committee must also assure itself as to the quality of the service being provided by the external auditors and, in accordance with the Post-16 audit code of practice, produce an annual report of the committee's conclusions to advise the board on the reappointment or dismissal of the external auditors, and their remuneration.</p>
<p>However, some transactions have delegated authority limits beyond which colleges must obtain prior approval, regardless of the source of funds.</p>
<p>Colleges must ensure they are familiar with these requirements.</p>
<p>5.2 In the case of any proposed financial transaction requiring specific approval from a third party with regulatory powers (for example DfE, HM Treasury or the Charity Commission), such approval must be sought in writing in advance by the college.</p>
<p>Disclosure</p> <p>5.4 Irrespective of whether DfE approval is required, in accordance with the college accounts direction, the college must disclose aggregate figures for certain transactions in its audited annual report and accounts.</p>
<p>Novel, contentious and repercussive transactions</p> <p>5.5 Novel, contentious and repercussive transactions must always be referred to DfE for approval, and the request must be made to DfE before the transaction occurs.</p>
<p>They are different to ex gratia payments and ex gratia payments which tend to arise in circumstances other than leaving employment</p> <p>5.8 If a college is considering a staff severance payment above statutory or contractual entitlements, it must consider the following issues before making a binding commitment:</p> <ul style="list-style-type: none"> • Consider whether the special staff severance payment is appropriate: A severance payment may not always be the right approach: for example, severance payments should not be made to staff with poor performance or in cases of misconduct as such cases may give rise to an impression of 'rewards for failure'.
<p>If there is a good chance of the college successfully defending any claim, the college must demonstrate why this route is not being proposed and instead, a payment to the employee is being recommended.</p>
<ul style="list-style-type: none"> • Clearly document the management and approval process: This must take account of the college's own internal processes and employment law.
<p>A severance payment is made from the public purse and therefore value for money must be demonstrated.</p>
<ul style="list-style-type: none"> • Confidentiality clauses: Colleges must ensure that the use of confidentiality clauses associated with staff severance payments do not prevent an individual's right to make disclosures in the public interest (whistleblowing) under the Public Interest Disclosure Act 1998.
<p>5.9 Where the college is considering a staff severance payment including a non-statutory or non-contractual element of £50,000 or more (gross, before income tax or other</p>

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deductions), or when the proposed special staff severance payment is equivalent to 3 months' salary or more (gross, before income tax or other deductions), DfE's approval must be obtained before making any binding offer to staff.
Settlements must not be accepted unless they satisfy the conditions in this handbook.
<p>5.11 Additionally, in accordance with HM Treasury's Guidance on Public Sector Exit Payments, colleges must obtain prior DfE approval before making a special staff severance payment where:</p> <ul style="list-style-type: none"> • an exit package which includes a special severance payment is at, or above, £100,000; or • the employee earns over £150,000 <p>5.12 Examples of approval requirements are as follows: DfE approval required for non-statutory/non-contractual severance payment?</p>
If a college is considering a compensation payment, it must base its decision on a careful appraisal, including legal advice where relevant, and ensure value for money.
Where the college is considering a non-statutory or non-contractual payment of £50,000 or more, DfE's prior approval must be obtained.
<p>5.19 Ex gratia, extra-contractual, extra-statutory and extra-regulatory payments must always be referred to DfE for prior approval, irrespective of the amount.</p>
<p>Write-offs and entering into liabilities</p> <p>5.20 The college must obtain DfE's prior approval for the following transactions beyond the delegated limits described below:</p> <ul style="list-style-type: none"> • writing-off debts and losses • entering into guarantees or letters of comfort • entering into indemnities which are not in the normal course of business <p>5.21 It is important to note that the requirement to obtain such permission by a college extends to any such write-off, guarantee, letter or comfort or indemnity offered to or by any of the college's subsidiaries.</p>
<p>5.23 In relation to these limits:</p> <ul style="list-style-type: none"> • the college should always pursue recovery of amounts owed to it, including overpayments, or erroneous payments – in practice, however, there will be practical and legal limits to how cases should be handled • the college should only consider writing-off losses after careful appraisal, including whether all reasonable recovery action has been taken with the debtor • if the loss or write-off is covered by insurance, the college should first assure itself that the insurers are content that there is no feasible alternative to ceasing recovery action <p>5.24 In dealing with individual cases, the college must always consider the soundness of their internal control systems, the efficiency with which they have been operated, and take any necessary steps to prevent any failings recurring.</p>
<p>5.25 The college must keep an accurate record of all amounts lost or written off regardless of</p>

