

**Open Report on behalf of Pete Moore, Executive Director
Resources and Community Safety**

Report to:	Audit Committee
Date:	13 June 2011
Subject:	Summary of School Audit Work During 2010/11

Summary:

To inform the Committee of the work we have completed in relation to schools during 2010/11.

Recommendation(s):

To consider the content of this report and identify any action the Committee requires.

Background

Since April 2009, Internal Audit has been completing an increased number of audit visits to schools. This approach has continued during 2010/11 to include primary schools that had not achieved the Financial Management Standard in Schools (FMSiS), and to reintroduce regular school visits which had reduced in number with the introduction of FMSiS. The audit visits provide an assessment of the school's control environment for headteachers, school governors and Children's Services.

This report summarises the outcomes of school audit visits for the Committee, along with details of investigations we have conducted in schools and conclusions from two school related audits:

- School Budget Share Calculation 2010/11
- Schools Financial Monitoring

We have also provided an update on FMSiS and its proposed replacement.

A school's headteacher, management team and governing body are responsible for applying good financial management and maintaining an effective control environment. Since delegation of budgets in 1990, the role of the local authority has been to provide support, advice, guidance, training and high level monitoring over financial management. This is supported by Internal Audit's more detailed review and assessment of school processes and controls through periodic audit visits.

At March 2011, Lincolnshire County Council maintains 340 schools. These are:

- 43 secondary schools
- 271 infant, primary and junior schools
- 5 nursery schools &
- 21 special schools

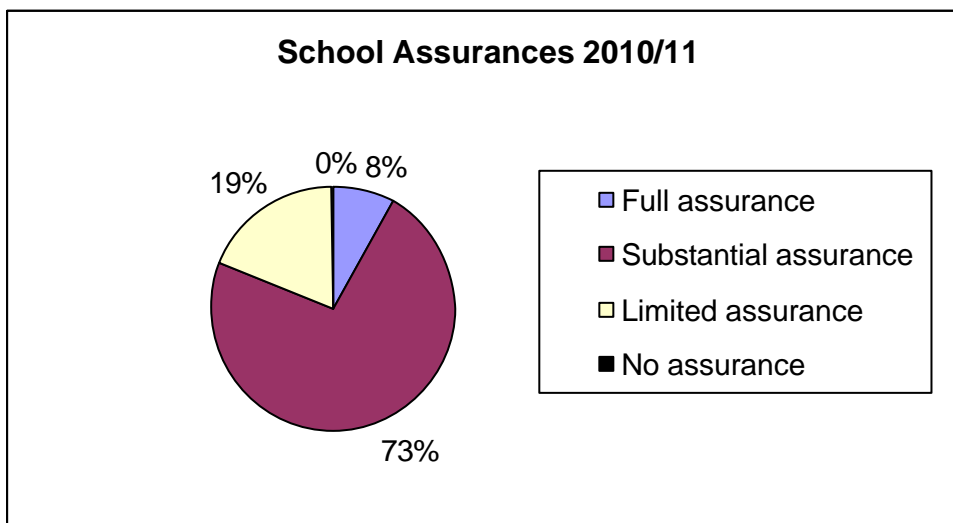
The reduction in maintained schools since our previous report to the Committee in February 2010 (there were 358 schools) is due to:

