



Schools Themed Audit - Budget Management

City of York Council

Internal Audit Report 2018/19

Business Unit: Children, Education and Communities Directorate,
Responsible Officer: Assistant Director Education & Skills
Service Manager: Head Teachers
Date Issued: 04/09/19
Status: Final
Reference: 15699/023

| | P1 | P2 | P3 |
|------------------------------|-----------------------|----------|----------|
| Actions | 0 | 2 | 3 |
| Overall Audit Opinion | Substantial Assurance | | |

Summary and Overall Conclusions

Introduction

Schools have the majority of their budget delegated to them. The Governors have a responsibility to ensure the school's finances are managed in a prudent manner. This requires the setting and approval of a realistic budget which is monitored at appropriate intervals in order that any unexpected variances are identified early and properly addressed. Budget monitoring reports should be presented to the Governing Body in line with timescales reported in the SFVS and scrutinised to provide challenge. Budget revisions where necessary must be approved in accordance with delegated authority.

The approved budget plan and termly budget monitoring reports (after they have been presented and agreed by Governors) must be submitted to the Authority in accordance with published timescales.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the systems in place at schools will ensure that:

- budgets are set in a prudent manner – ie are based on the most accurate information, take account of changing situations, and apply the principles of best value
- schools undertake forward planning and prepare appropriate multi-year financial plans
- budgets are set, approved and submitted in line with CYC timescales
- budget monitoring reports are timely and presented to the relevant people
- minutes show evidence that Governors are thoroughly scrutinising the reports, and that they are informed about all variances and provided with an appropriate explanation
- necessary changes to the budget are approved in accordance with delegated authority
- there are appropriate plans in place to manage any surpluses or deficits

The audit reviewed the procedures in five maintained schools

Carr Junior School

Dringhouses Primary School

St Barnabas CE Primary School

St George's RC Primary School

St Oswald's CE Primary School

Key Findings

Budgets at the schools visited were based on accurate information although some errors and omissions in the start and revised budgets were found in the case of one school. Good procedures were in place for analysing previous year's outturn to inform the start budget and ensuring the financial effects of changes are taken into account when budgets are set. However, some actions to ensure a best value budget had not always been applied. These included benchmarking (which had only been completed at one school for 16/17 data) and evidencing of annual review of all service contracts.

Minutes of meetings included sufficient detail, evidenced effective challenge and recorded forward planning discussions and decisions.

Outturn statements, start and revised budgets were not always produced and submitted to CYC Finance in line with required timescales and termly monitoring reports were not always presented to Committee before submission. This was generally due to Finance Committee and Full Governing Body meetings not being scheduled to coordinate with the CYC returns timetable.

Monitoring reports were presented to the Headteacher and to Governors in an appropriate format at all schools and were accompanied by notes on the main variances. However, the timeliness of action taken to address discrepancies and variances between actual (or potential) spend compared to the current budget was effected by the frequency of budget monitoring which varied between schools and had been conducted only termly during 2017/18 in some cases.

For PFI schools variances may occur in the PFI budget due to timing issues and this can have a significant effect on year end outturn balances. It was found that the PFI position had not been adequately reported to Governors during 17/18 for one school.

Changes between the start and revised budget were approved in accordance with delegated authority.

Two of the schools visited had a significant surplus outturn for 17/18 and have effective spending plans in place for 18/19. Two schools had significant 17/18 year end deficits and have approved deficit budgets for 18/19 and are working with CYC Finance in order to manage the deficits appropriately.

Overall Conclusions

It was found that the arrangements for managing risk were good with few weaknesses identified. An effective control environment is in operation, but there is scope for further improvement in the areas identified. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

1 Frequency of Budget Monitoring Reports

Issue/Control Weakness

Budget monitoring at some schools is not carried out with sufficient frequency to maintain effective control of the budget.

Risk

Budgets are inaccurate and variances are not identified in time for appropriate action to be taken.

