



## Regulatory and Other Committee

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

Report to:	<b>Audit Committee</b>
Date:	<b>27 January 2014</b>
Subject:	<b>Supporting sound financial management and internal control in schools and academies.</b>

#### Summary:

To update the committee on ways in which Children's Services, the Mouchel Schools' Finance Team and Internal Audit support schools to improve their financial management and internal control arrangements. The report also provides information on the assurance framework set out for academies by the Education Funding Agency.

#### Recommendation(s):

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

#### Background

In June 2013, we provided a report to the Audit Committee on our work with schools during 2012/13. This report highlighted an increase in the number of schools given Limited Assurance following an audit visit when compared to previous years. It can be difficult to compare results year on year as a different group of schools is visited and during 2012/13 we visited a number of schools that had not been audited for some time.

The report prompted members to ask how the Authority works with schools to address the issues our audits identify. This report provides details of the mechanisms that Children's Services, Internal Audit and the Mouchel Schools' Finance Team have in place to support schools to improve financial management and internal control. Whilst we are able to influence and advise schools, delegation means that a school's Headteacher and Governing Body are ultimately responsible for ensuring arrangements are adequate and protect staff, the school and the public purse.

At April 2013, the authority maintained 261 schools with budgets totalling around £281.5m.

## **Maintaining sound financial management arrangements and the control environment in local authority schools**

### **The Governing Body**

Under the School Standards & Framework Act 1998, each local authority determines the size of the Individual Schools Budget and allocates this between schools using an approved funding formula. The Government's school funding reforms for 2013/14 have reduced the number of factors that are used to calculate budget shares and further changes to the funding formula are proposed for 2014/15. The local authority delegates the budget to a school's governing body.

The financial controls within which delegation works are set out in a Scheme made by the local authority and approved by the Secretary of State. Periodically the DfE directs local authorities to make changes to their schemes and local changes may also be made. Any amendments to schemes must be consulted on with all maintained schools and be approved by the Schools Forum. Under Lincolnshire's Scheme for Financing Schools, the governing body is responsible for the management of the school's delegated budget.

Specific roles and responsibilities for financial management and the operation of financial controls are set out in a school's Finance Policy. The local authority has provided a framework document that can be adapted to suit the specific needs of a school. A copy of the framework finance policy is attached as Appendix A.

### *Schools Financial Value Standard (SFVS)*

In September 2011, the DfE launched the new SFVS after the Financial Management Standard in Schools (FMSiS) was withdrawn by the Secretary of State from 15<sup>th</sup> November 2010. The SFVS is a tool to assist maintained schools in managing their finances and to give assurance that they have secure financial management in place. The Standard also requires that schools consider and assess their internal control arrangements and how they protect the public purse. A copy of the Standard is attached as Appendix B.

Maintained schools are required to complete the SFVS once a year. As governing bodies have formal responsibility for the financial management of their schools the standard is primarily aimed at governors. There are 23 questions that governors should formally discuss with school staff to assess the adequacy of the arrangements they have in place. Any gaps should be highlighted and addressed through an agreed action plan. A copy of the completed Standard and a declaration signed by the Chair of Governors must be sent to the local authority each year. The Council's Director of Resources then submits a statement to the DfE confirming that all schools have completed the SFVS.

In 2012/13, only two schools failed to complete the SFVS: one of those was a special school that was due to close and the other was a special school that was subject to a significant change in management.

Unlike FMSiS, the SFVS is not externally assessed. The DfE's guidance states that:

- there is no prescription of the level of evidence that the governing body should require
- the important thing is that governors are confident about their responses
- local authorities should use schools' SFVS returns to inform their programme of financial assessment and audit and
- when they conduct an audit, local authorities can check whether the self-assessment is in line with their own judgement.

As part of our internal audit work, we review the completion of the SFVS when we visit a school but we do not specifically look at the evidence presented to governors when they make their assessment. Our audit programme covers 16 out of the 23 questions, and therefore we are able to provide the school's management and Children's Services with an independent view on these elements to compare with the governors' self assessment.

### **Children's Services**

Since delegation of budgets to schools in 1990, Children Services has continued to provide comprehensive training to governors, headteachers and other school staff and has developed key documents to help schools with their financial management (e.g. finance handbooks, the medium term finance plan, budget monitoring reports, finance policies, etc).

