



School Funding and Services to Schools

City of York Council

Internal Audit Report 2014/15

Business Unit: Children Services, Education and Skills
Responsible Officer: Director of Customer & Business Support Services
Service Manager: Finance Manager, Children Services, Education and Skills
Date Issued: 30 January 2015
Status: Final
Reference: 15697/001

	P3	P2	P1
Findings	3	1	0
Overall Audit Opinion	Moderate Assurance		

Summary and Overall Conclusions

Introduction

Local authorities are required, under section 251 of the Apprenticeships, Skills, Children and Learning Act 2009, to prepare a budget statement setting out the proposed funding for each school under its authority. The majority of these funds are delegated to the school's governors to cover the costs of achieving the school's objectives.

In recent years the government has started a process to reform the school funding system to make it more consistent and transparent, with an intention to move towards a national funding formula for schools. Now schools across the country are funded using a number of clearly defined factors and with less local flexibility. £85m was allocated to schools in 2014-15 under these new arrangements.

The council provides a number of services to schools. Many of the services are provided as a statutory function of the local authority and are not charged for, whilst others are traded services that schools can choose to buy from the council using delegated resources. Schools spend £3.4m on council services. These services are currently being reviewed for 2015-16, with the aim of ensuring that they are commercially viable, good quality services that meet the needs of customers and add value to the work of the council.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the systems for both school funding and services to schools will ensure that:

- school funding has been correctly allocated based upon the formula agreed by the schools forum and consistent with central government requirements;
- source data can be relied upon and schools have received the correct amount of funding to which they are entitled;
- services provided to schools are commercially viable and prices are set appropriately;
- charges for traded services are raised accurately and promptly and receipt of charges is monitored by the relevant council department;
- arrangements exist to assess the quality of services delivered to schools.

Key Findings

It was found that the arrangements for calculating and allocating school funding are well-controlled. The Education Funding Agency (EFA) rigorously checks the annual funding allocations and makes challenges where appropriate. The census database is also subject to the same checking by the EFA. Source data can be relied upon and funding is being correctly allocated to schools in accordance with government policy. The Remit system is working accurately, although this process will become more efficient early in 2015-16 when the whole process is modernised: details will be uploaded directly onto schools' systems and copies of the remits themselves will be delivered electronically.

Area Reviewed: Invoices raised to Academies

2 Issue/ Control Weakness	Risk
Academies are not invoiced frequently enough.	<p>Long gaps between receipt of service and receipt of invoice will not aid academies with their budget management and is not an example of good customer care, possibly leading to the customer using an alternative provider.</p> <p>In addition, the council will not receive income in a timely manner for services supplied and there may be an increased risk that debts will have to be written off.</p>

Findings

Invoices are raised to academies to recharge for the cost of services that they have signed-up for and also to recharge any additional services used during the year, such as additional HR support, course fees and DBS charges. Over the course of the current and previous financial year, invoices for the academy selected for testing were raised as follows:

- in May, to recover charges from the previous financial year,
- in August or September, to recover the costs of the services charged in period 4
- January for any other costs which may have been charged to the school in addition to those signed-up for.

Invoices raised for additional services and costs were not for insignificant amounts. For example, the academy in the sample had invoices to the total value of £36,762 (net) raised in May 2013 and January 2014 for additional services not captured by the initial August/September invoice.

2.1 Agreed Action

There will be a fundamental review of all of the services that the Council provides to academies and this will include a review of the charging process.

Priority	3
Responsible Officer	Finance Manager, Children Services, Education and Skills
Timescale	30 June 2015

Area Reviewed: Obtaining Purchase Orders from Academies

3	Issue/ Control Weakness	Risk
	Official purchase orders are not supplied by academies for ad hoc requests.	Challenges by academies in respect of charges levied leading in turn to a delay in payment and even non-payment.

Findings

An annual invoice is raised to academies in August/September for the Services that have been agreed at the beginning of the financial year. In addition to these agreed services, schools will often purchase additional services via the council, such as training courses.

Academies do not supply an official purchase order number for the procurement of additional services. The invoicing system and ultimately the information supplied to academies would be less open to query if an order number was obtained upon request for a service and this order number was quoted on invoices. This arrangement would help with the process of achieving a more formal, customer-focussed attitude towards academies.

3.1 Agreed Action

We will instruct Service Managers to obtain a purchase order number from academies upon receipt of a request from an academy for additional services. To facilitate this, academies will need to be advised of this new procedure.

This will be done immediately but this issue will also be addressed as part of the previously mentioned fundamental review of the provision of services to academies; action 2.1).

Priority	3
Responsible Officer	School Business Support Manager
Timescale	31 March 2015

Area Reviewed: Availability of Charging Information

4	Issue/ Control Weakness	Risk
	Some charges to schools are not made available to be recharged in good time.	Late charges make budgeting and cash flow planning difficult for schools and create additional work for CBSS Finance.

Findings

The majority of charges for services to schools are posted each year to the individual school cost centre in the ledger in period 4 (July) by the School Business Support Service. In respect of the current financial year, charges for rates, cleaning and some insurance costs had still not been charged to the ledger at the time of the audit (October) for different reasons which include long term staff absence and a delay in finalising charges when the council withdrew provision of the school cleaning service. It was noted that, in 2013-14, some service charges were not posted to the ledger until period 9 (December).

If services are not able to provide information in time to meet the Period 4 recharge, school cash-flow will be skewed, as charges will not be deducted until later in the year, and CBSS Finance will need to enter additional journals and raise additional invoices to academies.

4.1 Agreed Action

We will instruct Service Managers to provide charging information by a deadline of 30 June. This audit report will be presented at the next available steering group meeting to share the findings and reinforce the need for the prompt provision of charging information.

Priority	3
Responsible Officer	School Business Support Manager
Timescale	31 March 2015

Audit Opinions and Priorities for Actions

Audit Opinions	
<p>Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Moderate assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

