

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

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| Report to: | <b>Audit Committee</b>                         |
| Date:      | <b>09 July 2012</b>                            |
| Subject:   | <b>Summary of School Audit Work in 2011/12</b> |

**Summary:**

To inform the committee of the work we have completed in relation to schools during 2011/12.

**Recommendation(s):**

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

**Background**

During 2011/12, we have continued to undertake our programme of audits at maintained schools. The audit visits provide an assessment of the school's control environment for headteachers, school governors and Children's Services.

As our audit visits are planned for a five-year cycle, this year we have also added interim 'healthcheck' visits to our audit plan. These focus on key areas such as budget setting, budget monitoring and medium term financial planning, and allow us to confirm schools are maintaining sound financial management arrangements. We are also using these visits to ask schools to make a self assessment of the controls within their financial processes and to follow up the implementation of previous audit recommendations.

This report summarises the outcomes of school audit visits for the Committee, along with details of investigations we have conducted in schools.

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 312 schools. These are:

- 25 secondary schools
- 261 infant, primary and junior schools
- 5 nursery schools &
- 21 special schools

The reduction in maintained schools since our previous report to the Committee in June 2011 (there were 340 schools) is due to the continuing conversion of schools to become Academies.

In total, the schools have budget shares for 2011/12 of around £303m, approximately 60% of the authority's revenue expenditure. Twelve infant, primary or junior schools and ten secondary schools brought forward a deficit from 2010/11. This amounted to £2,137,540 (0.65% of total budget shares), which was a decrease of twenty schools and £1,082,510. This change is due to:

Primaries:

- 1 school converted to become an academy
- 14 schools recovered their deficit
- 5 generated deficits within 2010/11

Secondaries:

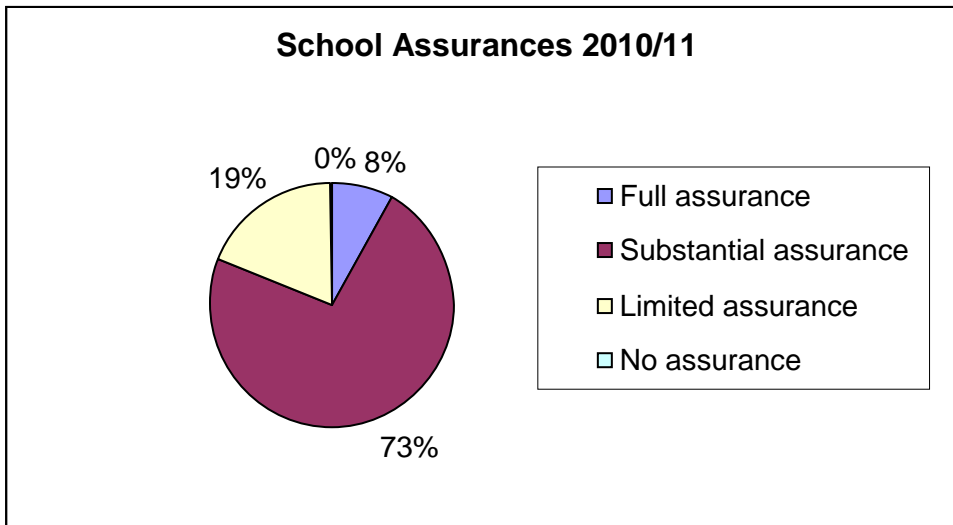
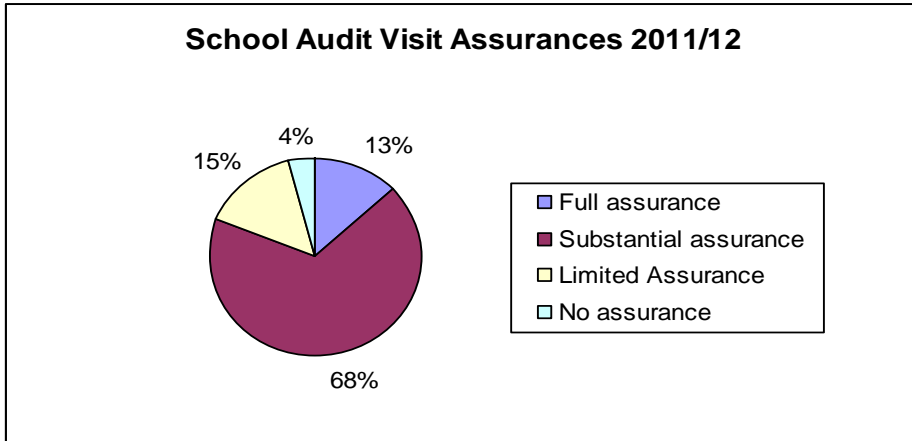
- 6 schools converted to become academies
- 3 schools recovered deficits
- 1 school generated a deficit

The percentage of maintained schools with deficits dropped from 12% at the end of 2010 to 7% at the end of 2011.

Of the 312 schools, 14 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. As the number of 'prime account' schools has fallen, external audit confirmed they were happy for us to complete three school audits to provide assurance that the details submitted were correct. We made only minor adjustments to the schools' accounts.

During 2011/12, we have completed 52 audit visits to schools. We continue to find that the majority of schools have full or substantial assurance – more schools have actually received full assurance this year. There are two secondary schools where our opinion was No Assurance. We will revisit these schools during 2012/13 to confirm the management actions agreed have been implemented.

