

Subject: School Audit Annual Report 2019/20

Cabinet Member: Cllr Jewell

Report Number: 15

Item 6a

Purpose of Report

1. This report to inform the Schools Forum of the key findings from audits carried out of School Audit Annual Report.

Twelve school audits were undertaken in 2019/20 (2018/19 – 13). The audit opinions issued were:

	<u>2019/20</u>	<u>2018/19</u>
Positive (Substantial and Reasonable)	33%	78%
Negative (Limited and No)	67%	23%

The total number of actions increased to 187 from 145 in 2018/19. This is despite a decrease in the number of schools reviewed from 13 in 2018/19 to 12 in 2019/20.

2019/20 also saw spike in high risk findings to 19, from 9 in 2018/19.

Appendix 1 provides a draft letter sent to Headteachers, Chairs of Governors and Chairs of Finance/Resources highlighting key statistics and areas for improvement identified during our audits.

Recommendations

The Schools Forum maintained schools' representatives are asked to note and

- Note and share the findings with colleagues within their phases;
- Ask their colleagues to assess the findings and ensure their schools comply with the regulatory framework.

Relevance to the Council's Corporate Plan

2. SAFE, HEALTHY AND CONFIDENT COMMUNITIES

Schools with good financial management and a strong control environment will aid best use of schools' budgets which will contribute to effective education and help the Council achieve its objectives to sustain safe, healthy and confident communities.

Main Consideration for the Schools Forum

3. BACKGROUND

3.1 The School Standards & Framework Act 1988 sets out the financial framework for funding maintained schools.

3.2 A review of the internal financial controls of all maintained schools is carried out on a regular basis. The frequency of audits is based on risk, for example:

- Schools perceived to pose a greater risk will be subject to more regular audits;
- Schools assessed as low risk will be selected on a sample basis for each audit year.

3.3 All schools should receive some form of internal audit coverage at least once every four to five years. The scope and timing of each school's audit is agreed with the school. All reports are discussed and cleared with the Headteacher or other nominated person prior to the issue of the final report. In addition, Internal Audit undertakes a follow-up review on an appropriate basis after the issue of the final report to ensure all agreed actions are implemented.

3.4 Local Authority maintained schools are required to complete an annual Schools Financial Value Standard (SFVS) return. Governing Bodies have a responsibility to ensure appropriate controls are in place to meet the regulatory framework for finance and financial management as required by statute and detailed in the local Scheme for Financing Schools.

Main Considerations for the Council

4. In Enfield, schools are audited at least once every four to five years.

From audits conducted in 2019/20, we found a significantly higher number of adverse findings compared to 2018/19. Key issues found are summarised in Appendix 1.

Risks that may arise if the proposed decision and related work is not take

5. If schools and Governing Bodies do not act on the findings contained in the letter, it is likely that issues commonly arising are not dealt with appropriately leaving individual schools, the Council open to financial, legal and reputational loss.

Conclusions and Recommendations

6. The maintained schools' representatives on the Forum are asked to:

- Note and share the findings with colleagues within their phases;
- Ask their colleagues to assess the findings and ensure their schools comply with the regulatory framework.

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Date of report 23 September 2020

Appendices:

Letter sent to Headteachers, Chairs of Governors, Chairs of Finance/Resources

Background Papers

N/A

All Headteachers
All Chairs of Governors
All Chairs of Finance/Resources

Please reply Gemma Young
to:

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Phone: 07900 168938

Textphone:

Fax:

My Ref:

Your Ref:

Date: July 2020

Dear Headteacher, Chair of Governors and Chair of Finance/Resources

2019/20 School Audit Annual Report

As part of the 2019/20 Internal Audit Plan approved by the Council's Audit and Risk Management Committee, Internal Audit carried out a review of governance and financial management in 12 schools across the borough.

Our work involved carrying out targeted internal audit testing to assess the adequacy and effectiveness of financial management within each school visited. The testing carried out broadly aligns to the areas covered by the Schools Financial Value Standard (SFVS).

