





Overview of School Financial

Health Checks

Summary for Wiltshire Schools

Issue Date: 25 September 2017

Working in Partnership to Deliver Audit Excellence

# Executive Summary

Overview

Schools self-assess their financial controls against 25 questions covering four areas of responsibility set out in the Schools Financial Value Standard (SFVS):

* governance and staff arrangements
* budget setting (which the Local Authority (LA) have a monitoring role)
* seeking value for money; and
* protecting public money.

As part of the Wiltshire Council Internal Audit Plan for 2016-17, we visited 11 schools (for primary aged pupils). Each individual audit was primarily a financial health check consisting of evaluating the effectiveness of financial and other controls operating through interviews, examination of documentation and testing. This was to determine the level of compliance with the SFVS and the Wiltshire Schools’ Financial Regulations. The audit focussed on 18 of the SFVS questions.

This report outlines common issues and findings from these audits and suggests actions that can be taken by schools to improve their controls.

Objective

To reflect on findings of school audits carried out during the last financial year and to communicate actions that schools could take to improve compliance with the requirements of the SFVS and Wilshire Schools’ Finance Regulations.

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| Summary: |  |
| The major findings from schools audited in 2016-17 were:   * The financial thresholds for delegated responsibility between staff and governors were not made clear at more than half the schools reviewed. * Recommendations were made to improve the process of monitoring budget reports and stressing the difference between pro-active budget management and financial reporting. * Almost every school was given a recommendation on how to improve avoiding conflicts of interest by complying with Wiltshire Finance regulations for maintaining a Register of Business Interests. * Generally, schools were not using the SFVS tool for assessing the skills and expertise of governors with financial responsibilities or to assess their finance training needs. * Every school was advised on the how to make more effective use of bench marking. Some schools were raising reports from the national bench marking site though not progressing to analysing and comparing the data or sharing the discussion with their governors. | |

* Most schools did not have a comprehensive purchasing policy i.e. one that covers all purchases from small spending to large spending that would require applying a tendering process. Most schools relied on the Wiltshire Schools Finance Manual, which outlines the overall requirements and require the governing body to establish a tendering policy. Schools have varying documentation such as a bespoke finance manual or a Best Value Statement or just stated specific procurement responsibilities in their Scheme of Delegation. Audit have had to rely on whatever documentation is available. Generally, schools have not documented how many quotations it will seek up to and above a pre- determined value(s) and at what amount it will go to tender.
* Every school had a recommendation about their general financial control environment to guard against fraud and theft, or error, covering the areas Audit focus on i.e. banking, creditor payments, purchase cards and income.
* Most schools had used the template provided by the local authority to document their Whistleblowing Policy, however most do not insert the name of the internal contact, e.g. the nominated governor, in the policy. Recommendations were also made to some schools where staff were not aware of the policy or it was not easily found on display in the school or on the school website.
* Generally, schools were aware of the need to have disaster recovery plans in place and had some controls in operation, such as back-up of data. However, most schools had not documented their plans to maintain business continuity following a disaster or loss of resources.

# Findings and Outcomes

Method and Scope

This review has evaluated the findings of the 11 school audits carried out in 2016-17 and has considered the SFVS returns provided by schools in March 2017.

The scope of school financial audits is drawn from the SFVS. We focussed on eighteen SFVS questions. The following questions were not covered: - Questions 7,8,9 relates to staffing structures and pay policies; Question 17 relates to maintenance of assets; Question 20, 24 – relates to audit arrangements and Question 23 relates to the accounting system.

For the first seven schools audited we did not cover:

* **Question 10** - *Is there a clear and demonstrable link between the school's budgeting and its plan for raising standards and attainment? This is now in the scope since October 2017.*
* **Question 25 -** *Does the school have an appropriate business continuity or disaster recovery plan, including an up-to-date asset register and adequate insurance?*

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| 1 | The governing body and school staff |  |

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| 1.1 | Evaluation of the financial skills available to the Governing Body. |
| **SFVS Question 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?***  This was only in the audit scope for the last four schools we visited and none of these schools had used the ‘skills matrix for governors with financial responsibilities’ provided in the SFVS Additional Resources pack, for assessing the financial competencies for governors with financial responsibility. Schools visited believed the general skills matrix for governors would be sufficient.  **We recommend that schools have a completed skills matrix that shows consideration of the**  **Governing Body member’s financial skills.** | |