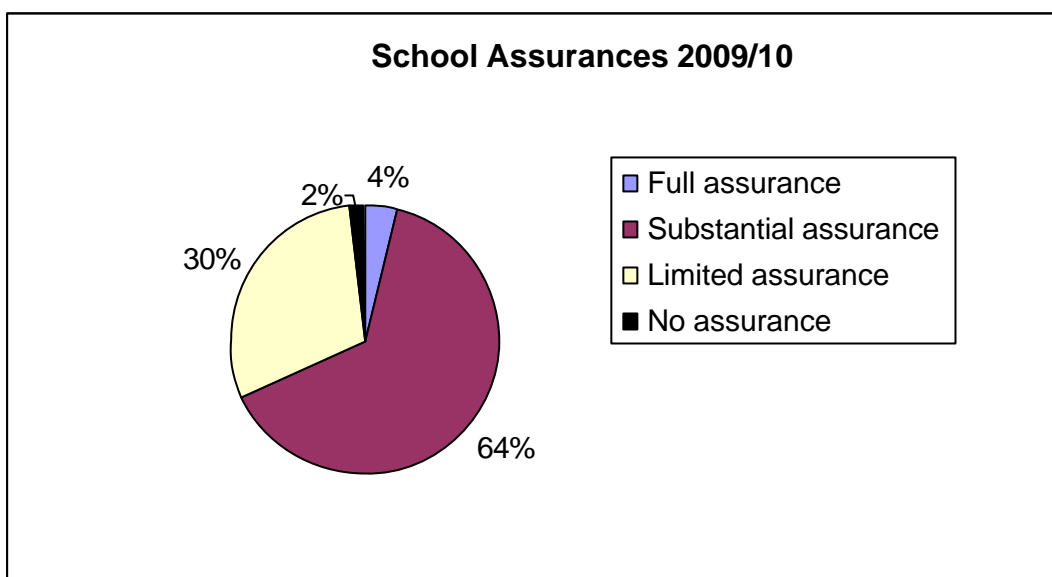
- Closure of 1 secondary school and 11 becoming Academies
- Closure of 2 primary schools and 4 becoming Academies

In total, the schools have budget shares for 2010/11 of around £353m, approximately 42% of the authority's revenue expenditure. 22 infant, primary or junior schools, 3 special schools and 17 secondary schools brought forward a deficit from 2009/10. This amounted to £3,220,050 (0.91% of total budget shares). This was an increase of 9 schools and £788,781. The number of schools with deficits is at similar levels to other authorities.

Of the 340 schools, 24 hold their financial information on local accounting systems rather than SAP. These 'prime account' schools submit quarterly, and year end returns showing summary information on their income, expenditure, assets and liabilities which must be added into the authority's accounts. At the end of March 2011 we completed 5 school audits to provide assurance that the details submitted were correct. Only minor adjustments to the schools' accounts were needed.

During 2010/11, we have completed 62 audit visits and it is pleasing to note that the majority of schools have full or substantial assurance and there have been no schools with an assessment of no assurance. The breakdown of assurances is given below alongside those from 2009/10 for comparison:





Individual assurance levels by school are shown in Appendix A.

In comparing the 2 charts the Committee should note that different schools have been visited in each year, however, our work shows those visited this year have improved processes and controls in place. The majority of these schools had completed FMSiS since its introduction in 2007. This comparison provides some evidence to suggest that various effort to encourage schools to apply good principles for financial management has had a positive impact.

The Committee should also be note that the 3 schools given a no assurance opinion in 2009/10 (The Peele School, The Banovallum School and Butterwick Pinchbeck Primary School) have been revisited in 2010/11. All show some improvement to full, limited and substantial assurance respectively.

We have followed up the recommendations made to other schools to confirm agreed management actions have been completed. The details of implemented recommendations are shown in the Internal Audit Annual Report.

Common themes identified by audits

During the course of audits we identified the following common themes where processes and controls need to be strengthened:

- The Finance Policy is not up to date and does not show details of delegation levels for committees or individuals to make spending decisions
- No medium term finance plan, the plan is not up to date or shows a deficit position for future years
- The School Development Plan is not clearly costed, or costs included are not linked back to the budget
- Outturn projections are not calculated, entered on SAP or reported to governors
- The register of business interests is not complete or not up to date
- There is no inventory, or the inventory is not up to date
- The charging policy is not up to date or the information included is incomplete

- Income collected is not always supported by adequate or complete records
- The school have not considered and produced a Statement of Internal Control for the last year
- The documents to support school fund transactions are incomplete, or there is no evidence to confirm authorised officers see payment documentation when they sign cheques

Working with Children's Services and Schools Finance Team we continue to emphasise the importance of these controls to schools through training and guidance.