Requirement
value.
<p>5.28 Except when the college transfers any assets to another charity with the same or similar purposes, it must achieve the best price that can reasonably be obtained, while maintaining the principles of regularity, propriety and value for money.</p>
<p>5.29 In the case of moveable fixed assets (for example non land and buildings, such as vehicles and IT kit) the college must consider:</p> <ul style="list-style-type: none"> • whether the asset or assets concerned may have been acquired with the assistance of a grant or donation from a third party, including (but not limited to) DfE and whether the conditions of any such grant or donation set terms relating to disposal or the proceeds of disposal, or when an overage arrangement is in place • whether disposal of such assets is consistent with its asset management policy and that there are plans in place to ensure that: <ul style="list-style-type: none"> o investment in moveable fixed assets is sufficient to ensure the ongoing ability of the college to deliver appropriate provision for learners is not depleted o moveable fixed assets can be replaced or upgraded when they reach the end of their economic life <p>5.30 Subject to addressing the above, the college may apply the proceeds of disposal (if any) at its own discretion subject to the usual considerations as set out in paragraph 5.28 above.</p>
<p>5.31 In the case of land and buildings, the college must consider the Charity Commission guidance on Sales, leases, transfers or mortgages: what trustees need to know about disposing of charity land (CC28).</p>
<p>For that reason, in the case of land and buildings (whether freehold or leasehold), the proceeds of disposal must be used for capital reinvestment in further fixed assets or to:</p> <ul style="list-style-type: none"> • repay loans, to DfE and to banks • repay any overpayments of ESFA or DfE grants, or satisfy grant conditions where a repayment to ESFA or DfE is due (for example overage) • exceptionally, provide working capital for colleges to avoid the risk of insolvency (see para 5.32 below) <p>5.32 If a college wishes to use the proceeds from the disposal of land and buildings for the purposes of avoiding insolvency (for example, to fund a restructuring programme), then it must first seek the approval of DfE.</p>
<p>5.34 Colleges must consider whether any particular disposal could be considered novel, contentious or repercussive.</p>
<p>The perception of the transaction may be as important as its substance, and, in such cases, the college must ask DfE for permission for the disposal itself, as well as for the application of the proceeds.</p>
<p>Leasing</p> <p>5.36 Colleges do not require DfE's prior approval for entering into either finance or operating leases, though colleges must ensure any lease maintains the principles of regularity, propriety and value for money.</p>

Requirement
<p>Gifts</p> <p>5.37 Colleges must have a policy and register covering the acceptance of gifts, hospitality, awards, prizes or other benefits that might compromise their judgment or integrity and should ensure all staff are aware of the requirements.</p>
<p>When making any such gifts, the college must ensure the value is modest, is within its financial regulations and scheme of financial delegation, the decision is documented, and achieves propriety and regularity in the use of public funds.</p>
<p>If a college intends to make a gift to a governor, it must comply with the guidance set out at paragraph 5.8 of the Charity Commission publication Trustee expenses and payments (CC11).</p>
<p>Borrowing</p> <p>5.38 Colleges and their subsidiaries must obtain ESFA's prior approval for:</p> <ul style="list-style-type: none"> • new borrowing from the private sector • amendments to existing private sector borrowing regardless of the interest rate chargeable.
<p>5.42 Amendments which do not require DfE consent include:</p> <ul style="list-style-type: none"> • providing periodic standard written representations to lenders • any other changes to the terms of existing facilities, including covenant changes, which do not incur a fee by the lender and are not amendments within the scope of Managing public money as defined above <p>Credit cards must only be used for business expenditure, and balances cleared before interest accrues.</p>
<p>Bad debts - DfE consent required if exceeds:</p> <ul style="list-style-type: none"> • 1% of annual income or £45,000 individually; <p>or</p> <ul style="list-style-type: none"> • 5% of annual income or £250,000 cumulatively
<p>The college must provide ESFA with access to all books, records, information, explanations, assets, premises and staff, and ESFA may take copies of relevant documents.</p>
<p>Colleges must provide ESFA with written authority giving permission for any third party to provide such information and documentation to ESFA or its agents on request of ESFA.</p>
<p>Retention of records</p> <p>6.4 The college must retain records to verify provision delivered by it, or its subcontractors, in relation to this handbook and its accountability agreement, for at least six years after the period to which funding relates.</p>
<p>Fraud, theft, irregularity and cybercrime</p> <p>6.6 As set out in accountability agreements, contracts with ESFA (and, where relevant, with Mayoral Combined Authorities and the Greater London Authority), and the Post-16 audit</p>