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| 1.2 | Formalising delegated responsibilities between governors and staff |
| **SFVS Question 3: *Is there a clear definition of the relative responsibilities of the governing body and the school staff in the financial field?***  A recommendation was made for six schools where the financial thresholds for delegated responsibilities were not made clear. They were either not documented or not clearly presented in the scheme of delegation (see fig1 below) or that there was no evidence that the scheme was reviewed and approved. | |

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| Fig 1.    What schools can do: Separate out the responsibilities according to financial limits by adding rows and inserting amounts for the different thresholds (see fig 2):  Fig 2.    **We recommend that schools make best use of their Scheme of Delegation and / or Terms of Reference to define clearly who has the authority to make a financial decision and at what level of financial risk to the school. Financial thresholds should be set that show clear assignment to a person or body without any overlap of boundaries or wording likely to cause confusion or ambiguity.**  **We advise** Governing Bodies and sub-Committees check that their Terms of Reference are consistent with the delegated thresholds detailed in the school’s Scheme of Delegation. | |
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| 1.3 | Provision of budget monitoring reports to the Governors at least three times a year |
| **SFVS Question 4: *Does the governing body receive clear and concise monitoring reports of the***  ***school’s budget position at least three times a year?***  Almost every school we visited (10 out of 11) was given a recommendation for improvements in this area. It attracted 28 recommendations.  There was a common misunderstanding of what represents a budget monitoring report. It was confused with the financial reports that had to be sent to the LA three times a year. These comprise two Income & Expenditure and the post financial year CFR report, to provide historical | |

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| information. Generally, by the time these are presented to the governors for approval they no longer reflect the school’s current financial position.  Sometimes a financial report that is produced for the finance committee is out of date when it is shown to the full Governing Body (FGB). Finance meetings should be scheduled a short time before FGB meetings so the current budget position is considered.  **We recommend schools ensure they can identify their budget report as separate from a report used to inform on past expenditure through Consistent Financial Reporting (CFR).**  **We advise** reading of the SFVS guidance on question 4. In brief, a budget report is a tool for using the most up to date financial information to monitor current actual spending, committed spending and income, to analyse and question variance from the set budget and to forecast an end of year financial position.  **We also recommend schools:** evidence of budget monitoring includes the questioning of actual amounts that conflict with expectations and seeking to explain or investigate where variance is considered significant; and  * **use the most up to date monitoring report at strategic points though-out the financial year to make effective use of this tool for controlling the budget and making well informed financial decisions.**   **NB:** The September and December Income and Expenditure reports are designed for informing the Local Authority of the actual position to date and give a revised year end forecast. These alone are not sufficient as a budget monitoring tool. The CFR is produced at year end is a financial position statement not a budget monitoring report.  For further information please refer to the accounting and budget support internal guidance for evidence.  **PS**  because they are generated at the end of set periods (i.e. September, January and March) to provide an account of what has transacted and allow little or no time to take any in-year action on controlling the budget. | |
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| 1.4 | Registration of business interests of Governing Body members and staff |
| **SFVS Question 5: *Are business interests of governing body members and staff properly registered and considered to avoid conflicts of interest?***  Almost every school was recommended to improve in this area to meet the standard and to comply with the Council’s Financial Regulations.  A common issue is that schools are not issuing declaration forms to both governors and staff for completing and signing. Instead, they offer an attendance sheet that governors are asked to sign at the start of a meeting, that doubles for alerting the clerk to governors that somebody has an interest that may conflict with an agenda issue. This is not a register, it does not meet the requirements set out in the WC Financial regulations. This misunderstanding led to some issues; such as not having a Register of Business Interests available for view, not having the information to complete a Business Register, not capturing declarations from relevant members of staff and not completing an annual review of the Business Register.  Some schools have a Register of Business Interests as well as provide an opportunity for the governors to notify the Chair and the Clerk of their interests, or any changes, at the start of Full Governing Body meetings, however they do not always extend this to sub-Committee meetings, where it should also apply.  **We recommend schools comply with the requirements of the *Wiltshire Schools Finance Manual, September 2008, as stated in section 3.5.1*.** | |

**We also advise** reading the SWAP themed review – Register of Business Interests 2012/13 (available on WISEnet). This provides guidance and a business register template that if completed in full will meet the Council’s Financial Regulations.

