



## **Internal Audit Report**

# **Financial Governance Audits**

**2013/14**

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**Report Status:** Final for Information

**Reference:**

**Overall Assurance:** Substantial

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## 1. EXECUTIVE SUMMARY

### Introduction

- 1.1 The SIAS Schools' Internal Audit Strategy (September 2011) outlines the SIAS approach to the audit of schools. It focusses on providing assurance around risks which could prevent the achievement of the following HCC corporate objectives as they relate to schools:
- To ensure a positive childhood; and
  - To ensure a good education for all.
- 1.2 Each year up to three thematic audits are selected to cover areas perceived to pose greatest risk to the achievement of the above corporate objectives. The theme selection also takes into account any requirements highlighted by the Council's external auditor.
- 1.3 For the 2013-14 Financial Governance audit theme, a sample of 19 schools, were visited. Following the audit visit, each sample school was issued with a report which detailed audit findings and associated recommendations to improve internal control, risk management or governance arrangements.
- 1.4 This report summarises the findings made and gives detail of the related recommendations. A schedule containing this information can be found in Appendix A. The learning points from this review are circulated to all schools via the School Bulletin and The Grid and also to Hertfordshire governors.
- 1.5 Our specific objective in undertaking the Financial Governance audits was to provide the Council, its external auditor and the sample schools with assurance on the adequacy and effectiveness of internal controls, processes and records in place to mitigate risks in the following areas:
- a) Financial training for staff and governors
  - b) The structure of Governance arrangements and how they work in practice
  - c) Expenditure testing
  - d) Revenue contract monitoring
- 1.6 As part of this work we also:
- verified that each of the sample schools visited had an up-to-date Business Continuity Plan and a Whistleblowing Policy which was readily available to employees;
  - Sought confirmation that arrangements were in place for the independent audit of the Fund Account and its scrutiny by governors.

### **Overall Audit Summary**

1.7 Following each audit, the Financial Governance arrangements in place in each school were assessed using the following criteria (See Appendix B for detailed explanations of each assurance level):

- Full Assurance
- Substantial Assurance
- Moderate Assurance
- Limited Assurance
- No Assurance

1.8 The table below shows the number of sample schools in each assurance category based on the outcomes of the 2013-14 audit visits.

<b>Assurance level</b>	<b>Number of schools (2013-14)</b>
Full	1 (5%)
Substantial	15 (79%)
Moderate	3 (16%)
<b>Total schools audited</b>	<b>19</b>

1.9 Based on the outcomes of audits carried out during 2013/14, it can be concluded that 84% of the sample Hertfordshire schools had adequate or better arrangements in place to mitigate risks in assurance areas concerning governance and revenue payments and contract requirements.

1.10 Implementation of agreed recommendations following an audit will assist those schools assessed as having moderate arrangements to move to having adequate or better arrangements in place. The 2014-15 planning process for schools resulted in the allocation of a specific time budget to follow up the implementation of recommendations at schools where moderate assurance was given or a high priority recommendation made.

1.11 The following paragraphs provide a high level summary of areas where schools in general had effective arrangements in place in 2013/14.

#### **Financial Training for Staff and Governors**

1.12 Regular and relevant training to keep up-to-date with developments in the field of education generally and schools' finance in particular was being undertaken. Such training enables schools to make informed decisions and both staff and governors to be appropriately skilled to undertake their respective roles.

1.13 A number of schools had undertaken cluster training to maximise resources and to share best practice.

### The Structure and Operation of Governance arrangements

- 1.14 Clear Instruments of Governance together with Terms of Reference for all committees detailing the governing body responsibilities and where responsibility is delegated to the Headteacher were in existence in the sample schools. Minutes of committee meetings indicated that broadly speaking governors are effective in their critical role capacity, are well-informed of the issues facing their individual schools and are aware of relevant legislative and local requirements
- 1.15 In line with good governance practice, head teachers see the value of meeting with the Committee chair regularly and before meetings.

### Aspects of expenditure testing

- 1.16 Schools have School Development / Improvement Plans that encompass all the aims and objectives of the school and include relevant national and local priorities and the most recent Ofsted requirements.
- 1.17 Stakeholders including of staff, governors and parents, were consulted as part of the development of the plan, with governors identifying the priorities. In more than half of schools, these priorities were costed and links made to both the short and longer term strategic budgets.
- 1.18 There are procedures for monitoring and evaluating the impact of each priority, with accurate financial information provided to and scrutinised by governors on a regular and minimum termly basis.
- 1.19 Staff and governors annually declare independently checked business and personal interests, with governors given the opportunity to declare interests at all committees.

### Revenue Contract Monitoring

- 1.20 Evidence collected during audits indicates that contract registers exist with responsibilities that align with the schools' Schedule of Financial Delegation, which in turn specifies the contract value for which quotes and tenders are required.
- 1.21 Schools consider the whole cost of the purchase life at the quote / tender phase. Evidence was provided that schools check and monitor payments against contracts and the budget.