Requirement	
	code of practice, colleges must establish and maintain an adequate system of internal control, to ensure compliance, and to prevent and detect error, irregularities and suspected fraud (including theft, bribery and corruption).
	To achieve this a college must establish and keep up to date an effective and proportionate anti-fraud policy, which sets out the approach to raising awareness, prevention, detection, investigation and sanction (including seeking redress where appropriate) of suspected fraud.
	The fraud threat is constantly evolving and so colleges must ensure that they keep themselves up to date with the risks.
6.9	Colleges must have procedures in place to ensure any suspected or discovered instance of fraud, cybercrime, theft, bribery, corruption, irregularity, major weakness or breakdown in the accounting or other control framework are identifiable.
	Where identified, colleges must inform the chair of the audit committee, external auditors and internal auditors (if applicable) as soon as practically possible.
	ESFA, and any other relevant college funder, must also be informed as soon as possible when the fraud, or suspected fraud, is significant.
6.10	Significant fraud is where there is one or more of the following factors (though this list is not exhaustive): <ul style="list-style-type: none"> • the gross amount of the loss (that is before any insurance claim) is in excess of £5,000 • there is likely to be public interest because of the nature of the fraud or the people involved, especially when the fraud is committed by a governor or senior employee, regardless of the amount • the particulars of the fraud are novel or complex • the fraud is systematic or unusual in nature
6.11	With regard to the reporting of funding error, colleges must continue to adhere to the requirements of their accountability agreement and the funding rules.
6.12	Fraud's inherent nature means that any fraudulent transaction must be irregular and improper.
	The accounting officer must include any significant fraud in their statement of regularity, propriety and compliance.
Cybercrime, penetration testing and cyber ransoms	
6.15	Colleges must also be aware of the risk of cybercrime, put in place proportionate controls and take appropriate action where a cyber security incident has occurred.
6.16	Colleges must not pay any cyber ransom demands.
	The college must cooperate with NAO and their contractors and provide help, information and explanation as is reasonable and necessary.

Recommended Practices ('Should')

Recommendation	Compliance Status
The accounting officer should be employed by the college or college group and may be a member of the board.	
The CFO should play both a technical and leadership role.	
The CFO should be employed by the college, and the college should notify DfE in advance if it proposes, in exceptional circumstances, to appoint a CFO who will not be an employee (even if the contract is temporary).	
Colleges must assess whether the CFO, and others holding key financial posts, should have a business or accountancy qualification and hold membership of a relevant professional body, dependent on the risk, scale and complexity of financial operations.	
Colleges should refer to the expectations relating to the management of reserves set out in the FE and sixth-form college corporations: governance guide and in the Charity Commission publication Charity reserves: building resilience (CC19).	
2.12 The board should challenge the learner number estimates on which the budget is based, as these underpin revenue projections.	
2.15 Colleges should consider the financial benchmarks set out by the Further Education Commissioner (FEC) when setting budgets.	
2.17 Should signs of financial difficulty emerge, either as an immediate issue or anticipated risk, the college should liaise with DfE.	
Colleges should not rely solely on ESFA's financial health assessment, or other review ratings to give an indication of solvency.	
Colleges planning to undertake major capital projects should have due regard to HM Treasury's Green Book on project appraisal and evaluation.	Noted
2.27 Before submitting applications colleges should familiarise themselves with: <ul style="list-style-type: none"> • HM Treasury's Guidance for approval of senior pay: Senior pay controls process • DfE guidance on senior pay controls • the DfE approval process Tax arrangements for senior employees	