Findings

For the five schools visited the frequency of producing profiled budget monitoring reports varied significantly. In the case of three schools profiled monitoring reports had been produced only termly during 17/18 due to the time taken to compile the reports and the limited resources available. All had issues with over/under estimation of income and omissions or significant variations in expenditure from the original start budget and between revised budget and the final outturn. Some of these variances were due to unforeseen circumstances (eg pupil mobility) or use of unfinanced resources (eg 1to1 pupil support). For one school the Governors had raised concerns over the level of discrepancies and the accuracy of the information the original budget was based on. In particular items of expenditure had been omitted in error from the start budget and the level of pupil premium funding over estimated. For two of these schools a deficit budget was required for 18/19 (requiring a move to half termly reporting) and a there was a significant carried forward surplus for the third school which had not originally been budgeted for.

Although some schools produce unprofiled monitoring reports more frequently, other schools have been operating only termly or half termly monitoring for reporting to Governors. The authority requires a summary version monitoring report to be submitted once each term after it has been presented and agreed by Governors, however it is felt that schools should be monitoring internally on a more frequent basis particularly if the budget is under pressure.

Agreed Action 1.1

1. The Scheme for Financing schools requires schools to submit termly monitoring reports, unless directed to provide more frequent reports in support of a licensed deficit. The scheme will be updated to include a recommendation that schools also prepare monitoring reports more frequently for their governors to ensure effective management of financial resources. The revised scheme will be presented to Schools forum in July and subject to approval, published Summer 2019.

2. To support schools in preparing reports more regularly the authority will introduce a model spreadsheet for use by schools. This will include a reconciliation to the start budget and actual transactions held on the FMS system. This will be introduced in May 2019

Priority

2

Responsible Officer

Principal Accountant,
Adults, Children &
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Timescale

30 November 2019

3. To support Governors to discharge their responsibilities for effective financial management we will introduce and promote two new services:-
 - a) A financial Health Check, to report back to Governors
 - b) Finance Training for senior leadership - what to focus on and how to ensure the school has effective financial management. Development and consultation on what the services should cover will take place during Spring and Summer 2019. Due to the timing of the traded offer, this will be introduced in the offer launched in November 2019.

2 Compliance with Submissions Timetable

Issue/Control Weakness

Governors meetings are not always set at an appropriate time facilitate submission of the required budget returns to CYC. Governors are not given sufficient opportunity to examine budgets.

Risk

Governors may not be aware of the school's financial situation and timely action to address budget variances may not be taken.

Findings

CYC has a timetable for requiring the submission of data, but Governors meetings are not always scheduled to fit with these deadlines and either deadlines are missed, or information is submitted to CYC without Governor approval or review.

In three cases the signed and approved start budget for 18/19 was not submitted by the due date. The date of the meeting of the Full Governing Body was after the due date. For two of these schools the revised budget for 17/18 had also been delayed, although in one case questions raised by Governors concerning variances at revised budget required enquires to be made with CYC which caused delays in submission.

The submission of spending plans (in the case of deficit budgets) were also checked against CYC deadlines. For one school the spending plan was not submitted by the due date and a draft plan that had not been approved by Governors was submitted.

Agreed Action 2.1

The submission deadline for the start budget is set by the Scheme for Financing Schools

1. The submissions calendar will be shared with the Governance team to assist them to set Governors meetings which enable budgets to be submitted on time. It should be recognised that the reporting window is very tight after allowing for Easter holidays.
2. Budget planning software will be introduced which supports scenario planning and holds a “working” budget. This will support schools to prepare budget options in advance of the busy March – May period.

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3 Benchmarking

Issue/Control Weakness

Over or under spending in particular budget areas compared to similar schools may not be identified and investigated.

Risk

Schools may be spending money in areas that do not provide value for money.

Findings

For the five schools visited all had completed a financial benchmarking exercise during 2017/18, based on 15/16 data. However at one school no formal report was presented to Governors although the schools SFVS return for 17/18 stated that a report had been presented to the Finance Committee.