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| 1.5 | Access to an adequate level of financial expertise. |
| **SFVS Question 6: *Does the school have access to an adequate level of financial expertise, including when specialist finance staff are absent, e.g. on sick leave?***  The audits considered the experience of staff with financial responsibilities, primarily the Admin Officer / Finance Officer / School Business Manager. To demonstrate a full assessment of financial skills among staff with financial responsibilities the SFVS self-assessment suggests using the ‘skills matrix for school staff with financial management responsibilities’ provided in the SFVS Additional Resources pack.  Some 75% schools (3 out of 4) are not carrying out an assessment or are not retaining evidence to show the level of financial expertise among school staff using the matrix suggested by the SFVS guidance.  **We recommend schools present a completed *skills matrix for school staff with financial management responsibilities* to demonstrate that there is an adequate level of financial expertise, including when specialist finance staff are absent.**  **We also advise** reading the SFVS guidance notes for question 6 to understand how to assess the financial management skills among staff. | |

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| 2 | Setting the budget |  |

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| 2.1 | Link with school development plan and school budget |
| **SFVS Question 10: *Is there a clear and demonstrable link between the school’s budgeting and its plan for raising standards and attainment?***  This question was added into the scope of the school audits during the year. Half of the schools (2 of 4) where this was included, were given a recommendation for improvement in this area. They were advised to include the costs of resources to carry out the actions planned (to achieve specific aims and objectives) to inform budget setting and monitoring.  **We recommend schools present their School Development Plan showing ‘£’ costs for individual plans and projects that are identified in the accounts i.e. they can be found in the Financial Management System (FMS), appear on approved budget reports and are approved in the Governors’ minutes.** | |

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| 3 | Value for money |  |

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| 3.1 | Effective use of Benchmarking |
| **SFVS Question 14: *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?***  Every school had a recommendation regarding the annual benchmarking exercise. Schools did not carry out a comprehensive benchmarking exercise; they produced the data generated from the national Benchmarking website and not taken it any further. The data was generally not presented to the Governors for their consideration or to draw conclusions. Where it had been presented, evidence of any discussion was rarely recorded in governors’ minutes.  **We recommend schools retain a copy of the benchmarking website analysis to evidence the range of comparators and findings presented to the governors. Governors' minutes should evidence their consideration and approval of any resultant planned actions seeking improvement.** | |

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| 3.2 | Procedures for Procurement |
| **SFVS Question 15: *Does the school have procedures for purchasing goods and services that both meet legal requirements and secure value for money?***  Most schools (9 out of 11) had a recommendation in this area).  Documentation referring to purchasing/tendering policy and procedures did not always contain enough detail to ensure rules are applied consistently. The minimum number of quotes that needed to be obtained if a purchase is over a pre-determined amount/threshold. This was usually cited as 3 but not always documented. Some schools were unclear about their thresholds for seeking quotes and when to use the formal tender process.  Some schools did not have a tendering policy despite it being mandatory requirement of the Wiltshire schools’ financial regulations (*Wiltshire Schools Finance Manual s3.2.2*).  Another common finding was that schools did not have a schedule for reviewing ongoing service contracts or were unable to provide evidence that a review was carried out periodically.  Contracts should be reviewed before the end of year three to ensure they continue to provide good value.  We tested the application of purchase policies and found some schools did not retain all the quotes, or have a formal record stating what quotes were considered or a comparison of the | |

different costs. Also, the rationale for selecting other than the lowest quote has not always been recorded to show how best value is obtained.

**We recommend schools:**

* **document their purchasing policy and procedures. As a minimum, governors should have established a tendering policy as required by the Council’s Financial Regulations**
* **should also establish a schedule for reviewing contracts; and**
* **develop a simple template to use when comparing different quotes or tenders, thus ensuring the necessary detail is included.**

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| 4 | Protecting public money |  |

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| 4.1 | Arrangements for guarding against fraud and theft |
| **SFVS Question 21: *Are there adequate arrangements in place to guard against fraud and theft by staff, contractors and suppliers?***  Most schools (9 out of 11) had at least one recommendation in this area. It had the highest number of recommendations of any area. However, this might be expected as the scope is wide and it covers the many core systems and processes that the school needs to have in place and operates almost daily. Findings are identified in the following areas: banking; creditor payments; purchase cards; and school’s income. | |

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| 4.1.1 | Banking |
| We reported on banking issues at seven of the eleven schools visited. The following issues were found:   * bank reconciliations were not verified / authorised by a second officer * reconciliations not signed to show verification/authorisation have been carried out * insufficient bank signatories to cover absence of the mandatory two signatories. * cancelled cheques were not made unusable. * the reasons for spoiled cheques and for cancelling cheques were not recorded. * cheque numbers on bank statement were not aligned to cheque numbers in SIMS FMS. There were a range of recommendations for improvement. Some salient ones are listed below.   **We recommend schools to:** hold documented procedures for the systems they operate and the processes they perform and regularly review them.  * **ensure cheque numbers match records in SIMS FMS and that variations, cheque cancellations are accounted for, and all spoiled cheques are retained and made unusable.**   **You may wish to consider asking a finance governor if they could carry out periodic, spot checks on bank reconciliations to seek assurance for the governors.** | |