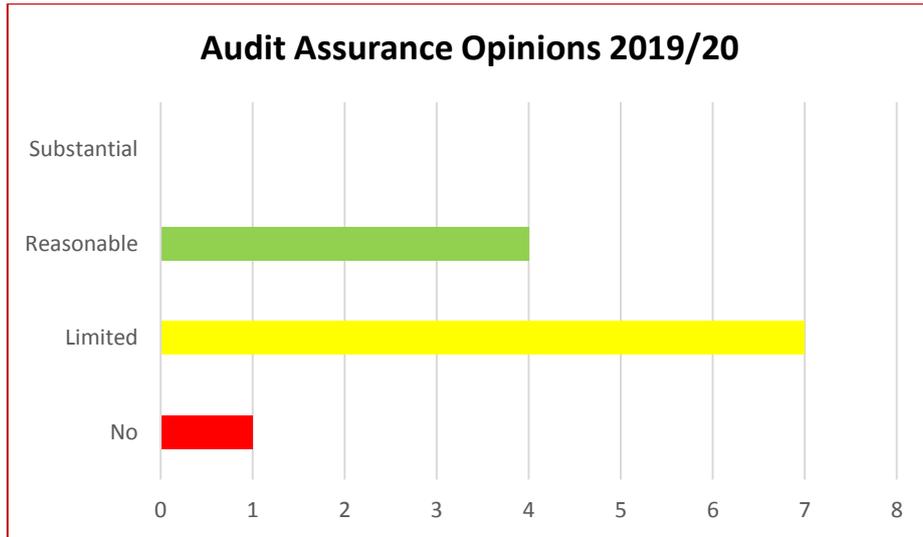
We examined the major processes in these schools to assess compliance with the Scheme for Financing Schools and the Council's Finance Manual for Schools, including the Contract Procedure Rules, General Data Protection Regulations and to check whether good governance, operational and financial practices were applied throughout.

School Leadership Teams should use this report to identify potential risk areas or opportunities in their own school and to make improvements as necessary. It may also help as a prompt when completing the 2020/21 SFVS return.

Overall Report Opinions

All reviews undertaken covered the operating effectiveness of processes and controls falling under 10 scope areas. These are detailed in Appendix 1.

Of the schools reviewed in 2019/20, the following assurance opinions were given:



A total of four schools (33%) received a Reasonable Assurance opinion, seven (58%) received a Limited Assurance opinion and one (8%) received a No assurance opinion.

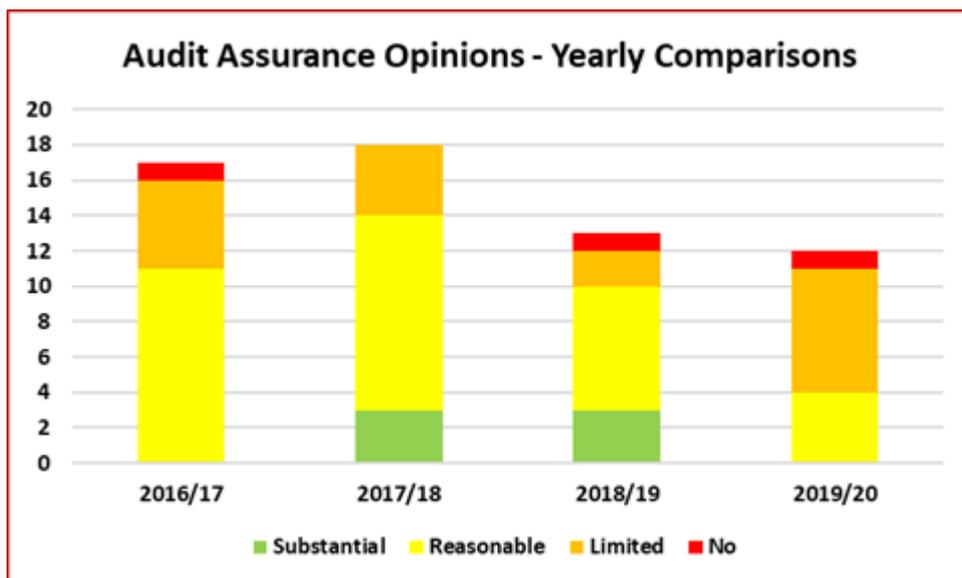
No schools were awarded substantial assurance.