### **Summary of Recommendations**

- 1.22 We made 85 recommendations across the 19 schools visited. The table below shows the number of schools where a recommendation was made in one of the Financial Governance assurance areas. Also shown are the number of recommendations made per assurance area and the recommendation priority. For information, no recommendations were made at two of the sampled schools.

### Breakdown of Financial Governance Recommendations

<b>Assurance Area</b>	<b>Number of schools occurring</b>	<b>Number of recommendations and priority</b>
Financial training for staff and governors	6	5 Medium 4 Merits Attention
The Structure of Governance arrangements and how they work in practice	8	1 High 13 Medium 7 Merits Attention
Expenditure testing	12	2 High 22 Medium 1 Merits Attention
Revenue contract monitoring	10	3 High 6 Medium 8 Merits Attention
Other: BCP, Whistleblowing and Fund accounts	10	8 Medium 5 Merits Attention

### Annual Governance Statement

- 1.23 The work undertaken by Internal Audit in respect of Financial Governance provides the Council and its external auditors with adequate assurance in respect of the Council's Annual Governance Statement.

No	Finding	Associated Risk	Priority	Recommendation
<b>Financial Training for Staff and Governors</b>				
1.	<p><b>Identification of Governors' skills and experience</b></p> <p>Three schools were unable to provide completed governors' competency matrices which evidenced governors' skills and experience.</p>	<p><u>Associated Risk</u> The school is unaware of skills gaps and associated training needs which may compromise the governing body's ability to act as a critical friend. The school is unable to evidence that it is matching governor skills and experience to the responsibilities of governor committees. This could result in poor governance, financial management and decision-making.</p> <p><u>Associated Opportunity</u> The school is unaware of skills that governors can offer to the school which would enhance governance, financial management and decision-making.</p>	Medium	<p>Schools should assess the depth of skills and knowledge across the Governing Body by requiring all governors to complete competency matrices. Completed matrices should be subject to regular review and completed as a matter of course for all new governors.</p> <p>Once completed, matrices should be reviewed as a whole to ensure that the governing body has the necessary skills and experience. Any skills gaps should be addressed by training or recruitment.</p>
2.	<p><b>Governor training</b></p> <p>At three schools we found that a limited number of governors had attended training, with omissions for Financial and mandatory Safeguarding training.</p>	<p><u>Associated Risk</u> Failure to keep up-to-date with developments in the field of education generally and schools' finance in particular exposes the school to the risk of poor decision-making and leaves governors open to allegations that they are not appropriately skilled to</p>	Merits Attention	<p>Governors should make full use of the training that is available to them in order to ensure the governing body has the full range of skills required.</p> <p>All governors should regularly assess their training needs to ensure that their knowledge remains up to date.</p>

No	Finding	Associated Risk	Priority	Recommendation
	A further two schools held incomplete training registers.	undertake their role.  <u>Associated Risk</u> The school is unable to evidence that individual governors' have undertaken training to address training needs identified or skill gaps, e.g. following a competency assessment/audit.		The school should keep a record of all training that is provided; in particular training that is provided in-house or uses school sourced trainers.
3.	<b>Identification of staff with financial responsibilities skills and experience</b>  Only one school was unable to provide evidence that staff financial skills and expertise had been assessed.	<u>Associated Risk</u> The school is unaware of skills gaps and associated training needs which may compromise the effectiveness of the school's financial management arrangements.	Medium	Staff with financial responsibilities should complete a competency matrix. These should be reviewed.  Any skills gaps should be addressed by appropriate training.  The matrices should be subject to regular review and completed as a matter of course for all new staff.
<b>Structure of Governance Arrangements and how they work in practice</b>				
4.	<b>Schedules of Financial Delegation</b>  All schools had a Schedule of Financial Delegation (SoFD) in	<u>Associated Risk</u> Failure to clearly define and review	Medium	The Schedule of Financial Delegation should be reviewed to ensure all areas are completed and