For the current year (based on 16/17 data) only one school had produced a financial benchmarking report for presentation to Governors. All other schools visited had not looked at benchmarking data at the time of audit. With limited resources schools generally did not feel completion of financial benchmarking was a particularly useful tool due to the difficulty in obtaining suitable comparative data and would prefer comparisons with similar York schools rather than using national data. It is suggested that Governors review their benchmarking criteria so that appropriate data is chosen. If a benchmarking exercise is thought not to be beneficial, the reason for this should be formally minuted and should be taken into account when completing the school's SFVS.

Agreed Action 3.1

The DfE have been reviewing their Benchmarking toolkit. In 2017-18 information was made available late in the financial year and included previous year data perceived to be out of date. For 2018-19 the DfE have improved the resources available, this includes sending each school a benchmarking report card, which provides comparative information for schools to refer to, in addition the DfE School Resource Management Check list sign posts schools to a range of resources, including the benchmarking toolkit. The following action will be taken:

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1. A benchmarking master document will be published on York Education website for use by all schools. This will sign posts schools to the resources provided by the DfE. This will be completed by February 19
2. The School Business Support team have been up-skilled. Guidance will be provided by January 2019
3. The Scheme for Financing Schools will be updated so that it is specific about asking schools to benchmark. The revised scheme will be published Summer 2019.

Agreed Action 3.2

A spreadsheet will be developed for schools to refer to containing Local York information (subject to availability of resources and approval for publication).

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Timescale

31 March 2020

4 Best Value

Issue/Control Weakness

It is not adequately evidenced that service contracts are retendered or market tested to ensure best value and effective use of the schools financial resources. Renewal beyond the original contract dates is not always appropriately authorised.

Risk

Failure to achieve a best value budget.

Findings

Governors are required to conduct an annual review of all service contracts at the school to ensure they continue to meet the school's needs and deliver value for money. This includes ensuring that contracts reaching the end of the original contract term are retendered or market tested. Any renewal beyond the original term should be authorised in accordance with delegated authority and the Councils Contract Procedure Rules. A schedule of contracts should be maintained to facilitate this review which is presented to Governors.

For all the schools audited It was not clear that this review had been completed and a number of contracts appear to have been renewed or added to without market testing or specific authorisation. Most significantly the contracts for IT managed services (Vital), which have an approximate value of 30K per annum for all the schools visited, do not appear to have been market tested or retendered for a number of years and are renewed on an annual basis at the end of the original contract term.

Two schools had not compiled a full schedule of service contracts and three remaining schools had a current schedule of contracts but two had not presented the schedule to either the Finance Committee or the Full Governing Body.

Agreed Action 4.1

1. A model contract register is being developed for schools to adopt. This will be published on York Education website and will be combined with best practice guidance notes and a reminder of the requirement for the schedule to be presented to the Governors.
2. Internal audit will be asked to consider conducting an audit on contract management and procurement.

Priority

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5 PFI Schools

Issue/Control Weakness

Governors are not always made fully aware of the position of the PFI budget where delayed charging or lagged funding can cause significant fluctuations in the schools budget outturn.

Risk

Failure to correctly account for PFI charges.

Findings

PFI expenditure should be self balancing with compensating income available to finance relevant expenditure. However, the effect of lagged funding or charges can cause a deficit or surplus at year end. These need to be identified and accounted for in the following year's budget. A quarterly statement of PFI charges is sent to the school and should be presented to Governors so they are aware of the current position. Two of the schools visited during the audit were PFI schools.

For one school insufficient provision had been made in the 17/18 budget for carried forward PFI charges and lagged funding had increased the deficit outturn balance. The statement of PFI charges had not been presented to Governors. PFI charges had been allocated to individual codes through the year and included in the schools monitoring reports therefore causing confusion.

From March 18 this school had produced a start budget and budget monitoring reports both with PFI and without PFI to separately identify variances which could be investigated and controlled by the school.

Agreed Action 5.1

Additional guidance will be provided to both schools on how to monitor and account for PFI expenditure and funding, with particular emphasis on the effects of lagged funding on both current and future years. This will be provided in Spring 19.

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Audit Opinions and Priorities for Actions

Audit Opinions

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.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

| 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. |
| Reasonable 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. |

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