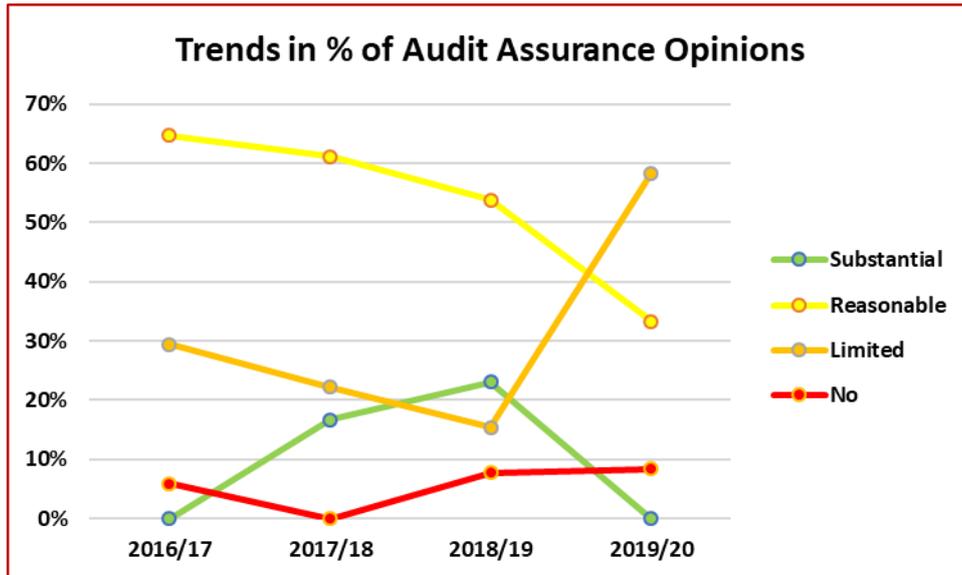
Definitions of internal audit assurance levels are provided in Appendix 3.

Comparing against 2018/19 results, there has been significant movement in assurance opinions. Positive opinions (Substantial and Reasonable) have decreased to 33% against 78% the previous year, and negative assurance reports (Limited and No Assurance) increased to 67% against 23% in 2018/19.

Definitions of risk categories and assurance opinions are detailed in Appendix 4.

These opinions, together with the trend from 2016/17, are shown in the charts below:

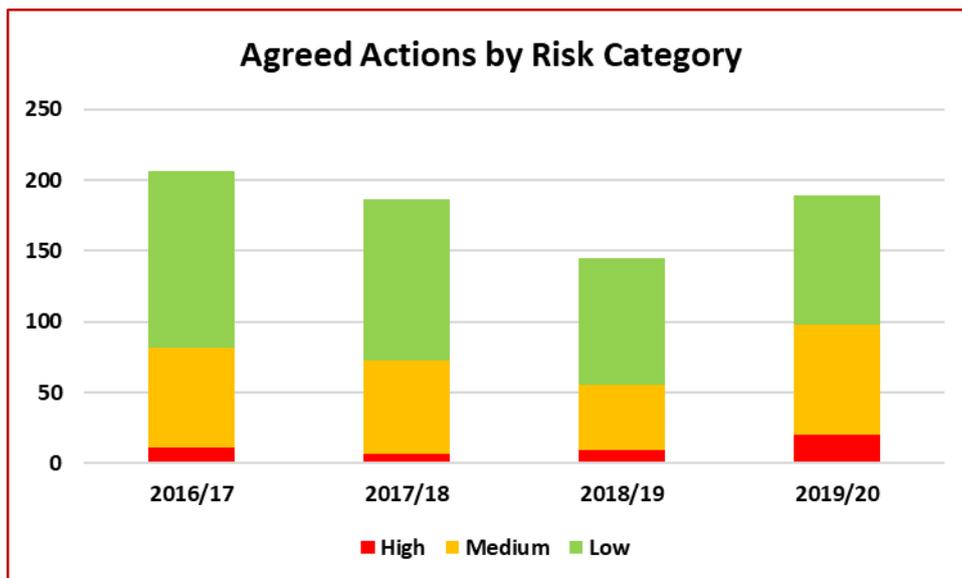


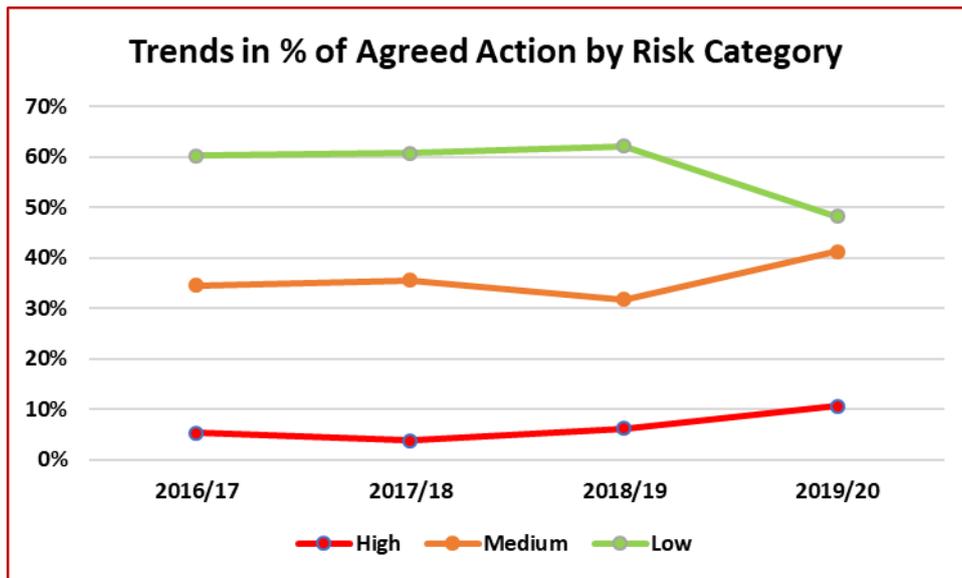


Analysis of agreed actions

As part of our process, actions for improvement to address the risks identified by our internal audit work are agreed with Headteachers. The total number of actions increased to 187 from 145 in 2018/19. This is despite a decrease in the number of schools reviewed from 13 in 2018/19 to 12 in 2019/20. 2019/20 also saw spike in high risk findings to 19, from 9 in 2018/19.

An analysis and trends of the agreed actions are shown in the following graphs:

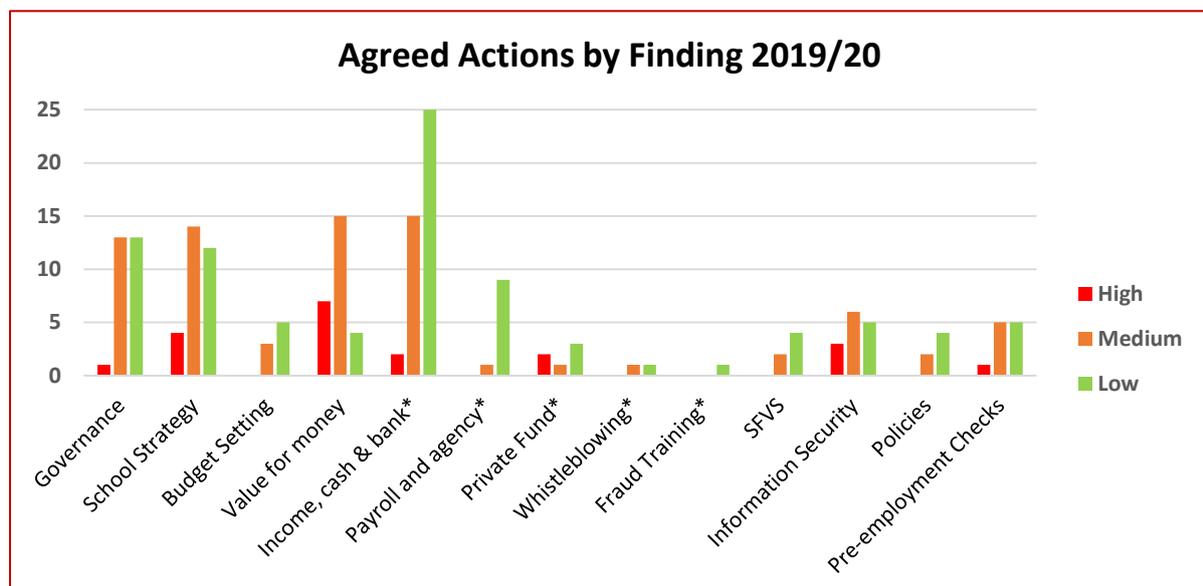




Summary of Findings

Local Authority maintained schools are required to complete an annual Schools Financial Value Standard (SFVS) return. Governing Bodies have a responsibility to ensure appropriate controls are in place to meet the regulatory framework for finance and financial management as required by statute and detailed in the local Scheme for Financing. To aid Governors in completing the 2020/21 SFVS, we have summarised our 2019/20 actions under the SFVS headings – see Appendix 2. Other areas for improvement, not specifically covered under the SFVS, have also been included and are detailed in Appendix 3.

The chart below summarises the number of actions categorised under SFVS headings and the other areas our audits cover:



*SFVS Section F Protecting Public Money has been further categorised

The main themes and key exceptions identified during our 2019/20 are detailed below. We recommend that Governing Bodies review this table against current practices in their schools

to ensure that, with respect to these common areas, they are compliant with the SFVS requirements.

Theme	Key exceptions identified:
Governance	
Governing Body and Committee Minutes	<ul style="list-style-type: none"> Insufficient detail regarding discussions held and key decisions made, particularly around approval of key documents.
Delegated Authority	<ul style="list-style-type: none"> Inconsistencies between the Organisational Arrangements/Terms of Reference documents and the Scheme of Delegation documents. Scheme of Delegation: <ul style="list-style-type: none"> Incomplete or not demonstrating appropriate separation of duties. No evidence of Governing Body approval. Actions not completed in accordance with the agreed scheme of delegation
Register of Business Interests	<ul style="list-style-type: none"> Not completed annually by all Governors or all members of staff with financial responsibility (as stated in the Scheme of Delegation) Governors' interests not posted on a publicly available website or those publicised not up to date
Appropriate skills and knowledge	<ul style="list-style-type: none"> Insufficient level of financial knowledge and skills sets across all staff with financial responsibilities, particularly at times of staff turnover. Insufficient training and support provided.
School strategy	
Building and Contents Insurance	<ul style="list-style-type: none"> Where the Council's insurance policy is not used, insufficient insurance cover in place due to out of date valuations being used.
Business Continuity Plan	<ul style="list-style-type: none"> Business continuity plan not in place. Business continuity plan contains insufficient detail or is out of date.
School Improvement/Development Plan	<ul style="list-style-type: none"> Lack of detail which covers educational priorities and budget plans for at least the next three years, showing how the use of resources is linked to the achievement of the School's goals.
Inventory records	<ul style="list-style-type: none"> Insufficient or incomplete inventory records. Further checks not undertaken when items identified as missing. Absence of independent inventory checks. No evidence that disposals were appropriately approved.
Loan of equipment to staff	<ul style="list-style-type: none"> Lack of appropriate records for loan of equipment including an

Theme	Key exceptions identified:
(including long term loan of laptops)	absence of appropriate authorisation, information out of date and/or not included in the annual inventory check.
Setting the annual budget	
Budget and finance returns	<ul style="list-style-type: none"> • Unable to confirm that: <ul style="list-style-type: none"> - The Governing Body had reviewed and approved the annual working budget, - The Governing Body or delegated Committee had reviewed and approved all quarterly returns. • Quarterly returns were not reconciled to the school's finance system prior to being submitting to the Council.
Value for money	
Contracts and Purchasing	<ul style="list-style-type: none"> • Non-compliance with the Council's Contract Procedure Rules (CPRs), particularly around obtaining the required number of quotes. • Absence, or incorrect use, of approved waiver of CPRs. • Contracts not signed by both the school and the contractor. • Official orders not completed and authorised for all goods and services prior to the transaction taking place. • Expenditure above the Headteacher's delegated limit not approved by the Governing Body. • Inadequate evidence of a three-way match (between the order, the goods or services received and the invoice) prior to payment.
Protecting Public Money	

