



Regulatory and Other Committee

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

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| Report to: | Audit Committee |
| Date: | 24 June 2013 |
| Subject: | Summary of School Audit Work 2012/13 |

Summary:

To inform the committee of the work we have completed in relation to schools during 2012/13.

Recommendation(s):

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

Background

During 2012/13, 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.

Our audit visits are undertaken on a five-year cycle, and during 2012/13 we also completed a number of interim 'healthcheck' visits. 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 April 2012, Lincolnshire County Council maintained 308 schools. These were:

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

By March 2013, the numbers had reduced to 261 with further schools converting to become Academies during the year.

In total, the schools have budget shares for 2012/13 of around £281.5m. Twelve infant, primary or junior schools and seven secondary schools brought forward a deficit from 2011/12. This amounted to £1,366,593 (0.49% of total budget share), a reduction of £770,847 when compared to the figure at the end of 2010/11. This change is due to:

Primaries:

- 8 schools recovered their deficit
- 8 generated deficits within 2011/12

Secondaries:

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

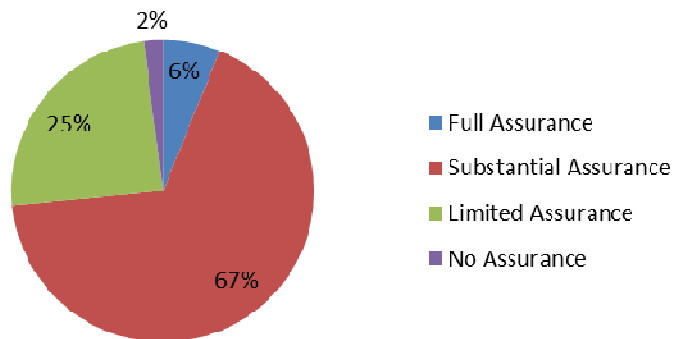
The percentage of maintained schools with deficits reduced to 6% at the end of 2011/12, compared to 7% at March 2011.

Of the 208 schools, there are 10 that hold their financial information on local accounting systems and during 2012/13 we completed audit visits to 5 of these schools. 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. In previous years we have undertaken 'year-end' audits at a sample of schools to provide assurance to the external auditors that the details submitted were correct. This year we were not asked to undertake this work, however, we re-visited 2 of the previously audited schools to support them with the completion of the returns.

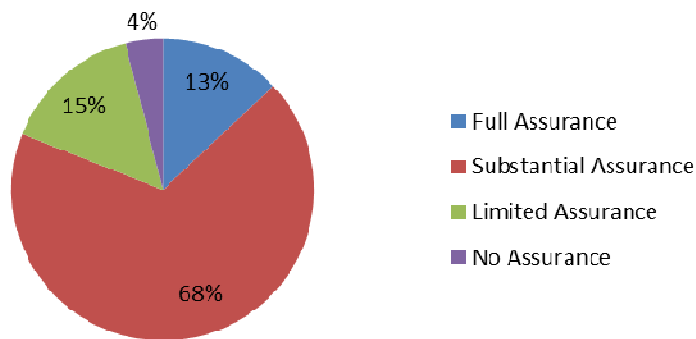
During 2012/13, we have completed 49 'full' audit visits to schools. Although more schools have been given limited assurance this year, we continue to find that the majority of schools visited (approximately three quarters) have full or substantial assurance. Just one school was given no assurance – we have already re-visited this school to provide support with their submission of year end information, and seen that they are actioning our recommendations. We will follow up progress again later in the year.

The breakdown of assurances is given below alongside those for 2011/12 for comparison:

School Audit Visit Assurances 2012/13



School Audit Visit Assurances 2011/12



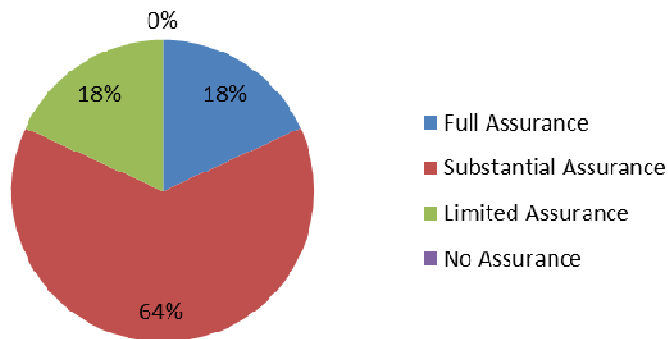
Individual assurance levels by school are shown in Appendix A.