The school's senior management team and governing body are responsible for ensuring that audit recommendations are implemented. This is set out within the school's own Finance Policy.

Investigations

Over the last year the Counter Fraud and Investigations Team have investigated four cases of fraud or financial irregularity within schools. Two were highlighted by whistleblowers, one by management and one identified during a routine internal audit visit. Two of the four cases involve significant losses and have been referred to the Police – these investigations are still in progress and no further detail can be released, at this stage. Of those cases we have completed, the maximum sanction was applied and the individuals involved were dismissed for gross misconduct.

We had one successful prosecution last year involving a former administrator of a primary school – this fraud involved the School Fund and resulted in a £33k loss. We are currently recovering the loss through a compensation order and our insurers.

Common themes within these fraud cases include:

- lack of management oversight
- over-reliance on key individuals in positions of trust
- non-compliance with the basic controls detailed in the School finance handbook
- failure to properly segregate duties
- vulnerability of the School Fund
- lack of knowledge and understanding of the key documents governing financial management within schools: Scheme for Financing Schools, Schools Finance Handbook and the school's own Finance Policies

In the Autumn we plan to raise awareness of the risks within the school environment by running sessions at headteacher and governor forums highlighting issues around governance, fraud, whistleblowing and internal control.

Other school related audits

We have completed 2 other school related audits during the year:

Budget Share Calculation 2010/11

The audit was given substantial assurance. We confirmed that the process followed to calculate and check the budget share calculation for 2010/11 ensured it was completed in accordance with the formula. The issues we raised were that:

- Mouchel Schools' Finance Team needed to be suitably resourced with sufficient appropriately experienced staff to perform and check the calculation
- Mouchel checking arrangements needed to be improved to ensure that 'checker(s)' have sufficient time to perform validation checks. Checker(s) need to check the calculation with minimum disruption.

Management agreed that sufficient staff would be available to complete and check the 2011/12 calculation. They would also maintain a log of any issues that arose during the process to consider as part of the 'end of calculation' review.

Schools Financial Monitoring

We have given substantial assurance for this review. We confirmed that Children's Services and Mouchel Schools' Team are completing the monitoring that is expected under the Monitoring & Intervention Policy, and the Mouchel service level agreement. The audit identified areas in which this could be improved and more pro-active action taken, particularly in relation to schools that have, or are projected to have deficits. However, this would require additional resources at a time when funding is limited and the number of schools in deficit is comparable to other authorities. We are in the process of agreeing management responses with Children's Services.

Financial Management Standard in Schools (FMSiS)

In November 2010, the government withdrew the Financial Management Standard in Schools (FMSiS) with the promise of a simpler replacement. The proposed replacement is provisionally called the Schools Financial Value Standard (SFVS) and is a self assessment for governors to complete through discussion with Headteachers and other school finance staff. It covers many elements of FMSiS, is likely to be completed annually and will be submitted to the Local Authority for reporting purposes. However, the SFVS does not specify the evidence to be seen by governors when they make their assessment and it does not need independent review.

We have contributed to the LA response to government consultation on the SFVS which ended 30 April 2011. Our key concerns were:

- Governors would not have the time to develop the skills and knowledge to adequately assess financial management arrangements against the SFVS
- There is no prescription for the evidence or assurances governors should receive when making their assessment

- The LA and Audit resources needed to chase information for reporting by the S151 Officer and support schools where they identify weaknesses
- It is not clear what sanctions there are if schools fail to meet the SFVS

The final version of the SFVS is due by Summer 2011. Schools who did not achieve FMSiS will be the first to complete it and submit their assessments to the LA by March 2012.

Conclusion

The outcomes of school audit work during 2010/11 have generally been positive with most given substantial assurance. The issues identified demonstrate that we need to maintain our review over schools to ensure they appropriately manage their finances and operate adequate controls.

Consultation

a) Policy Proofing Actions Required

NA

Appendices

These are listed below and attached at the back of the report	
Appendix A	Details of School Assurances

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, who can be contacted on 01522 553692 or Lucy.pledge@lincolnshire.gov.uk.