Theme	Key exceptions identified:
Income, cash and bank	<ul style="list-style-type: none"> • Absence of completed monthly reconciliations on all bank accounts. As part of this process, aged unreconciled items not being investigated, and appropriate action not taken. • Insufficient evidence of pre-authorisation, reconciliation and monitoring of purchases made on the school's commercial and /or store cards. • Lack of appropriate income records which clearly demonstrate an independently reviewed reconciliation, between <ul style="list-style-type: none"> - expected income, - income received, and - income banked and recorded on the finance system. • Inadequate processes around staff reimbursements, including: <ul style="list-style-type: none"> - absence of supporting evidence for the purchase, - voucher not signed by the claimant, - claims vouchers not appropriately authorised, - reimbursements above the limit approved by the Governing Body, - use of personal credit cards.
Debts	<ul style="list-style-type: none"> • Debts not being appropriately managed to ensure they are reduced and do not escalate further.
Payroll and agency staff payments	<ul style="list-style-type: none"> • Absence of appropriate monthly checks of the payroll by the Headteacher. • Lack of review and authorisation of agency staff orders, timesheets and invoices, demonstrating appropriate oversight and separation of duties.
Private Fund	<ul style="list-style-type: none"> • Absence of monthly reconciliations between the bank statement and the finance records. • Accounts not independently audited annually.
Whistleblowing	<ul style="list-style-type: none"> • Whistleblowing policy out of date and not reviewed annually.
Fraud Training	<ul style="list-style-type: none"> • Recommended fraud awareness training not completed by Senior leadership teams or relevant Governors.,
SFVS Return	
Accuracy of returns	<ul style="list-style-type: none"> • The SFVS checklist submitted did not reflect the findings of the most recent audits and may not, therefore, have been completed with a full understanding of the school's processes.

Theme	Key exceptions identified:
Security of Information	
GDPR	<ul style="list-style-type: none"> • A leader governor for GDPR not appointed as recommended by the DfE. • Model workbooks not completed for all data sets. • Data sharing agreements not in place with all third parties with whom sensitive information might be shared. • GDPR training not undertaken by key staff members and/or not rolled out to all staff.
ICT security	<ul style="list-style-type: none"> • Passwords not changed regularly. • No processes in place to ensure unencrypted, external media cannot be used on the school's IT equipment. • Access to school systems not promptly removed when staff leave.
Policies	
Review	<ul style="list-style-type: none"> • Policies not regularly reviewed and updated.
Pre-employment checks	
New starters	<ul style="list-style-type: none"> • Appropriate pre-employment checks not completed promptly in advance of the employee starting work.

Internal Audit offers audit and fraud training for both Governors and School Business Managers (SBMs). The training programme is developed with the School Standards and Support Service and can be accessed through the Service's [training portal](#). Internal Audit representatives also regularly attend and present at SBM meetings, conferences and partnership groups to advise on how schools can address the non-compliance issues raised in this letter.

Should you have any comments on this report, require further clarification or wish to raise any concerns, the Internal Audit team would be happy to discuss these with you (please see below for contact details).

