



**FINAL INTERNAL AUDIT REPORT
CHIEF EXECUTIVE'S DEPARTMENT**

SCHOOLS FINANCE TEAM (SFT)

Issued to: David Bradshaw, Head of Finance – Children, Education & Families
Pete Turner, Director of Finance

Prepared by: Assistant Manager and Manager (for LBB Internal Audit)

Reviewed by: Head of Audit and Assurance

Date of Issue: 27 January 2020

Report No.: CEX/14/2019/AU

SCHOOLS FINANCE TEAM**INTRODUCTION**

1. This report sets out the results of our audit of the Schools Finance Team (SFT). The audit was carried out as part of the work specified in the 2019-20 Internal Audit Plan, agreed by the Section 151 Officer and Audit Sub-Committee. The controls we expect to see in place are designed to minimise the Council's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be addressed by management.
2. The primary activity of the SFT is:
 - to maintain the Fair Funding Formula in accordance with Department for Education guidelines; and
 - to calculate and pay Early Years, High Needs and Expansion costs to maintained schools and academies.
3. Historically, the SFT function was managed in-house however is now outsourced to a third party the Council's Exchequer contractor. The Council staff who facilitated this role were TUPE'd across to the Exchequer contractor, to aid consistency when the function was outsourced. A Service Level Agreement (SLA) is in place and the Council pays circa £70k p.a. for this service.
4. The Exchequer contractor also offer a suite of sold services to include financial support and external audit services, but this does not fall under the direct contracted arrangements that the Exchequer contractor has with the Council or is a responsibility for the Council.
5. The SFT provides telephone coverage between the hours of 9:00 to 17:00 Monday to Friday (excluding public holidays) for all financial and external audit queries from maintained schools and academies. To deliver the service, the SFT uses a number of Council-maintained systems to manage workloads and/or complete financial, management and information management functions.
6. The SFT Manager was due to leave in December 2019. The SFT is very small and, in the absence of an effective transition, significant loss of organisational knowledge could result, significantly compromising the function's quality and delivery. Given that the Dedicated Schools Grant (DSG) (payable to local authorities under section 14 of the Education Act 2002) is circa £260m, this posed a risk to the Council. We understand that a successful appointment has been made.
7. The existing arrangements are not managed in a manner which is consistent with a contractual relationship. Whilst the Head of Finance – Children, Education & Families does regularly communicate with the SFT Manager, there are currently no established, risk-based, governance controls which can be used by the Council to check and challenge the operational

SCHOOLS FINANCE TEAM

activities of the SFT, neither are there any formal performance indicators or routine reporting in place. Consequently, there is no embedded second line of defence. Internal Audit, as the third line of defence, is therefore unable to provide assurance that the Council has sufficient controls in place to manage this contractual relationship. Given that the SFT Manager has changed it is timely to formulate these arrangements.

8. The audit objective was to review governance and management of the contract to ensure controls are satisfactory and mitigate risk, and consider the resilience of the team to deliver the school finance element of the Exchequer contract. As contract management checks were not as expected, the Auditor was instead deployed (with agreement from the Head of Audit and Assurance) to meet directly with the SFT Manager from the Exchequer contractor, looking to identify / test operational compliance with the activities documented as being the Exchequer contractor's responsibility under the SLA. Our audit included a review of relevant documentation, interviews with key officers and testing of related procedures and processes. It should be noted that this approach to audit fieldwork is not standard practice. Internal Audit usually acts as the 'Third Line of Defence', looking to verify whether the existing internal control environment in place is adequate and effective. In turn, this allows an opinion to be provided regarding the level to which Council management can be assured. Testing would not usually be conducted directly with an outsourced contractor, as it would be expected for the Council to have internal processes established, which enable it to gain ongoing assurances regarding the activity it is paying to be delivered on its behalf.
9. We would like to thank all staff, in both the Council and the Exchequer contractor, who were contacted during this review for their help and co-operation.

AUDIT SCOPE

10. The scope of the audit was outlined in the Terms of Reference issued on 4 October 2019.
11. The following were considered to be the key risks inherent to the Schools Finance Team:
 - Contractor performance is not measured or monitored against performance standards and milestones as set out in the contract;
 - The framework for Schools Finance Governance may not be clearly documented, communicated, clearly understood and applied by all relevant parties;

SCHOOLS FINANCE TEAM

- The Local Authority may fail to provide a framework of support to schools to meet their financial management responsibilities; and
- The calculation of the School’s Budget share and school’s financial accountancy may be inaccurate, resulting in both financial and reputational damage.