No	Finding	Associated Risk	Priority	Recommendation
	place. However, not all were being reviewed on a regular basis (preferably annually); others were found to contain minor anomalies that did not correspond to the schools working practices.	responsibilities may lead to a lack of clarity over roles and responsibilities with: <ul style="list-style-type: none"> <li>• Decisions being inappropriately taken leading to challenge to the decision-making process, which could negatively impact on the reputation of the school</li> <li>• Key activities not being undertaken</li> <li>• Value for money not being obtained from the decision-making process and unnecessary expenditure being incurred</li> </ul>		that it reflects the practices of the school.  It should then be approved by the governing body.  The school should ensure that there are appropriate arrangements for an annual review of the Schedule of Financial Delegation. This should be included within the programme of business for the Full Governing Body.
5.	<b>Responsibilities of Governors</b>  In one school it was found that the responsibilities of the Full Governing Body were not clearly documented.	<u>Associated Risk</u> The governing body may delegate tasks that legally should not be delegated.	Merits attention	The governing body should clearly document those functions that it will carry out and not delegate to committees.
6.	<b>Terms of Reference (ToR)</b>  All schools were found to have ToR for all committees. Not all ToR included frequency of meetings, with one school omitting to include a number of key points from the Resources Committee ToR.  (The number of committee	<u>Associated Risk</u> Deadlines for approvals may be missed and the necessary business to support the running of the school may not be conducted in a timely manner.  A lack of clarity surrounding responsibilities may result in: <ul style="list-style-type: none"> <li>• Committee members being unclear</li> </ul>	Merits attention	The Terms of Reference are reviewed to include all omitted information.

No	Finding	Associated Risk	Priority	Recommendation
	members, the quorum, voting rights and delegation for review of the Schedule of Financial delegation).	about their responsibilities and authorities <ul style="list-style-type: none"> <li>• Decisions made being open to challenge</li> <li>• Significant decisions not being made to meet deadlines</li> </ul>		
7.	<p><b>Committee Meetings and Minutes</b></p> <p>Although Governors were found to meet on a termly basis, not all had a programme of business or were in receipt of appropriate information.</p> <p>At three schools committee minutes were found to have limited detail of discussions held.</p>	<p><u>Associated Risk</u> The school is unable to evidence that governors are providing robust challenge to information put to them for a decision / agreement.</p> <p>There is a lack of transparency about decisions made.</p>	Medium	<p>An annual programme of business should be produced for the Full Governing Body and its committees identifying the term where items of business need to be considered along with any external deadlines.</p> <p>All minutes taken should include details of discussions held and challenges made to the information presented.</p>
8.	<p><b>Financial Cover</b></p> <p>In one school it was found that there was no identified member of staff able to cover the day-to-day financial activities of the school in the absence of the school secretary.</p>	<p><u>Associated Risk</u> Effective cover cannot be provided in the absence of a key member of staff which could result in critical activities not being undertaken during a period of absence.</p>	Medium	<p>A member of staff should be identified to provide cover for key tasks in the absence of the School Secretary and training provided as appropriate.</p>

No	Finding	Associated Risk	Priority	Recommendation
<b>Aspects of Expenditure testing</b>				
9.	<p><b>School Development Plan (SDP)</b></p> <p>Eleven schools were identified where there was no demonstrable link between the costs shown in the school's development plan and the school's budget.</p>	<p><u>Associated Risk</u></p> <p>The absence of a fully costed development / improvement plan with clear links to the school's priorities/ improvement activities and budgets to be used may result in the school's priorities not being met as they are unaffordable. This may impact negatively on the educational experience of the children in the school.</p>	Medium	Budget codes should be included in the School Development Plan to provide a demonstrable link between the development plan and the school budget so that it is clear that the school can afford the proposed actions.
10.	<p><b>Register of Pecuniary Interest</b></p> <p>Nine schools did not have a process for ensuring that either staff make a declaration of interest where appropriate or governors complete a pecuniary interest form.</p>	<p><u>Associated Risk</u></p> <p>Without a Register of Pecuniary Interests / completed Declarations of Interest, the school is unable to evidence that:</p> <ul style="list-style-type: none"> <li>• Decisions are being made in the best interests of the school and its pupils</li> <li>• individual governors or staff members have not personally benefited from a decision made by the school</li> </ul>	Medium	<p>The school should introduce a process to allow staff to declare any interests that may conflict with their employment at the school on at least an annual basis.</p> <p>The school should ensure that all governors complete a pecuniary interests' form on an annual basis.</p>
11.	<p><b>Collaboration with other Schools</b></p> <p>One school was found to have not yet entered into any form of</p>	<p><u>Associated Risk</u></p> <p>Opportunities for achieving best value</p>	Medium	Opportunities for collaboration with other local schools should be identified and explored.