2.28 The college must ensure its senior employees' payroll arrangements fully meet their tax obligations and comply with HM Treasury's guidance about the employment arrangements of individuals on the avoidance of tax.	
This is described in HM Treasury's Review of the tax arrangements of public sector appointees, which explains that senior managers with significant financial responsibilities should be exclusively on payroll, and therefore subject to Pay As You Earn with income tax and NI contributions deducted at source.	
Income generation 2.29 The college should set fees for its chargeable services at full cost, but can apply an additional rate of return when in a commercial environment.	
2.31 The college's risk management should cover the full operations and activities of the college, not only financial risks.	
Colleges should also consider any risks associated with delivery of funded provision through a subcontracting arrangement and whether adequate and regular contract monitoring is in place to mitigate such risks.	N/A
It should also be aware of the Charity Commission's guide to managing conflicts of interest: Conflicts of interest: a guide for charity trustees.	
2.51 Colleges should consider whether other interests should be registered, and if in doubt should do so.	
The statement should include an opinion on the effectiveness of the college's framework of internal control.	
If internal auditors have been appointed, then they should be members of a relevant professional body.	
3.9 Colleges should note that the Financial Reporting Council's Ethical Standard states that a firm providing external audit to an entity shall not also provide internal audit services to it.	
Colleges should retender their external audit contract at least every five years, though for the avoidance of doubt this does not necessarily require a different firm of auditors to be appointed.	
Colleges should use the DfE college approvals form to request permission for any transactions beyond their	Noted

delegated limits.	
DfE may refer such transactions to HM Treasury for approval, so colleges should allow sufficient time for proposals to be considered.	Noted
Any payments should always be in the interest of the college, but especially in the interest of the learners.	Noted
However, where a legal assessment suggests the college is likely to be successful, a settlement should not be offered.	Noted
5.10 Colleges should demonstrate value for money by applying the same scrutiny to a payment under £50,000 (or under 3 months' salary) as those over these limits and have a justified business case.	Noted
5.15 Colleges should consider whether cases reveal concerns about the effectiveness of internal control systems and take steps to correct failings.	Noted
If colleges are in doubt about a proposed transaction, they should seek DfE advice.	Noted
5.23 In relation to these limits: <ul style="list-style-type: none"> • the college should always pursue recovery of amounts owed to it, including overpayments, or erroneous payments – in practice, however, there will be practical and legal limits to how cases should be handled • the college should only consider writing-off losses after careful appraisal, including whether all reasonable recovery action has been taken with the debtor • if the loss or write-off is covered by insurance, the college should first assure itself that the insurers are content that there is no feasible alternative to ceasing recovery action 5.24 In dealing with individual cases, the college must always consider the soundness of their internal control systems, the efficiency with which they have been operated, and take any necessary steps to prevent any failings recurring.	
5.26 Before considering accepting liabilities by issuing guarantees, a letter of comfort or indemnity, the college should secure value for money by appraising the proposal through assessment of the costs and benefits of relevant options.	Noted but N/A
The college should also have an estates strategy that underpins the long-term sustainability of the operation.	

However, given that sale of land and buildings can be particularly protracted, colleges should seek permission to use the proceeds in this way in good time and well in advance of the disposal itself.	Noted
In such cases the college should take professional advice.	Noted
If the college is contemplating making a gift to a member of staff, then it should consider potential tax implications.	Noted
6.7 In developing an anti-fraud policy, colleges should consider the nature of the threat faced.	Noted
<p>The non-exhaustive list below contains suggestions for the main components of such a framework:</p> <ul style="list-style-type: none"> • a fraud risk assessment to identify areas most vulnerable to suspected fraud; ESFA has developed a list of potential fraud indicators to support a review • robust and well-designed internal control systems to address vulnerability to fraud and the testing of internal controls ensure that they are operating as intended • policies and procedures (such as a whistleblowing policy and a fraud response plan), detailing how to report suspected fraud and the processes to follow when reports are received • a fraud loss measurement exercise to evaluate the scale of suspected fraud <p>6.8 The policy should also provide for regular and frequent review of its own effectiveness.</p>	
6.13 Fraud, including any suspected or attempted fraud, should be reported to Action Fraud to help identify systematic risks potentially affecting whole sectors (for example cybercrime).	