



AUDIT AND PENSIONS COMMITTEE

CONTRIBUTORS

DCS

ST MARY'S PRIMARY SCHOOL AUDIT

The report updates the committee on the latest position with regard to the Audit at St. Mary's School and developments in Financial Management responsibility for Local Authorities.

WARDS

All

RECOMMENDATION:

1. **To Note the report and the introduction of the Schools Financial Value Standard**
2. **To note that St. Mary's will be subject to a further audit in 2012/13**

1. St. Mary's - Original Audit

- 1.1. As part of the 2010/11 Internal Audit Plan, aimed at giving assurance on compulsory financial standards for maintained schools, the Financial Management Standard in Schools, an internal audit of St. Mary's Catholic Primary School was undertaken in November 2010.
- 1.2. The audit was unable to offer any assurance as to the effectiveness of the school's controls. The Audit opinion reflected the position that controls in the school's processes were generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes left the processes/systems open to error or abuse.
- 1.3. There were 32 recommendations as a result of the Audit report, including 7 priority one.
- 1.4. Additional work undertaken by the school identified irregularities in the accounting of non-Local Authority funds. A member of staff was subsequently dismissed and may face prosecution.
- 1.5. Officers have reflected on the circumstances in which the school was operating during the time preceding the audit, where known changes in senior leadership created an uncertain environment that contributed to an environment in which the breakdown of internal controls was able to continue. Whilst there were some concerns over certain aspects of the schools business there was nothing out of place with regard to the Local Authority funds that indicated impropriety.
- 1.6. Nevertheless the Council believes that there are amendments to the Schools Audit Plan that can focus audit activity on periods of change in schools where the breakdown in controls is more likely and act on early reservations with regard to school activity. As such, the following changes have been incorporated into the Schools Audit Plan:
 - Where there is a change of Headteacher an additional financial management audit will be commissioned;
 - Consideration as to how the auditing of non-Local Authority voluntary funds can be included in the scope of school audits;
 - In planning the quarterly audit plan, Children's Services will identify specific schools where additional assurance is required;
 - Follow-up audits will be used to confirm the implementation of all audit recommendations.
- 1.7. As a result of the changes in the audit plan, an additional audit was undertaken at Holy Cross following the change in Headteacher, which, with the agreement of the Chair of Governors, was extended to include voluntary funds, and whilst conversations have been undertaken, no

additional schools audits have been commissioned in relation to any identified concerns.

2. St. Mary's - Follow-up Audit

- 2.1. In accordance with Council procedures, Deloitte's undertook a follow-up audit in October 2011. Of the recommendations identified in the original November 2010 audit all bar one of the recommendations have been implemented and that the final outstanding recommendation will be implemented by January 2012

3. Schools Management Support Service

- 3.1.1 In 2010/11 School Management Support Service was audited and substantial assurance was provided. We are currently looking at the potential to require this service, and any future replacement, to formally report to Governors and the Local Authority where they feel that there may be financial control weaknesses and/or mismanagement. This could then be supported with a requirement for Governors to report any such notification to the council.
- 3.1.2 The service were instrumental in working with the School once the issues around the Voluntary Funds was identified. As these funds are not currently part of the Delegated Schools Funding this existing service offer does not cover Voluntary Funds as they (and the allocation of these) are the specific responsibility of the Schools Governing Body

4. Hammersmith & Fulham - Financial Management Standard in Schools (FMSiS)

- 4.1. The situation with regard to St. Mary's is unique in Hammersmith & Fulham. It is the only school that failed to achieve FMSiS. Of the 17 school audits undertaken in 2010/11, 15 schools achieved substantial assurance and one institution achieved full assurance.
- 4.2. Since the introduction of FMSiS, all bar 4 schools (including St. Mary's) received substantial assurance with regard to the operation of the financial controls in their schools. The other schools have had follow-up audits and confirmed the implementation of the recommendations.

5. Schools' Financial Management - Role of Local Authorities

- 5.1. The Secretary of State for Education has statutory powers to intervene in matters of school performance and quality. There are no corresponding powers relating to schools' financial management. Maintained schools fall within general local authority arrangements for financial assurance. Responsibility for financial management and achieving cost reductions lies with maintained schools themselves, with local authorities responsible for exercising effective oversight.

