

Internal Audit Report

School Audits 2021/22 – Annual Summary

Report Ref: SCC/21/22

Issue Date: July 2022

Auditor: Laura Hindley, Principal Auditor

1. Introduction

This report presents the main findings resulting from the work carried out by Internal Audit in relation to schools and pupil referral units during 2021/2022.

We completed the audit reviews of 15 primary schools including two post implementation reviews in addition to 1 pupil referral unit during the period (See Appendix A for details of specific schools).

As a result of the work undertaken, we are able to provide an overall opinion on the governance and control frameworks in place in schools.

2. Overall Opinion 2021/2

Our audit and assessment work continues to provide assurance that schools in Salford have effective systems of financial management. The reviews that we have carried out in the last few years covering the range of Salford schools have identified no significant risks or control issues that would require disclosure in the council's Annual Governance Statement.

We have concluded that overall, there is **Satisfactory** Assurance that Salford schools have effective systems of governance and internal control in place.

See Appendix A for the level of assurance provided to each school audited in 2021/22.

3. Background

Salford currently has 3 high schools, 1 special school, 69 primary schools and 4 pupil referral units with just over 25,000 pupils on roll in its maintained schools.

The overall budget awarded to schools for 2021/22 amounted to £143,907,143 with 83% of this sum used to pay salaries with the remaining 17% of this figure relating to non-staffing expenditure. As such, more than £24m of school expenditure is processed via schools' own orders and payments systems. The Salford Scheme of Delegation for schools sets out the financial and administrative arrangements between the Authority and the schools maintained by it.

Internal Audit works to a schedule, auditing all maintained schools on a risk based, cyclical basis (Section 6).

The reviews undertaken by Internal Audit place an emphasis on determining that the principles of the Scheme of Delegation are adhered to.

Whilst we cover a range of operational areas, our emphasis is directed towards financial controls and governance issues. We place particular focus on ensuring that a school's budget is well managed, is subject to appropriate scrutiny and that income and expenditure processes are effective.

We respond promptly to queries from schools on an individual basis as issues emerge and give advice accordingly. Our work with schools is constantly in development and we aim to encourage good practice and a strong control environment.

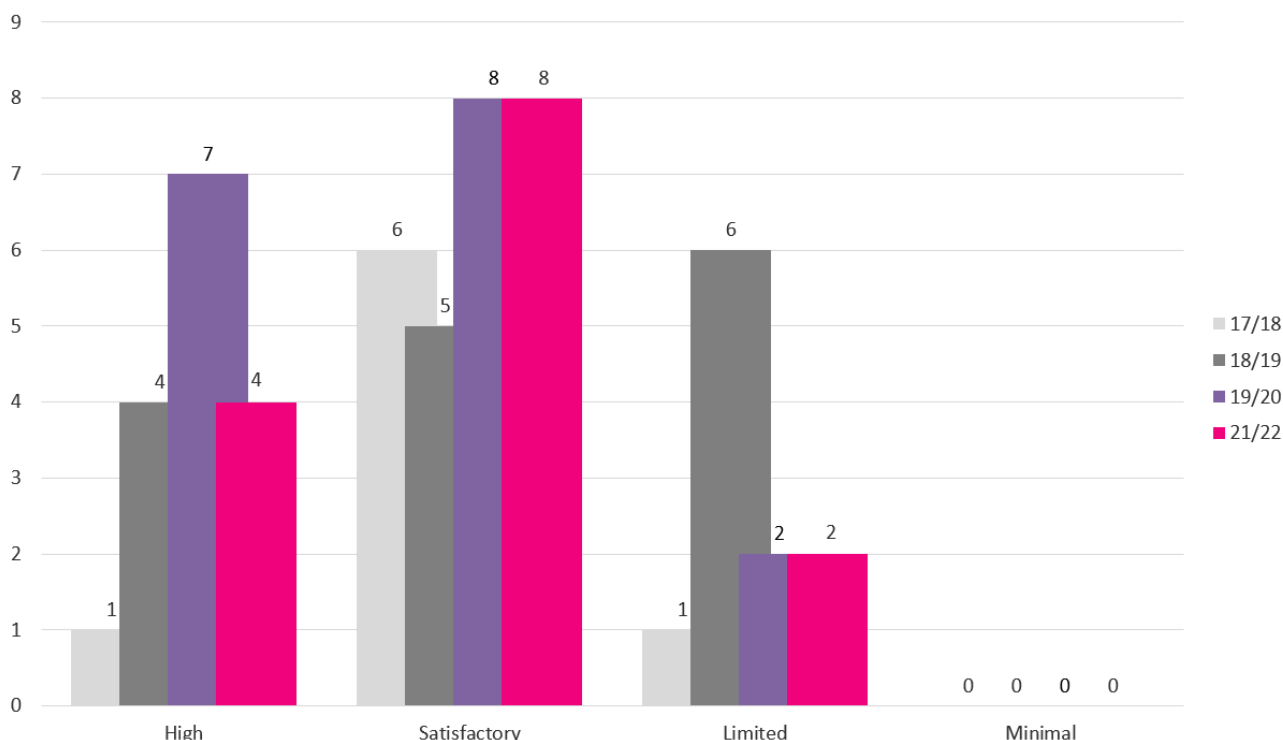
As a direct method of communication with schools, we use the newsletter issued via Children's Services to inform and update Salford headteachers regarding current issues or trends that come to our attention.