In comparing the 2 charts the Committee should remember that different schools have been visited each year

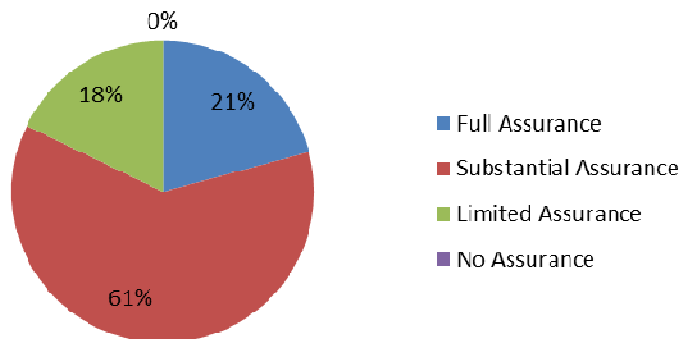
In addition to the 'full' audit reviews, we have also completed 19 one-day 'healthcheck' visits that have a different level of coverage.

The results are shown below, also with the details from 2011/12 for comparison:

School 'Healthcheck' Visit Assurances 2012/13



School 'Healthcheck' Visit Assurances 2011/12



The assurance levels given this year are very similar to those for 2011/12 and reflect a similarly positive message as the 'full' audit visits.

We are currently in the process of following up management actions for schools audited in 2012/13, and also where there are outstanding items for visits in 2011/12. 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.

Generally we have found that schools are implementing our recommendations.

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:

- A school's Finance Policy should set out its financial governance arrangements. We find policies that are not up to date and that do not show details of delegation levels for committees or individuals to make spending decisions. Details of staff delegated to approve payroll claims are also often missing
- All schools we have visited now 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
- 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 charging & remissions policy is not up to date or the information included is incomplete
- The register of declaration of business interests is not complete or not up to date.
- 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

These issues are the same as our findings from work in 2011/12. We continue to work with Children's Services and Schools' Finance Team to emphasise the importance of these controls to schools through training and guidance. In addition, we plan to highlight these key themes and the controls expected through a 'top tips' article in the Schools' Bulletin in the autumn.

Future arrangements

As school funding arrangements changed in April 2013, we are no longer able to undertake a programme of 'healthcheck' visits to maintained schools. However, we are offering this service to schools for a fee and have had some interest. We will continue to actively market this to schools as we believe it provides a useful mechanism for Headteachers and Governors to gain assurance on their financial management arrangements between planned audit visits. This can be of particular benefit where there is a change in Headteacher or Finance Officer during the five year period.

In 2011, the DfE introduced the Schools Financial Value Standard (SFVS) to replace the Financial Management Standard in Schools (FMSiS). The SFVS is a self-assessment to be completed by schools and does not require any external or independent assessment. However, as all maintained schools have now submitted their first return (at 31 March 2013), we will consider how schools have assessed themselves when we complete our audits.

Academies

During 2012/13 we have been marketing our internal audit service to Academies. Whilst academies are not legally obliged to have an internal audit service, they must have arrangements in place for independent checking of financial controls, systems, transactions and risks. We are pleased to report that we are providing this service to eight Academy Trusts, supporting them in establishing effective risk, governance and internal control arrangements that protect and strengthen the academy.

Investigations 2012/13

In 2012/13, the Counter Fraud & Investigation Team was commissioned for 6 full investigations from schools. Most were grievance or conduct issues and being non fraud issues the costs of investigation were charged back to the schools or Children's Services.

Two cases did have elements of fraud, though these were relatively minor issues, compared to some high value frauds we have seen in preceding years. Both cases highlight the importance of our networking with schools to assist them to identify risks and remain vigilant:

- One case involved invoicing scams, which is an issue nationally. Companies target small businesses with false invoices and particularly favour schools. We regularly update the school bulletin with information on the ever changing identities and methods of these companies
- In the second case, a former member of staff accessed information on the school's IT network. The individual was reported to the police and cautioned for an offence under the Computer Misuse Act. The school has now tightened its IT security practices.

Lincolnshire Schools continue to have access to the LCC whistleblowing mechanism and in this financial year (i.e. since 1 April 2013) we have had 3 calls to the whistleblowing line with financial and governance concerns regarding schools. One of these has resulted in a preliminary investigation and a second is being addressed through an Internal Audit visit. The other issue was resolved.

We have also recently provided advice to a member of staff at an Academy through this mechanism. Potentially this demonstrates a need for the service in Academies and we are considering ways that it can be marketed to Academies alongside other audit services.

Conclusion

The outcomes of our school reviews continue to be positive with the majority receiving either full or substantial assurance. We receive good feedback from our audits and schools generally welcome the advice and support we provide.

Our work highlights that there are still schools where significant improvements to governance, financial management and internal control are needed. Maintaining a

programme of audits is important 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.

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