- 5.2. The Department for Education has, however, implemented a framework governing the financial relationship between local authorities and their schools. This includes guidance on the contents of the scheme for financing schools that each local authority is required to have in place. Each local authority also has more detailed financial regulations and procedures for schools' financial management. Local authorities can decide the content of these regulations and procedures, although these must be consistent with the Department's framework.
- 5.3. The Schools Financial Value Standard (SFVS) replaces the Financial Management Standard in Schools (FMSiS) and has been designed in conjunction with schools to assist them in managing their finances and to give assurance that they have secure financial management in place. (Appendix 1)

6. Chief Finance Officer (CFO) statement

- 6.1. Local authority Chief Finance Officers are now required to submit an annual assurance statement to the Department confirming the deployment of the Dedicated Schools Grant in support of schools. From 2011-12, this statement will include specific confirmation that the local authority has a system of audit of schools that gives adequate assurance over their standards of financial management and the regularity and propriety of their spending. It will include details of the numbers of schools that have carried out the assessment of the new Schools Financial Value Standard and confirmation that these assessments will be taken into account in planning the local authority's programme of audit for schools.
- 6.2. CFOs will be expected to say each year how many SFVS reports they have received from schools before 31 March. Local authorities (LAs) will also be expected to give a general assurance that they have a system of audit in place which gives them adequate assurance over their schools' standards of financial management and the regularity and propriety of their spending.
- 6.3. Of Hammersmith & Fulham schools, only St. Mary's are required to complete the Schools Financial Value Standard by March 2012. This will be tested by audit in 2012/13.

7. Regulating foundation and VA schools as charities

- 7.1. On 1 August 2011, the Secretary of State for Education became the principal regulator for foundation and voluntary schools, academies and sixth form colleges, as they are exempt charities. From April 2009, charities which were previously exempt became excepted charities, that is, directly responsible to the Charity Commission and subject to its accounting and reporting requirements, unless a 'principal regulator' could be identified and appointed.
- 7.2. Now that the Secretary of State for Education has been appointed the principal regulator for foundation and voluntary schools, this will enable

the Local Authority to give consideration as to the manner in which it wishes to audit Foundation and Voluntary-Aided schools.

LOCAL GOVERNMENT ACT 2000-
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Report	Dave McNamara Ext 3404	Children's services, Cambridge House

Appendix 1: SCHOOLS FINANCIAL VALUE STANDARD (SFVS)

What is the SFVS?

Schools manage many billions of pounds of public money each year. Effective financial management ensures this money is spent wisely and properly, and allows schools to optimise their resources to provide high-quality teaching and learning and so raise standards and attainment for all their pupils. The SFVS replaces the Financial Management Standard in Schools (FMSiS) and has been designed in conjunction with schools to assist them in managing their finances and to give assurance that they have secure financial management in place.

Who is the SFVS for?

The standard is a requirement for local authority maintained schools. Other schools are welcome to use any of the material associated with the standard, if they would find it useful. **Governing bodies** have formal responsibility for the financial management of their schools, and so the standard is primarily aimed at governors.

What do schools need to do?

- The standard consists of 23 questions which governing bodies should formally discuss annually with the head teacher and senior staff.
- The questions which form the standard are in sections A to D. Each question requires an answer of Yes, In Part, or No.
 - If the answer is Yes, the comments column can be used to indicate the main evidence on which the governing body based its answer.
 - If the answer is No or In Part, the column should contain a very brief summary of the position and proposed remedial action.
- In Section E, governors should summarise remedial actions and the timetable for reporting back. Governors should ensure that each action has a specified deadline and an agreed owner.
- The governing body may delegate the consideration of the questions to a finance or other relevant committee, but a detailed report should be provided to the full governing body and the chair of governors must sign the completed form.
- The school must send a copy of the signed standard to their local authority's finance department.

There is no prescription of the level of evidence that the governing body should require. The important thing is that governors are confident about their responses.

What is the role of local authorities (LAs)?

Unlike FMSiS, the SFVS will not be externally assessed. LAs should use schools' SFVS returns to inform their programme of financial assessment and audit. LA and other auditors will have access to the standard, and when they conduct an audit can check whether the self-assessment is in line with their own judgement. Auditors should make the governing body and the LA aware of any major discrepancies in judgements.