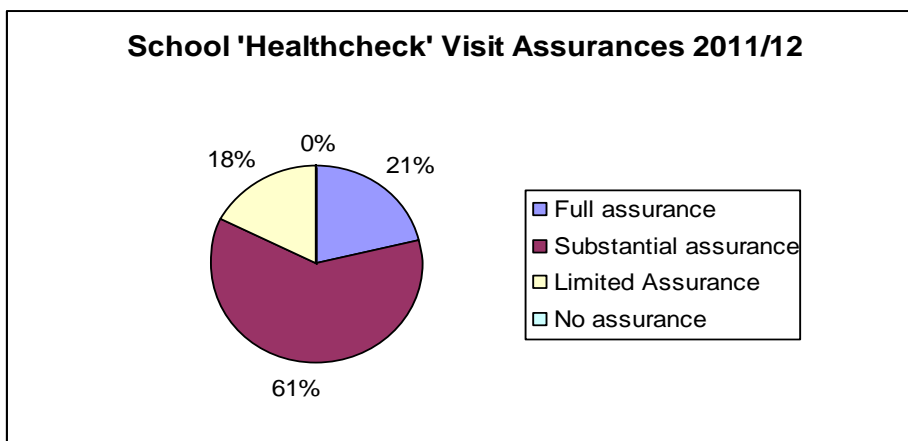
The breakdown of assurances is given below alongside those from 2010/11 for comparison:



Individual assurance levels by school are shown in Appendix A.

In comparing the two charts the Committee should note that different schools have been visited in each year.

In addition to the audit reviews, we have also completed 28 one-day ‘healthcheck’ visits that have a different level of coverage – they provide an overview based on information provided by the school rather than transactional testing. The results are shown below:



These visits reflect a similar breakdown of assurances given as a result of an audit visit.

We continue to follow up the recommendations made to schools to confirm agreed management actions have been completed. We are currently undertaking this exercise and any exceptions will be reported to Children Services and the Audit Committee in the normal way.

### **Common themes identified by audits**

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

- There are few schools that do not have a medium term finance plan, but we find plans that are not complete / up to date or show a deficit position for future years and the plan is not being used pro-actively to identify ways to address financial pressures
- 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. In addition, where processes to collect, bank and record income do not involve more than one person, supervisory checks are not always completed
- The Finance Policy is not up to date and does not show details of delegation levels for committees or individuals to make spending decisions
- The information provided to governors for them to approve and monitor the budget is not always detailed enough to allow for informed decision-making. This is particularly the case when reporting to the full governing body.
- The school does not have an inventory or is not being kept up to date when new items are purchased
- The register of declaration of business interests is not complete or not up to date. Meeting agendas and minutes of the governing body and their sub committees do not reflect an opportunity for governors to declare an interest in a specific issue that is being discussed
- Income collected by schools is not being banked before insurance levels for cash holdings are exceeded.

Six of these themes are the same as highlighted in 2010/11. In conjunction with Children's Services and Schools' Finance Team we continue to emphasise the importance of these controls to schools through training and guidance.

On a positive note, in the schools visited this year we found fewer issues around:

- ✓ costing of the school improvement plan
- ✓ the calculation and reporting of projected outturn against the school's annual budget
- ✓ the standard of records maintained to support transactions through school funds.

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

## **Academies**

An increasing number of the county's maintained schools are becoming academies. Whilst academies are not legally required to have an internal audit service (unlike an external audit service that reports on a 'true and fair view' of the accounts), we are keen to maintain our relationship with these schools. We believe we can support them in establishing effective risk, governance and internal control arrangements that protect and strengthen the academy and 'protects the public purse'.

With a proven track record in auditing foundation, aided and community schools in Lincolnshire, we believe no one is better placed to provide an informed, committed, local service. We are actively marketing our services to academies.

## **Investigations**

During 2011/12 we received two referrals involving suspected fraud and/or financial irregularities within schools. Both cases were referred via the County Council's whistleblowing mechanism and led to formal investigations. One case has been referred to the Police and their enquiries are still ongoing – appropriate sanctions have been applied in all cases and those involved are no longer employed by the Council.

Over the last few years we have investigated a small number of frauds within the school environment. The overall impact on the control environment within schools is not material; we do, however, recognise that the financial and reputational damage to those schools affected can be significant. We have attempted to address these fraud risks by raising the profile at headteacher and school governor forums. These sessions were well attended and included a detailed case study based on a high profile school case within Lincolnshire and tips for headteachers to reduce the fraud risks within their schools.

We had one successful prosecution - a former administrator at a Lincolnshire Primary School was sentenced to two years imprisonment after admitting fraud, theft and obtaining money transfers by deception amounting to £142k – actual losses were estimated to be in the region of £200k. We are recovering the loss through the perpetrator's assets (under the Proceeds of Crime Act), personal pension and the Council's insurers.

Lincolnshire schools have their own whistleblowing policies and continue to utilise the confidential reporting and investigation service operated by the Council's Counter Fraud and Investigation team.

**Conclusion**

The outcomes of our school reviews continue to be positive with the majority receiving either full or substantial assurance. Our work highlights that there are schools where significant improvements to governance, financial management and internal control are still needed. We need to maintain our reviews to provide advice and support to schools and report to management on how to improve and strengthen procedures.

**Consultation**

**a) Policy Proofing Actions Required**

n/a

**Appendices**

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|---|------------------------------|
| 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.