Yours sincerely,

Gemma Young
Head of Internal Audit and Risk Management

APPENDIX 1 – Audit Scope Areas

Scope Area:	To ensure that:
Governance	<ul style="list-style-type: none"> • Roles and responsibilities of the Governing Body and sub-committees are clearly defined. • Governance meetings and minutes demonstrate discussion and decision making to ensure the school meets all its statutory obligations and complies with the Council’s financial regulations. • A complete and up to date register of business interests of all Governors, and staff with financial responsibility, is maintained at the school.
Budget setting & Financial monitoring	<ul style="list-style-type: none"> • Good financial management exists, including the provision of regular budget reports, which are reviewed by senior management and the Governing Body.
Expenditure	<ul style="list-style-type: none"> • Expenditure is legitimate, complies with the Council’s Finance Manual for Schools’ and the Council’s Contract Procedure Rules and is authorised appropriately. • Governing Bodies review expenditure to determine that their school’s resources are well spent and provide value for money.
Cash & Bank	<ul style="list-style-type: none"> • Bank balances are managed to ensure that the school does not become overdrawn. • There are appropriate controls in place over payments including reimbursements to staff and payments made via commercial and store cards. • There are appropriate controls over cash and cheques held on school premises • Appropriate separation of duties exists to reduce the risk of fraud and error.
Income	<ul style="list-style-type: none"> • Charges are levied in line with authorised scales • Receipts are banked promptly and in full. • Accurate records of all income due or collected are maintained by the school. • Appropriate separation of duties exists to reduce the risk of fraud and error.
Private/School Fund	<ul style="list-style-type: none"> • The standard for the guardianship of the private fund is as rigorous as for the administration of the school’s delegated budget.
Employees	<ul style="list-style-type: none"> • Staff are adequately vetted to ensure their suitability for employment. • Payments to permanent, supply and agency staff are valid and appropriately authorised.
School Assets	<ul style="list-style-type: none"> • Appropriate processes are in place to ensure that assets are security marked • Full and accurate records of assets are maintained. • There are appropriate and up to date business continuity and disaster recovery plans.
GDPR, ICT Security and Fraud Awareness	<ul style="list-style-type: none"> • Appropriate controls exist over general security at the school, including information, hardware and software. • The requirements of the current General Data Protection Rules are adhered to.
SFVS and Risk Assessment Returns	<ul style="list-style-type: none"> • The school’s self-certified responses on the SFVS and the Risk Assessment and Financial Control Checklist accurately reflect controls in operation.

APPENDIX 2 – Audit Findings by Schools Financial Value Standard (SFVS) Headings

Section A. Governance	
1	In the view of the governing body and senior staff, does the governing body have adequate financial skills among its members to fulfil its role of challenge and support in the field of budget management and value for money?
2	Does the governing body have a finance committee (or equivalent) with clear terms of reference and a knowledgeable and experienced chair?
3	Does the governing body board receive clear and concise monitoring reports of the school's budget position at least six times a year?
4	Are business interests of governing body members and staff properly registered and taken into account so as to avoid conflicts of interest?
5	Does the school have access to an adequate level of financial expertise, including when specialist finance staff are absent, e.g. on sick leave?
Section B. School strategy	
6	Does the school have a realistic, sustainable and flexible financial strategy in place for at least the next 3 years, based on realistic assumptions about future funding, pupil numbers and pressures?
7	Is the financial strategy integrated with the school's strategy for raising standards and attainment?
8	Does the school have an appropriate business continuity or disaster recovery plan, including an up-to-date asset register and adequate insurance?
Section C. Setting the annual budget	
9	Does the school set a well-informed and balanced budget each year (with an agreed and timed plan for eliminating any deficit)?
10	Does the budget setting process allow sufficient time for the governing body to scrutinise and challenge the information provided?
11	Is the school realistic in its pupil number projections and can it move quickly to recast the budget if the projections and the reality are materially different?
12	Is end year outturn in line with budget projections, or if not, is the governing body alerted to significant variations in a timely manner, and do such variations result from explicitly planned changes or from genuinely unforeseeable circumstances?
13	Are balances at a reasonable level and does the school have a clear plan for using the money it plans to hold in balance at the end of each year?
Section D. Staffing	
14	Does the school review and challenge its staffing structure regularly to ensure it is the best structure to meet the needs of the school whilst maintaining financial integrity?