4. Assurance Levels

Audits

The table below provides a summary of the 14 assurance ratings (magenta columns) provided following the 13 schools audits and 1 PRU audit undertaken, in contrast to previous years.

**Number of Audit Opinions for School Reports Issued in 2021/22
Compared to previous years**



Data for 2020/21 has not been included as school visits were suspended at the time due to the pandemic and national lockdowns.

Appendix B contains the definitions for the audit assurance opinions and recommendation risk ratings.

Post Implementation Reviews

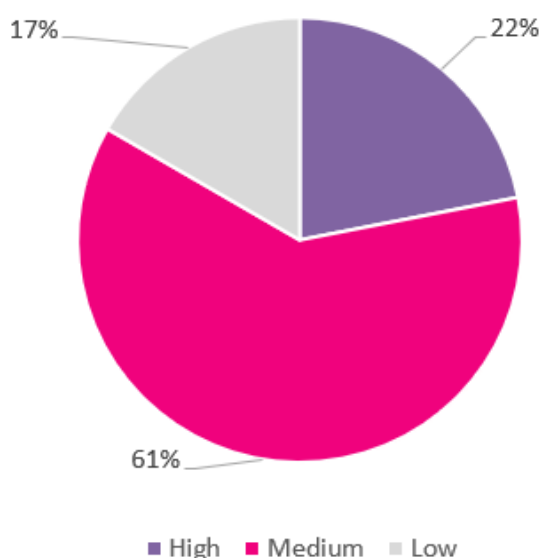
Internal Audit generally undertakes Post Implementation Reviews (PIRs) of services or systems that have been subject to an audit and received a ‘Limited’ or ‘Minimal’ level of assurance.

In addition to the 14 audit reviews undertaken, we also completed two post implementation reviews. One of the schools, St Thomas of Canterbury RC, had made significant progress implementing 14 of the 15 actions originally agreed and we were pleased to upgrade the school’s assurance level to High. However, the other school, Moorfield, has made little progress having implemented only six of the original 19 actions agreed. This was disappointing and we felt unable to award a revised assurance level. As a result, we are planning a further visit to the school during the forthcoming autumn term.

5. Main Findings and Agreed Actions

The table below summarises the proportion of actions agreed as a result of the 14 full audit reviews. There were no 'Critical priority' actions during the year.

Priority of Actions Agreed in 2021/22



Appendix C contains details of the Actions designations.

None of these actions were sufficiently widespread to be of concern across Salford-wide and we found that schools are generally managing to maintain effective systems of internal control in a challenging financial environment.

High Priority Actions

The high priority actions most commonly made in the year related to:

- the need to formally approve key financial documents/decisions and on a timely basis
- the requirement to clearly minute governor discussions and demonstrate decisions taken at Governing Board meetings
- ensuring that headteachers and other delegated budget holders remain within financial expenditure limits set by the Governing Board
- the need to ensure that prior authorisation is formally obtained and recorded for items of expenditure
- the need to properly administer purchasing cards including independent review of associated expenditure
- ensuring that appropriate access and 'system controls' enforcing dual authorisation procedures are in place for individuals having Internet access to bank accounts
- ensuring that the school's own finance manuals are complete, comprehensive, up to date, and formally approved
- the need to improve the administration and management of voluntary funds, including the lack of formal plans to spend significant accrued balances

Medium and Low Priority Actions

The most frequent actions of a medium or low priority have been categorised into the following areas:

Governance:

- Governing Boards need to bring their personal skills assessments and associated training up to date
- the annual register of business interests and code of conduct should be signed by all governors
- decisions taken and approvals made should be clearly recorded
- minutes taken for committee meetings not always produced to a good standard

Risk Management:

- the need to keep risk registers up to date, complete and compile associated action plans

Contracts & SLAs:

- the need for formal approval at the required level for contracts and SLAs, and value-for-money reviews for rolling contracts

Asset Management & Security:

- the requirement to bring inventories up to date with the required level of detail, review existing assets and ensure reports are made to governors
- the need to ensure that high value IT equipment is security-marked
- the need to put a security policy in place, along with security risk assessments
- business continuity plans require additional detail and need to be developed further