Monitoring of schools finances takes place twice per year, but has, due to the level of resource, necessarily been very high level. School census data is used by Children's Services to undertake their review over school budgets in December each year.

The success of the local authority's approach to helping schools improve their financial management is shown by the reduction in the number of schools that now have deficits. At the end of 2012/13 numbers had decreased by fifteen, from nineteen to four. The number of schools with overspends comprised:

- 1 (0.4%) primary school (2011/12 – 12 schools)
- 2 (18%) secondary schools (2011/12 – 7 schools)
- 1 (5%) special school (2011/12 – 0 schools)

It is notable that:

- The total value of deficits at the end of 2012/13 decreased by £1.185m to £0.181m.
- The deficits in each sector at 31 March 2013 were:
  - primary sector: £0.011m.
  - secondary sector: £0.120m.
  - special sector: £0.051m.
- Apart from 2009/10, the number of schools with deficits has fallen every year since a peak of 65 at 31 March 2003 (as stated above, there were 4 schools with deficits at 31 March 2013). Although the conversion of many secondary

schools to academies in the last two years will have assisted with that improvement, this is a notable achievement over a long period of time.

To further support schools' finance management, the current review of the Scheme for Financing Schools by Children's Services includes a proposal that all schools be required to submit a Medium Term Finance Plan (MTFP) to the local authority with the annual budget each year. The plan is critical to effective financial management in schools and has often been highlighted as a weakness in audits (generally plans having errors, not being up to date or showing future potential budget deficits). The local authority will undertake high level checks on schools' MTFP and any key points or concerns will be fed back to schools. This will help to ensure plans are completed and details are realistic.

More detailed work will continue to be undertaken with the schools that have overspends. Schools with limited assurance are raised with the School Improvement Service through the Schools Causing Concern process. If there are serious concerns about a school, Children's Services will call in the Headteacher and Chair of Governors. The Council very rarely withdraws delegation from schools, this is a last resort and there are significant resource implications which would usually be unmanageable. There are no dedicated monitoring resources at operational level as funding is delegated to schools.

### **Mouchel Schools' Finance Team**

The support service provided by Mouchel Schools' Finance Team is a 'buyback' service purchased by schools when they opt to use the authority's financial system SAP. Their role is to administer the system and provide a high level oversight, rather than looking at each school's financial transactions in detail or managing them.

The Schools' team provides day to day review and support to schools through:

- a helpdesk giving advice on using SAP, accounting practice and policies
- monthly monitoring and reporting from SAP to make sure financial information is complete and up to date. Schools are contacted to ask that they correct any errors or omissions
- monitoring & intervention of schools' finance – input to the school budget monitoring group, follow up with schools to highlight issues causing concern, review of finance plans and outturn projections. Face to face reviews with primary schools that have overspends
- school business support service – schools can pay for a more tailored service including on site training, production of finance plans, budget setting, bespoke governor training and benchmarking.

The team also provides a range of training courses and practical workshops that Headteachers, school finance staff and governors can attend for free. These include:

- Governor training – Overview of Financial Management
- Sessions on Current Financial Topics

- Finance for new Administrators
- Financial Management
- Financial Management for new Headteachers
- Medium Term Financial Planning / MTFP workshops
- Budget Preparation sessions

The schools that hold a 'prime account' do not buyback into the schools' team support service, although they can attend training. Oversight of these school budgets is more difficult as officers in LCC and Mouchel cannot access their financial information on an ongoing basis. However, the number of 'prime account' schools has reduced over recent years – there are now just eight.

### **Internal Audit**

Internal Audit has a five year rolling programme of planned internal audit visits to the county's maintained schools. During audit visits they review processes and controls by talking to key staff and examining records. The systems covered range from review of financial policies and plans to budget setting, use of bank accounts, procurement cards and imprest accounts. They also review the operation of the voluntary 'school fund' and confirm that it is regularly and independently audited.

Internal Audit communicates the results of their work in an Audit Report which includes an overall opinion on the adequacy of the schools financial arrangements and recommendations to improve financial controls. These reports are shared with the Headteacher, Chair of Governors, Children's Services and the School Improvement Service (CfBT).

Internal Audit monitor the implementation of agreed management actions through the recommendation tracker twice a year.

