

Summary of findings from school audits

1. Background

- 1.1. Cumbria Shared Internal Audit Service carries out a sample of school visits each year as part of the agreed Audit Plan. Individual audit reports are prepared for all schools visited and action plans agreed with the respective Head and provided to the Chair of Governors for information.
- 1.2. School audits provide independent assurance to the S151 Officer, Corporate Management Team and the Audit Committee that financial management arrangements are operating effectively. They also provide school managers and Governing Bodies with an independent assessment of the effectiveness of controls and governance processes associated with financial management.
- 1.3. As fewer school audits are now included in the annual internal audit plan and the frequency of visits has reduced it was decided to publish a composite report of common findings for the benefit of all schools. It is suggested that school managers and Governing Bodies undertake a self-assessment of their own arrangements against the common areas identified to ensure that appropriate controls are in place and operating effectively.
- 1.4. This composite report summarises the main recurring findings from the 18 school reviews recently undertaken (3 Secondary, 12 Primary, 1 Pupil Referral Unit and 2 Nursery Schools).

2. Audit Approach

2.1. Audit Objectives and Methodology

- 2.1.1. The audit objectives for school visits are to independently review and evaluate the effectiveness of the controls and governance processes relating to financial management. The evaluation of controls is undertaken by discussions with Head Teachers and School Administrators to establish the current control environment and then by conducting sample testing to evaluate the effectiveness of the actual controls in place.

2.2. Audit Scope and Limitations

A standard audit scope for Schools has been developed by Internal Audit in consultation with Children's Services Finance. This is used for all school audits and includes the following areas:

- Governance & Financial Management;
- Income;
- Payroll;
- Purchasing;
- Asset/Information Management; and
- Community Facilities (where schools provide these).

3. Summary of Main Audit Findings

- 3.1. Audits identified that Schools were not always aware of the guidance contained in the Cumbria LA Scheme for financing schools and PRU's, which set out the financial relationship between the local authority and maintained schools, or were not compliant with the Financial Regulations they include.
- 3.2. The main recurring issues are set out in Section 4 – Matters Arising and are summarised by scope area.

4. Matters Arising

4.1. Governance & Financial Management

Audit findings

(a) Policy for Financial Delegation

Sound internal control and accountability for financial matters can only be achieved by having clearly defined arrangements for the delegation of powers and responsibilities and the separation of duties. A documented and approved policy for financial delegation can provide this. A review of the various financial delegation policies held by schools identified several where:

- There was no evidence that the policy for financial delegation had been approved by Governors.
- The policy for financial delegation was out of date / not reviewed on a regular basis.
- The policy included staff no longer in post.
- The policy did not specify who was responsible for undertaking the various financial tasks.
- Actual financial delegation arrangements did not reflect the approved policy.
- The policy did not include a list of specimen signatures for the staff with delegated responsibilities.

(b) Other Policies required by the Cumbria LA Scheme for financing schools and PRU's

Several other policies, required by the Cumbria LA Scheme for financing schools and PRU's, were not held by schools, were out of date, incomplete or there was no evidence of approval by Governors. These included:

- Counter Fraud Policy
- Charging and Remissions Policy
- Debt Write-off Policy
- Write-off and Disposal of Assets Policy
- Whistleblowing Policy

In addition to the above

- The Charging and Remissions Policy did not include details of agreed charges.
- The Whistleblowing Policy had not been made available to parents / guardians.

(c) Minutes and reporting to Governors

Clear and comprehensive minutes of Governors' meetings can provide evidence that the GB are carrying out their statutory responsibilities. It is therefore

important that they provide a true and accurate record of the discussions held, information presented and decisions taken. Minutes of Full Governing Body and Finance (or equivalent) Committee minutes identified that many did not include sufficient detail, for example:

- There was no evidence of governor's approval of the school's budget / 3 year spending plan
- Minutes did not include the school's current budget position and latest forecast
- Minutes did not refer to the reports or documents being circulated
- Copies of the reports or documents were not held with corresponding minutes (FGB and Finance).
- Minutes did not include evidence that policies had been reviewed / approved.
- Finance reports and/or copies of Finance Committee minutes were not provided to the FGB.

(d) **Declaration of Interests**

Governors and staff have a responsibility to avoid any conflict between their business and personal interests and the interests of the school. This is essential for effective and accountable financial management of the school. Audit testing found the following:

- The register of business interests was found to be incomplete or out of date.
- The register did not include declarations from staff with delegated financial responsibilities.
- Governor declarations of interest were not published on the school's website.
- Declaration of Interests were not included as a standing agenda item for FGB / Finance Committee meetings or there was no evidence that declarations were being requested or recorded in the minutes of meetings.

(e) **Finance Committee (or equivalent) Terms of Reference**

Where Governing Bodies have established a separate Finance Committee there is a requirement that the governing body define in writing, and review on an annual basis, the terms of reference for the committee and the extent of its delegated authority. Audit testing identified that in some cases:

- The Finance Committee Terms of Reference (ToR) were not regularly reviewed by the FGB or there was no evidence of the document being reviewed or approved (either by reference *in FGB minutes* or *via signing & dating the agreed ToR*).

(f) **Financial Skills**

It is essential for the governing body to have access to adequate financial skills to ensure they can meet their statutory responsibilities for the financial management of the school. Audit testing in some Schools found that:

- The Financial skills for Governors and appropriate staff were not regularly assessed or no evidence of the required self-assessments taking place.