Income & Expenditure:

- the requirement to pre-authorise expenditure
- the need to ensure that expenditure is incurred within agreed expenditure limits
- final costings in relation to trips should be reviewed and approved

Payroll:

- the need to ensure overtime claims are properly authorised and there is evidence of formal review of payroll checks

Lettings:

- the need to update policies, determine costs to the school and ensure consistency of charges raised

Breakfast & After School Clubs:

- the need to need to review income and expenditure and determine profitability

School/Voluntary Funds:

- monthly reconciliations should be undertaken promptly and authorised
- annual independent examinations should be arranged and reported to governors
- school fund mission statements need to be improved and uploaded to the school's website

Petty Cash:

- the need to ensure proper authorisation and generally improve administrative procedures

IR35:

- potentially qualifying service providers (contractors) should be checked using HMRC's online tool or support sought via the School's HR SLA

Whilst we note that the actions detailed above are broadly similar to those recorded in recent years, this is indicative that the same issues tend to be faced by all schools who undertake the same processes and procedures. Internal Audit has identified these common themes and compiles guidance for issue to schools via the newsletters sent out by the People directorate. Most recently, guidance has been issued regarding:

- Asset disposal & recycling
- SFVS and related party transactions reminder

6. Audit Planning and Approach

We took into account a range of risk factors when the audit plan for the schools was compiled, and targeted schools which required the most input.

Specifically, emphasis for 2021/2022 was given to:

- time elapsed since their last audit
- change of Headteacher
- change of School Business Manager
- deficit school budget
- other intelligence / known issues of concern

The final list of schools to be audited is agreed with the Assistant Director, Education Work and Skills.

7. Testing Programme

Our auditors use a standard schools testing programme that has developed over time. To ensure that our approach remains as effective as possible, we regularly review the content of our testing programme, and update this on the basis of our analysis of current and emerging risks.

Through our links with the North West regional schools audit group and other sources of intelligence, we continue to monitor issues and matters currently affecting schools. Most recently, we have updated our testing programme to include an assessment of how related-party transactions are identified within schools, particularly as the DfE has placed a greater emphasis on this within the SFVS. Otherwise, the group benefits its members by

maintaining awareness of potential frauds, general school processes and developments, academisation, and auditing approaches and techniques.

8. DfE Consultation

Towards the end of the 2019/20 financial year the DfE launched a consultation regarding proposed Directed Changes to the Scheme for Financing Schools. If agreed, the proposals were due to take effect from April 2020. The intention was to enhance the accountability framework for schools and bring it into line with that for academies. Most of the proposed changes affecting the provision of internal audit could be incorporated into existing testing programmes without undue difficulty.

Salford's internal audit team and accountancy services responded to the consultation, particularly in relation to the proposal to mandate that an internal audit review be carried out for all maintained schools at least every three years. We noted that this would have resource implications for the internal audit service.

However, the results of the consultation were delayed due to the Covid-19 pandemic. Subsequently, the DfE updated its guidance in relation to its Scheme for Financing Local Authority Maintained Schools. The guidance did not include any requirement for an internal audit to be conducted every three years. The principal outcome was for local authority schemes to include a requirement for schools to submit a 3-year budget forecast each year, and a directive for schools which have a deficit of over 5% to submit a recovery plan to the local authority. These areas are covered by the schools testing schedule.

9. Schools Financial Value Standard

The Standard is a series of formal questions that Governing Boards and Management Committees are required to discuss with their headteacher and other senior staff in order to gain assurance that funds delegated to the school are safeguarded and spent effectively. Consideration of the questions can be delegated to a Finance Committee or equivalent, but the completed assurance statement must be considered by the Governing Board and signed by the Chair of Governors.

An update was published for 2021/22 with additions and amendments made to the checklist. The checklist asks a number of questions of Governing Boards around the following areas:

- A) Governance
- B) School Strategy
- C) Setting the Annual Budget
- D) Staffing
- E) Value for Money
- F) Protecting Public Money.

The dashboard element of the return, which is used to record a range of data, was made optional with a recommendation that schools continue to use this for their own internal monitoring purposes.

The results of the SFVS submissions are monitored by internal audit and as required by the DfE, are used to help inform audit plans.

10. Reducing the Risk of Fraud in Schools

Through our links with the North West regional schools audit group, we continue to identify areas where existing internal controls may not adequately mitigate risks or areas where there may be an increased risk of fraud both from internal and external sources. We also attend regional seminars and events hosted by the CIPFA North West Audit Group where counter fraud updates and findings are regularly presented.

Our established collaboration with Warrington Borough Council is of great benefit in sharing expertise, common ground and experiences, and helps inform our view of the financial controls we wish to encourage within the school environment.