15	Has the use of professional independent advice informed part of the pay decision process in relation to the head teacher and is it tightly correlated to strong educational outcomes and sound financial management?
16	Does the school benchmark the size of its senior leadership team annually against that of similar schools?
Section E. Value for money	
17	Does the school benchmark its income and expenditure annually against that of similar schools and investigate further where any category appears to be out of line?
18	Does the school have procedures for purchasing goods and services that both meet legal requirements and secure value for money?
19	Is the governing body given the opportunity to challenge the school's plans for replacing contracts for goods and services that are due to expire shortly?
20	Does the School consider collaboration with others, e.g. on sharing staff or joint purchasing, where that would improve value for money?
21	Do you compare your non-staff expenditure against the DfE recommended national deals to ensure you are achieving best value?
22	Does the school maintain its premises and other assets to an adequate standard and make best use of capital monies for this purpose?
Section F. Protecting public money	
23	Is the governing body sure that there are no outstanding matters from audit reports, internal audit reports or from previous consideration of weaknesses by the Governing Body?
24	Are there adequate arrangements in place to manage conflicts of interest or any related party transactions?
25	Are there adequate arrangements in place to guard against fraud and theft by staff, contractors and suppliers? (Please note any instance of fraud or theft detected in the last 12 months)
26	Are all staff aware of the school's whistleblowing arrangements and to whom they should report concerns?
27	Does the school have an accounting system that is adequate and properly run and delivers accurate reports, including the annual Consistent Financial Reporting return?
28	Does the school have adequate arrangements for audit of voluntary funds?
Section G. SFVS dashboard	
29	Have the results of the dashboard been carefully considered and potential follow-up actions identified?

APPENDIX 3 – Audit Findings by Other Headings

Ref.	Detail
Information Security	
	Does the school comply with requirements of GDPR?
	Does the school have appropriate controls in place to ensure the security of its data?
Pre-employment Checks	
	Are appropriate checks undertaken prior to new staff commencing work at the school?
Policies	
	Are required policies in place and reviewed and approved by the governing body regularly?

APPENDIX 4 - Definition of Risk and Assurance Ratings

Level of assurance

Risk rating

<p>Critical</p> <p>●</p>	<p>Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale & service performance. Mass strike actions etc.</p> <p>Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council, members or officers.</p> <p>Cessation of core activities, Strategies not consistent with government's agenda, trends show service is degraded. Failure of major Projects – elected Members & SMBs are required to intervene</p> <p>Major financial loss – Significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council; Critical breach in laws and regulations that could result in material fines or consequences</p>
<p>High</p> <p>●</p>	<p>Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale & performance of staff.</p> <p>Significant impact on the reputation or brand of the organisation; Scrutiny required by external agencies, Audit Commission etc. Unfavourable external media coverage. Noticeable impact on public opinion</p> <p>Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome med – term difficulties</p> <p>High financial loss Significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences</p>
<p>Medium</p> <p>●</p>	<p>Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale & performance of staff.</p> <p>Moderate impact on the reputation or brand of the organisation; Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage.</p> <p>Significant short-term disruption of non-core activities. Standing Orders occasionally not complied with, or services do not fully meet needs. Service action will be required.</p> <p>Medium financial loss - Small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences</p>
<p>Low</p> <p>●</p>	<p>Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale</p> <p>Internal Review, unlikely to have impact on the corporate image. Minor impact on the reputation of the organisation</p> <p>Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines.</p> <p>Minimal financial loss – Minimal effect on project budget/cost. Minor breach in laws and regulations with limited consequences</p>
<p>Advisory</p> <p>●</p>	<p>Advisory findings or observation that would help to improve the system or process being reviewed or align it to good practice seen elsewhere.</p> <p>Does not require a formal management response.</p>

Substantial 	No significant improvements are required. There is a sound control environment with risks to key service objectives being well managed. Any deficiencies identified are not cause for major concern.
Reasonable 	Scope for improvement in existing arrangements has been identified and action is required to enhance the likelihood that business objectives will be achieved.
Limited 	The achievement of business objectives is threatened and action to improve the adequacy and effectiveness of the risk management, control, and governance arrangements is required. Failure to act may result in error, fraud, loss or reputational damage.
No 	There is a fundamental risk that business objectives will not be achieved, and urgent action is required to improve the control environment. Failure to act is likely to result in error, fraud, loss or reputational damage.