There are other ways in which Internal Audit contribute to maintaining the control environment and help give assurance to Children's Services and governing bodies:

- Daily contact with schools to provide advice and guidance on risks and controls within financial processes, introducing new processes (such as cashless income systems) and the application of financial procedures
- Providing a short session and information on risks and expected controls within schools' financial processes at the financial management training days set up by Mouchel Schools' Finance Team
- Ad hoc updates to schools on internal controls and potential fraud risks / scams through mechanisms such as the Schools Bulletin and Audit Lincolnshire's own website.

Internal Audit also offer interim assurance visits to schools at a cost which they meet from their own budgets. They are designed to offer Headteachers and Governors additional assurance on their financial management and internal control arrangements between the five yearly visits.

## **Academies – financial management and internal control arrangements**

The relationship between an Academy and the Secretary of State for Education is set out in the academy's funding agreement. This legal document defines the academy's duties and responsibilities to effectively manage their financial affairs, and is supported by the Education Funding Agency's (EFA) Academies Financial Handbook. The latest version of this was issued in September 2013.

The Board of Trustees are responsible for the proper stewardship of the funds held by the academy, and must ensure economy, efficiency and effectiveness in their use. The Board must also follow guidance on accountability and propriety, being aware of publications from the Charity Commission including Internal Financial Controls for Charities.

In the Academies Financial Handbook, the EFA sets out a number of mechanisms and requirements to provide Parliament with assurance on financial management and internal control within academies. These include:

- Defining the specific accountability of the Trust's Headteacher or Principal (as the Accounting Officer) to Parliament. The role has personal responsibility for ensuring regularity, propriety and value for money. The Accounting Officer is also responsible for keeping proper financial records and managing risks
- The Accounting Officer's annual statement on regularity, propriety and compliance that must be included within the academy trust's annual report
- A review of the Accounting Officer's statement by the trust's external auditors as part of their year-end audit of the accounts
- Self assessment of financial management and governance (completing the EFA's Financial Management and Governance self-assessment: FMGS) where financial statements are not produced in the first year of operation
- Producing and following a finance manual that sets out financial procedures, controls, key roles and responsibilities and delegated levels of authority within the academy
- Having an Audit Committee, or adding the responsibilities of an audit committee to the remit of another committee. Since September 2013, only Trust's with income over £10m or capitalised assets over £30m must have a dedicated audit committee
- A requirement to maintain a risk register identifying and assessing the risks arising from its operations, how these are being managed or mitigated and that this is regularly reviewed
- Annual external accounts of the academy's accounts by a registered auditor

Academies are not legally required to have an internal auditor. However, the committee with audit responsibility must review the risks to internal financial controls and must put in place a mechanism for independent checking of financial controls, systems, transactions and risks. Options for this include:

- An internal audit service
- A programme of supplementary work completed by external auditors

- A 'responsible officer' who is a non-employed trustee and is not paid for the work completed
- A 'peer review' by an appropriate member of staff from another academy trust

Audit Lincolnshire provides this service to nine Academy Trusts, supporting them in establishing effective risk, governance and internal control arrangements that protect and strengthen the academy.

## **Conclusion**

A maintained school's headteacher, management team and governing body are responsible for applying good financial management and maintaining an effective control environment.

A number of mechanisms are in place to support schools, and advice on how to improve financial management and internal control is always available through either Mouchel Schools Finance Team or Internal Audit.

Detailed guidance and training is available to support school staff and governors, but accessing this advice is down to each individual school.

Lincolnshire continues to undertake monitoring at a 'high level' rather than maintaining significant capacity which would enable more robust and detailed monitoring of school budgets.

Responsibility for an academy's financial affairs lies with its Accounting Officer and Board of Trustees. The EFA has put in place a framework for academies to follow to support sound financial management and appropriate internal control arrangements. Oversight is provided by a committee with 'audit committee' responsibilities, a mechanism for periodic independent checks on financial records and the external auditor.

## **Consultation**

### **a) Policy Proofing Actions Required**

n/a

## **Appendices**

These are listed below and attached at the back of the report	
Appendix A	Framework Finance Policy
Appendix B	DfE Schools Financial Value Standard
Appendix C	Summary of School Audit Work 2012/13

## **Background Papers**

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

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