No	Finding	Associated Risk	Priority	Recommendation
	collaboration with other schools.	may be missed which may negatively impact on the finances of the school or on the learning experiences of its pupils.		
12.	<p><b>Financial information presented to and scrutinised by governors</b></p> <p>One school was found to have limited governor engagement with the budget setting and monitoring process, with a limited number of budget monitors accessed by governors.</p>	<p><u>Associated Risk</u> There is a lack of adequate control to ensure that the operation of the school best serves the educational interests of the pupils on roll.</p>	High	<p>The governors should set a balanced budget for the school that is informed by benchmarking and a review of the contracts held by the school.</p> <p>The budget monitors should be reviewed and discussed in the termly Finance Committee meetings and the discussion reflected in the minutes.</p>
13.	<p><b>Budget setting and contracts</b></p> <p>One school was found to have budget commitments that did not correspond to the contract register.</p>	<p><u>Associated Risk</u> Inaccurate budgets are set. Funds may not be available.</p>	Medium	When the budget is compiled it should reflect commitments documented in the contracts.
<b>Contract Monitoring</b>				
14.	<p><b>Contracts Register</b></p> <p>Examination of school Contracts Registers identified the following:</p> <ul style="list-style-type: none"> <li>three schools did not have a Contracts Register in place,</li> </ul>	<p><u>Associated Risk</u> Best value may not be achieved for the school and there is a lack of clarity and evidence to support decision taking.</p> <p>The school may be unaware when</p>	Medium	A Contracts Register should be compiled, using the template on the grid. The register should be subject to regular review as part of the budget setting process to identify those contracts that need to be retendered.

No	Finding	Associated Risk	Priority	Recommendation
	<ul style="list-style-type: none"> <li>• five had incomplete registers</li> <li>• one school did not have a contract monitoring plan in place.</li> </ul>	contracts have ended and may not have the appropriate service available to the school as a result.		
15.	<p><b>Retention of Contracts</b></p> <p>In three schools there was no evidence that all contracts or copies of contracts had been retained.</p>	<p><u>Associated Risk</u> There is no evidence that an agreement is in place and the school may not obtain the expected goods or services.</p> <p>The school is not aware of outstanding liabilities and may not budget accordingly.</p>	Medium	The school should ensure that it retains a copy of the contract, including as a minimum a schedule for payments, frequency of work, contract period and total value of the contract to ensure that all charges are as agreed.
16.	<p><b>Quotes and Procurement</b></p> <p>Four schools received recommendations around quote and procurement forms, having no formal mechanism in place for recording all quotes received and the reason for selection.</p>	<p><u>Associated Risk</u> The school may not be receiving best value and this may result in unnecessary spending of school funds.</p> <p>The current process leaves the school vulnerable to the allegation that it has treated a particular provider in a preferential manner.</p>	Merits Attention	A procurement form should be used which records the quotes received and the reason for choosing a particular supplier.
17.	<p><b>Levels for quotes and tenders</b></p> <p>All schools were found to comply with, or have levels</p>	<p><u>Associated Risk</u> Obtaining tenders at such low levels will</p>	Merits Attention	Governors should consider revising their Schedule of Financial Delegation that quotes

No	Finding	Associated Risk	Priority	Recommendation
	lower than the HCC recommended thresholds for quotes and tenders. One school was found to require tenders at £10,000 to £100,000.	be challenging and resource intensive and may not represent best value for the school.		may be used instead of tenders to a level in excess of £10,000. Current practice suggests that quotes may be used up to a value of £75,000. However, governors may wish to be more prudent regarding the levels from which tenders are required.
<b>Other recommendations</b>				
18.	<b>Whistleblowing Policy</b> Although schools had Whistleblowing Policies in place, in a number of instances these had not all been subject to regular review and update.	<u>Associated Risk</u> Fraudulent or inappropriate behaviours may not be reported, as whistleblowers are unable to contact appropriate personnel.	Merits Attention	The Whistleblowing Policy should be reviewed and the contact information updated. The policy should be brought to the attention of all staff on an annual basis.
19.	<b>Business Continuity Plan (BCP)</b> Six schools received recommendations in relation to BCPs, with all holding incomplete documents.	<u>Associated Risk</u> Without an up-to-date business continuity plan the school cannot evidence that it would be able to continue to function in the event of an incident. This would have a potentially significant short-term impact on the education of pupils.	Medium	The school should complete a Business Continuity Plan.
20.	<b>Fund Account</b> Five schools were unable to provide evidence of the most	<u>Associated Risk</u> Monies are being inappropriately spent and this is going undetected. This could	Medium	The school should ensure that the Fund Account is audited, independently of the Governing Body, and once the audit is completed the results

No	Finding	Associated Risk	Priority	Recommendation
.	recent audit of the fund account.	have a negative impact on the educational experience of pupils.		presented to governors for a formal review of the activities operating through the fund account.

<b>Levels of assurance</b>	
<b>Full Assurance</b>	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
<b>Substantial Assurance</b>	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
<b>Moderate Assurance</b>	Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.
<b>Limited Assurance</b>	There are significant weaknesses in key control areas, which put the system objectives at risk.
<b>No Assurance</b>	Control is weak, leaving the system open to material error or abuse.

<b>Priority of recommendations</b>	
<b>High</b>	There is a fundamental weakness, which presents material risk to the objectives and requires urgent attention by management.
<b>Medium</b>	There is a significant weakness, whose impact or frequency presents a risk which needs to be addressed by management.
<b>Merits Attention</b>	There is no significant weakness, but the finding merits attention by management.