Timetable – key dates








- Maintained schools which had not attained FMSiS by the end of March 2010 must complete and submit the SFVS to their local authority by 31 March 2012; and conduct an annual review thereafter.
- For all other maintained schools, the first run through is required by 31 March 2013; and an annual review thereafter.

The DfE website includes support notes for each question, which governing bodies can use if they wish. The notes provide clarification of the questions, examples of good practice and information on further support to assist schools in addressing specific issues.









Appendix 1: SCHOOLS FINANCIAL VALUE STANDARD (SFVS)

School name:









LA and school DfE numbers:

LIST OF QUESTIONS	ANSWER (Yes/In Part/No)	COMMENTS, EVIDENCE AND PROPOSED ACTIONS	ACCESS TO SUPPORT NOTES
A: The Governing Body and School Staff			
1. In the view of the governing body itself and of senior staff, does the governing body have adequate financial skills among its members to fulfil its role of challenge and support in the field of budget management and value for money?			 Q1 Support Note
2. Does the governing body have a finance committee (or equivalent) with clear terms of reference and a knowledgeable and experienced chair?			 Q2 Support Note
3. Is there a clear definition of the relative responsibilities of the governing body and the school staff in the financial field?			 Q3 Support Note
4. Does the governing body receive clear and concise monitoring reports of the school's budget position at least three times a year?			 Q4 Support Note
5. Are business interests of governing body members and staff properly registered and taken into account so as to avoid conflicts of interest?			 Q5 Support Note
6. Does the school have access to an adequate level of financial expertise, including when specialist finance staff are absent, eg on sick leave?			 Q6 Support Note
7. Does the school review its staffing structure regularly?			 Q7 Support Note

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B: Setting the Budget			
8. Is there a clear and demonstrable link between the school's budgeting and its plan for raising standards and attainment?			 Q8 Support Note
9. Does the school make a forward projection of budget, including both revenue and capital funds, for at least three years, using the best available information?			 Q9 Support Note
10. Does the school set a well-informed and balanced budget each year (with an agreed and timed plan for eliminating any deficit)?			 Q10 Support Note
11. Is end year outturn in line with budget projections, or if not, is the governing body alerted to significant variations in a timely manner, and do they result from explicitly planned changes or from genuinely unforeseeable circumstances?			 Q11 Support Note
C: Value for Money			
12. Does the school benchmark its income and expenditure annually against that of similar schools and investigate further where any category appears to be out of line?			 Q12 Support Note
13. Does the school have procedures for purchasing goods and services that both meet legal requirements and secure value for money?			 Q13 Support Note
14. Are balances at a reasonable level and does the school have a clear plan for using the money it plans to hold in balances at the end of each year?			 Q14 Support Note
15. Does the school maintain its premises and other assets to an adequate standard to avoid future urgent need for replacement?			 Q15 Support Note

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16. Does the school consider collaboration with others, eg on sharing staff or joint purchasing, where that would improve value for money?			 Q16 Support Note
17. Can the school give examples of where it has improved the use of resources during the past year?			 Q17 Support Note
D: Protecting Public Money			
18. Is the governing body sure that there are no outstanding matters from audit reports or from previous consideration of weaknesses by the governing body?			 Q18 Support Note
19. Are there adequate arrangements in place to guard against fraud and theft by staff, contractors and suppliers (please note any instance of fraud or theft detected in the last 12 months)?			 Q19 Support Note
20. Are all staff aware of the school's whistleblowing policy and to whom they should report concerns?			 Q20 Support Note
21. Does the school have an accounting system that is adequate and properly run and delivers accurate reports, including the annual Consistent Financial Reporting return?			 Q21 Support Note
22. Does the school have adequate arrangements for audit of voluntary funds?			 Q22 Support Note
23. Does the school have an appropriate business continuity or disaster recovery plan, including an up-to-date asset register and adequate insurance?			 Q23 Support Note

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OUTCOME OF SELF-ASSESSMENT

E: Summary of agreed remedial action and timetable for reporting back:

[signed]
Date:

Chair of Governors