- Self-assessments were incomplete, not named, signed or dated to confirm who and when the assessments were carried out.
- The assessments were not completed by the individuals themselves, but by a third party.
- No provision was made to address training requirements raised as a result of the self-assessments.

(g) Financial / Operational Procedures

It is the responsibility of each Governing Body to ensure that an adequate and effective system of internal controls is operated (and regularly reviewed). This includes ensuring there are adequate and up-to-date written descriptions of all financial systems and procedures. Testing in some schools found that:

- There were no documented financial or operational procedures in place,
- The documented procedures were brief and did not describe in sufficient detail how each financial activity and process should be undertaken and how these are managed/reviewed.
- The documented procedures did not reflect actual practices or actual practices did not comply with those documented.

(h) School Fund

It is important that school voluntary, private and Trust Funds are managed and administered in accordance with statutory requirements and at least to the same standards as those applicable to the Council generally, to demonstrate good stewardship and the proper and effective use of this type of resource. Issues identified were as follows:

- School Fund accounts were not independently audited on an annual / timely basis.
- An audited statement of accounts was not provided to the Governors for information or there was no evidence in the minutes that this had taken place.
- Income due to the School's delegated budget was paid into the School Fund and was not subsequently transferred.

(i) Reconciliation

Audit testing on the controls in place around the reconciliation of school accounting systems to bank accounts and/or figures provided from the LA accounting system (E5) identified that:

- Records did not always indicate who had carried out the monthly bank reconciliations / e5 reconciliations.
- There was no evidence of bank reconciliations being independently reviewed or no independent review took place.

4.2. Income.

Audit findings

The Council expects schools to identify, raise and monitor debt for their service in a timely and efficient manner. It is the responsibility of school governing bodies to ensure that debt is both appropriate and correctly evidenced to ensure timely collection. Audit's review of the Schools' income systems and procedures identified scope for improvement in the following areas:

(a) Invoiced income

- Payment terms (*the number of days within which the invoice must be paid*) were not included on the invoices raised by the School.
- Invoices were not marked as paid or were not cross referenced to a receipt, to provide a clear trail of what has been paid and what needs chasing up.

(b) Receipts

- Income was not recorded / receipted.
- Receipt records were not totalled or cross referenced to the amounts banked.

(c) Outstanding Debts

- There was no evidence that outstanding debt was being reviewed or reported to the governors.

4.3. Payroll

Audit findings

Employee costs are the largest element of a school's expenditure. There is an expectation that any contracts entered into by the Governing Body for provision of payroll and HR services will incorporate the minimum standards, conditions and responsibilities required by the Assistant Director Finance (Section 151 Officer). In particular, the Council relies on terms within such contracts between schools and Payroll/HR providers to ensure that information is provided on employee costs for inclusion in the Council's accounts. Audit identified that:

(a) Payroll Contract

- There was no up to date payroll / HR contract in place or a copy of the contract was not available in school.
- Limited evidence that such contracts were being regularly monitored.

(b) Authorisation

- Payroll reports were not authorised or there was no evidence that they were being checked.
- Timesheets were not signed by the claimant or had not been authorised in accordance with the school's policy for financial delegation.

4.4. Purchasing

Audit findings

Schools should have adequately defined and effective controls in place for their ordering, checking and certification processes. This includes having systems in place to ensure all commitments are recorded and ensuring that defined responsibilities are complied with. Audit findings in this area included:

(a) Purchase Orders

- Purchase orders were not prepared, or were raised after receipt of the invoice, so authorisation to purchase was not evident and budget commitments were not clearly accounted for.

(b) Procedures

- Authorisation procedures did not comply with the approved policy for financial delegation.
- No separation of duties exists in the ordering & payment process.

4.5. Asset / Information Management

Audit findings

Assets include buildings, vehicles, furniture and equipment, computer systems, inventories and materials, money and investments; also less obvious things such as data and information. Each Governing Body should ensure that adequate and effective arrangements are operated for the care and custody of all assets for which they are responsible. Audit findings in this area included:

(a) Asset Register / Equipment Inventory

- There was no asset register in place or the record was inadequate / incomplete (*did not include purchase dates / values etc.*).
- There was no evidence that equipment listed was periodically being physically verified (to ensure it was still on site and in a safe/usable condition)
- There was no record maintained of software and that the required licences were held.

(b) Miscellaneous information Management

- Management were not aware of the guidance included in the Council's data retention policy.
- Passwords used to access information held on the school's systems were not regularly changed.
- No regular planned testing was undertaken to ensure that all essential computerised financial management systems can be readily restored.

4.6. Community Facilities

Audit findings

(a) Community Facilities

Community facilities are defined in the Education Act 2002 as *any facilities or services whose provision furthers any charitable purpose for the benefit of:*

- pupils at the school or their families, or*
- people who live or work in the locality in which the school is situated.*

Examples include out of school clubs, playgroups, leisure and recreational activities.

Overall community use should at least cover its own costs, so it is important to ensure that any income and expenditure associated with the use of facilities can be separately identified and reported as necessary. Audit testing identified that:

- Half yearly income and expenditure reports for Community Facilities were not being provided to Children's Services Finance (as stipulated in the Financial Regulations for Schools).
- There was no formal agreement in place between the School and the provider, where the provider was operating on school premises.