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| 4.1.2 | Creditor Payments |
| We reported on creditor payment issues at seven of the eleven schools visited. Common issues were:   * official pre-numbered orders not used / raised through SIMs FMS * goods received were not checked off (on authorisation stamp) * invoices not certified for payment (on authorisation stamp) * payments not authorised or lack of second signatory to show separation of duties (on authorisation stamp) * self-employment status checks not carried before paying via creditors system.   **We recommend schools ensure that their own bespoke financial procedures manual includes:** clear guidance on when official orders are to be raised and in what form, (this needs to follow some consultation with school finance / admin officers because raising orders in SIMS is time consuming and sometimes leads to more work amending the details to the subsequent delivery)  * **an example of the authorisation stamp and explanation of what should be checked and signed for or initialled** * **instructions for checking the self-employment of service providers before paying them through the creditors system, and state what should be retained to evidence that checks were made** * **clarification of the controls required where schools pay by BACS transfer.** | |

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| 4.1.3 | Purchase Cards |
| Not all schools have a purchase card. In our sample of eleven schools, six operated a charge card, three operated a debit card and two did not have any type of card. The use of a debit card is prohibited and the schools using these were told to cancel it immediately.  Other issues found were:   * making school purchases through the unofficial fund with a debit card * purchase card statements not reconciled to purchase records / orders * purchase card statements not reconciled before payment deducted from bank account.   The use of a debit card is a significant risk that contravenes the Wiltshire Schools Finance Manual because it overrides controls such as cheque signatories.  **We recommend schools cease using debit cards, and replace it with a purchasing card.**  **Where a school has a purchase card its own financial procedures manual should include clear instructions on its use and require all card purchases to be recorded. A proforma provides an efficient way of recording purchases; the initial checks made prior to purchase; authorisation to purchase; reconciliation to the card account statement and sign off by the reconciler and another person verifying the reconciliation.** | |

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| 4.1.4 | School income |
| We reported on income payment issues at eight of the eleven schools visited. Issues found were:   * cash and cheques accumulating at the school due to infrequent banking * no reconciliation of income collected at the school to sums deposited at the bank * not recording when income is received at the school | |

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| * no separation of duties throughout the processing and handling of income * incomplete audit trail for school income * school’s income not paid promptly into the bank * not collecting lettings income promptly and allowing arears to build up.   Various recommendations were made to address these issues. The most effective is provided below.  **We recommend schools:** hold documented procedures clearly describing, in sufficient detail, the systems operated and the processes performed; and  * **review these at least every two years to ensure the continuing adequacy of controls designed to guard against fraud, theft and error.**   Having documented procedures should encourage consideration of controls such as separation of duties and an appreciation of the school’s level of risk. For example, knowing the insurance limits for retaining cash on site and obligations for transporting it to the bank.  Schools should be able to show how they account for all income owed to the school and that they reconcile this to income received and deposited at the bank.  Recording when income is initially collected at the school is a common oversight. This along with when the income is captured in SIMS FMS and when it is deposited at the bank presents the full audit trail to demonstrate that all school income due is processed in a timely manner and is collected in full. | |
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| 4.2 | Whistleblowing Policy |
| **SFVS Question 22: Are all staff aware of the school’s whistleblowing arrangements and to whom**  **they should report concerns?**  Every school had a recommendation regarding their whistleblowing arrangements. The main findings were:   * some schools could not present a whistleblowing policy * often the Whistleblowing policy did not name internal and external contacts as required by standard public sector practice. * some staff were not aware of the school’s whistleblowing policy * often the Whistleblowing policy was thought to be mainly a process related to safeguarding concerns   **We recommend schools review their whistleblowing policy and ensure that all their staff are aware of it, what it is for and what to do should they have need to use it, and that it specifically names the person/people to contact.**  A discussion session on the Whistleblowing policy at each school would help to increase, not just awareness, but a greater understanding of its purpose and the protection it offers. | |

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| 4.3 | Business Continuity |
| **SFVS Question 25: Does the school have an appropriate business continuity or disaster recovery plan, including an up-to-date asset register and adequate insurance?**  The main finding was that schools did not have a completed, documented business continuity plan.  **We recommend that schools have an up to date Business Continuity Plan that is periodically reviewed by the governors.** | |