Although frauds committed by school staff remain rare both locally and nationally, the consequences can be severe. Most cases involve an abuse of position, and are often driven by financial pressures or changes in personal circumstances.

Historically, some of Salford council's most significant frauds have occurred within its schools. Our test plan for schools is regularly reviewed and updated to ensure it tests the controls that should, if operating effectively, reduce the risk of occurrence of fraud.

Schools do continue to be a target for external fraudsters and we brief schools from time to time regarding recent cases and the lessons learnt. A recent exercise led by Salford looked to identify those external fraud risks that had increased for councils across the country since the start of the pandemic. This identified payroll and payment diversion frauds and cyber-enabled frauds as particular risks for local authorities and schools. We receive alerts from a number of sources, including the National Anti-Fraud Network, on attempted frauds of this nature and we pass this intelligence on to schools when relevant.

11. Supporting Schools

With a view to increasing governor awareness of financial responsibilities, we offer presentations to Salford governors on an ongoing basis. The most recent presentation, demonstrating how to improve the financial control environment within schools, was given in May 2021. This was well attended by governors from both Salford schools and local academies. The briefing was presented by a Principal Auditor and was followed by a question and answer session at the end. The feedback from the briefing was positive and the presentations continue to be developed in response to comments made.

We have also, over the last few years, given presentations to headteachers and school business managers regarding the risk of fraud and how to ensure good financial controls within their schools. Again, the briefings were well attended, and feedback indicated that the sessions were useful to the attendees.

Appendices

Appendix A: School Reviews Completed 2021/22

Audits

School	Report Issued	Level of Assurance
Brentnall	04/05/2021	High
Ellenbrook (Holiday Club)	19/01/2022	Limited
Godfrey Ermen C.E. Memorial	05/04/2022	High
Light Oaks Juniors	26/05/2022	Satisfactory
Mesne Lea	09/03/2022	Limited
Mossfield	14/03/2022	Satisfactory
River View	09/06/2022	High
Springwood	30/03/2022	Satisfactory
St Andrew's CE Boothstown	24/11/2021	Satisfactory
St Edmund's RC	10/01/2022	Satisfactory
St Mary's RC (Swinton)	26/05/2022	Satisfactory
St Paul's CE (Nevile Road)	21/06/2022	High
The Clifton Centre (Pupil Referral Unit)	30/06/2022	Satisfactory
Westwood Park	20/10/2021	Satisfactory

Post Implementation Reviews

School	Report Issued	Original Level of Assurance	Revised Level of Assurance
Moorfield	02/08/2021	Limited	Not awarded ¹
St Thomas of Canterbury RC	13/12/2021	Limited	High

¹ Due to the lack of progress made a further visit is planned for the forthcoming autumn term.

Appendix B: Levels of Assurance

Level of Assurance	DESIGN of the internal control framework		EFFECTIVENESS of the control framework	
	Audit findings	Opinion	Audit findings	Opinion
High	Appropriate procedures and controls are in place to mitigate the key risks.	There is a sound system of internal control designed to achieve objectives.	No <u>or</u> only minor exception found in testing of procedures and controls.	The controls that are in place are being consistently applied.
Satisfactory	In the main, there are appropriate procedures and controls in place to mitigate the key risks reviewed, albeit with some that are not fully effective.	There is generally a sound system of internal control designed to achieve objectives, but with some exceptions.	A small number of exceptions found in the testing of procedures and controls.	There is evidence of non-compliance with some controls, which may put achievement of some of operational objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas.	The system of internal controls is weakened by some significant gaps.	A number of reoccurring exceptions found in testing of the procedures and controls.	There is poor compliance with controls and procedures which may put operational objectives at risk of not being fully achieved.
Minimal	For all risk areas there are significant gaps in the procedure and control. This will affect the effectiveness of organisation's overall control framework.	Overall, there is a poor system of internal control in place.	Due to the absence of effective controls and procedures, no reliance can be placed on their effectiveness.	There is a substantial non-compliance with controls and procedures <u>or</u> compliance with inadequate controls and procedures, which will likely put the council's objectives at significant risk of not being achieved.

Appendix C: Priority of Actions

Priority	Rationale
Critical	Critical issue that could have a significant impact on a key system, function, or process objectives, and also the council's objectives.
High	Control weakness that could have a serious impact on a key system, function, or process objectives.
Medium	Control weakness that could have an impact on the achievement of a key system, function or process objectives or an issue, which, if addressed, would contribute towards raising the standard of internal control.
Low	Minor control weakness that does not have an impact upon the achievement of a key system, function or process objectives. Implementation of the recommendation would strengthen the control framework and/or improve compliance with existing controls.