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| 5 | SFVS Returns money SS |  |

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| 5.1 | Completeness of Returns |
| **Review of latest self-assessment forms from schools audited in past two years**  A total 116 schools out of 154 had sent their self-assessment to the local authority as at 18 April 2017. This is a 75% return rate.  From the 20 schools, we have audited over the last two years, 16 had sent their self-assessment for the year 2016-17 to the local authority by the dead line date of 31 March 2017. One school sent an incomplete self-assessment that lacked twelve of the questions and the last page that records sign off; the date it was completed and when presented to the governing body. Another one was not dated.  We reviewed the responses to the 25 SFVS questions and found:   * six schools have recorded yes against all the questions. * nine schools have answered with a mix of yes/ in part / no. * one school had left the answer (yes/ in part / no) blank.   **We recommend that schools ensure that they send their completed SFVS self-assessments to the local authority by the dead line date. If this may not be achieved schools should liaise with the Accounting & Budget Support Team as soon as possible.** | |

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| 5.2 | Completeness of returns following an audit regarding questions most reported on |
| **Evaluation of school responses to questions most reported on following audit visit**  There were six questions that received the most audit recommendations. We reviewed the responses for these and include findings about the two highest below.  **Question 21** scores the highest number of recommendations. This is because there is a wide range of control areas to guard against the risks, consequently we make further enquiries and carry out testing at each school on their systems to ensure controls are operating (such as banking, creditor payments, payment cards and income) so this will generate a wide range of audit recommendations.  **Question 4** is the second highest. There were a couple of good narratives from schools among a review of 15 returned and completed self-assessments. These two provide a reasonable level of assurance: | |

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| * *'Clear and concise budget monitoring reports with appropriate narrative are produced for each Finance & Premises meeting - 4 per year (October, January, April, June). This enables the governing body to meet their statutory responsibilities and safeguard the large amounts of public money involved'.* * *‘In termly held finance meetings. Monitoring reports compiled by Accounting Tech. each term which are presented to F&P Committee so that they can review I&E against the budget. Brief narrative for main variations and understand value for money. Challenge overspends'.*   A distinct name for the budget monitoring report to differentiate it from other financial reports  Many schools refer to an ‘income and expenditure’ report or a ‘financial statement’ (e.g. in the governors’ minutes as well as the SFVS assessment form). These may be the titles given to the report used by the school to monitor the budget. However, it is not clear until presented during the audit, unless the rest of the narrative makes it clear. Some schools use an Excel template produced by A&B Support which meets all the budget monitoring report requirements.  Public accountability  One school stated that they now publish their budget monitoring reports on their website so they demonstrate how they meet the SFVS requirements.  Stating the process  Other responses were less informative. The school’s narrative should aim to affirm that budget monitoring reports (rather than Income & Expenditure reports) were being presented to governors; that the reports presented were current and relayed to the full governing body in a timely fashion, at least three times a year within the financial year.  **We recommend that schools make it clear in the SFVS self-assessment that they have a budget monitoring process in place whereby the governors review current monitoring reports on a timely basis throughout the financial year to affirm the level budgetary management.** | |
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| 5.3 | Completeness of returns following an audit visit |
| **Review of responses to question 20 about last audit and outstanding remedial actions**  We reviewed responses to question 20 and entries in part E of the SFVS self-assessment to compare each schools reference to any outstanding audit recommendations / remedial actions to be taken with our records of school progress made against our reported recommendations.  From a sample of 14 schools that had sent their SFVS assessment and had received an audit report before completing the SFVS self-assessment, 2 schools had not referred to outstanding audit recommendations. The circumstances for these 2 schools are exceptional the remaining sample provides assurance that schools are recording outstanding issues from their last internal audit.  Now that Audit follows the structure of the SFVS, schools could also cross reference outstanding audit recommendations to the relevant SFVS question number in their self-assessment to ensure all audit recommendations are tracked to completion.  **We recommend that schools reference ‘actions in progress’ / ‘to be implemented’ following an audit visit to the SFVS question number in the self-assessment to ensure none are missed and to allow their easy monitoring until completion.** | |

# Support and Distribution

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 Support

We would like to record our thanks to the following individuals who supported and helped us in the delivery of this audit review:

Members of Accounting & Budget Support

School staff at the schools visited in the last two years.

 Distribution List

This report has been distributed to the following individuals:

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