AUDIT OPINION

12. Our overall audit opinion, number and rating of recommendations are as follows.

AUDIT OPINION	
Exchequer Contractor - Reasonable Assurance* <i>(this opinion is in respect of the controls evident from on-site testing conducted with the Exchequer contractor).</i>	(Definitions of the audit assurance level and recommendation ratings can be found in Appendix B)
Council – Contract Management - Limited Assurance* <i>(this opinion is in respect of the existing ‘contract management’ arrangements employed by the Council, used to gain assurance over ongoing contractor activity, performance and risk exposure).</i>	

* Due to the non-standard nature of this audit fieldwork, a split opinion has been provided. Reasonable assurance has been based on the positive operational controls evidenced by the Exchequer contractor. However, from the Council’s perspective, as control is weak in respect of the formal contract management of this area, the opinion has to be Limited for this element.

Number of recommendations by risk rating		
Priority 1	Priority 2	Priority 3
1	0	0

SCHOOLS FINANCE TEAM

SUMMARY OF FINDINGS

13. Based on our audit testing controls noted to be in place and operating effectively at the time of our review as part of the Council's contract management included:
- There is a SLA in place which defines the service and responsibilities of the parties involved.
 - It was confirmed, in discussion with the Head of Finance – Children, Education & Families, that periodic but informal meetings are held.
14. Based on our audit testing controls noted to be in place and operating effectively at the time of our review as part of the Exchequer contractor's operational management included:
- Process maps have been developed by SFT mapping out, in flowchart form, tasks they are required to complete.
 - The Scheme for Financing Schools was updated by SFT and approved by the Schools Forum in July 2018 (which remains current).
 - The detail of the 2019/20 Dedicated Schools Grant was notified to Schools Forum on 10 January 2019.
 - Maintained schools submit a monthly reconciliation of their bank account to SFT. These are retained on file for all seven maintained schools for 2019/20 and were found to be up to date.
 - Each maintained school is required to submit a quarterly Income and Expenditure Report produced from SIMS FMS (the financial system employed by the maintained schools). It was confirmed this has occurred for the seven maintained schools in 2019/20. Minor exceptions were noted for Downe Primary (none received for Quarter 1 due to IT issues which have since been resolved) and Marjorie McClure School (Quarter 2 gap due to temporary absence of Finance Manager).
 - SFT receive email notification from the Education & Skills Funding Agency (ESFA) of any changes in the funding arrangements of schools, which are then employed to inform changes to the Individual Schools Budget (ISB) calculations.

SCHOOLS FINANCE TEAM

- In 2019/20, each maintained school was notified, in advance of the financial year, of their ISB, which included a statement of their budget share and how it was calculated.
- A spreadsheet is maintained by SFT which calculates the ISB for all maintained and academy schools. It was confirmed, for five maintained and five academy schools, the rates employed to calculate budget shares for primary and secondary schools were consistent.

15. We would however like to bring to management attention the following issues and subject to recommendations below:

- There are currently no established, risk-based, governance controls which can be used by the Council to check and challenge the operational activities of the SFT. There is also no reporting by the service provider against the contractual KPIs. Aligned to this, during our audit we noted that the Head of Schools Finance Support was about to leave the Exchequer contractor. We understand that since the audit fieldwork the service provider has recruited to this post.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

16. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised, together with management's responses and timescales for implementation. Appendix B details the definition of the audit assurance and priority ratings.

REVIEW SCHOOLS FINANCE TEAM

DETAILED FINDINGS AND ACTION PLAN

APPENDIX A

No	Finding	Risk	Recommendation and Priority *Raised in previous Audit	Management Response	Agreed timescale and responsible manager
1	<p><u>Contractual Reporting</u></p> <p>Although this audit work was able to verify that the Exchequer contractor have operational processes which appear to be functioning, we cannot offer any assurance that the Council has regular and ongoing internal controls in place to review contractual activity in this area.</p> <p>The SLA identifies 17 Key Performance Indicators (KPIs) covering a range of areas against which service provider performance should be assessed. However, there is currently no reporting by the service provider against the contractual KPIs, nor has the Council asked there to be.</p> <p>The Head of Schools Finance Support is also due to leave</p>	<p>In the absence of internal checks, there is no embedded second line of defence. Internal Audit, as the third line of defence, is therefore unable to provide any assurance that the Council has sufficient controls in place to manage this contractual relationship.</p> <p>There is an increased risk that any poor performance may not be identified and could therefore persist unchallenged. For example, required tasks may not be completed (or be delayed), such as the</p>	<p>The Council should implement formal contract management over its arrangements with the Exchequer contractor to provide its SFT service, which should include performance against SLA and future service provision/succession etc.</p> <p>Any contract monitoring controls implemented should be risk-based, so enabling checks to be increased if KPIs drop or assurances over activities are not achieved.</p> <p>A periodic update on achievement of the contractual KPIs should be requested from the service provider.</p> <p>Priority 1</p>	<p>Agreed that there are not formal meetings regarding KPI's, etc. However there are regular informal meetings and discussions. Checks and balances are also in place through emails, etc which are more formal in nature.</p> <p>The majority of KPI's are specific, not set percentage targets and are therefore achieved or not achieved.</p> <p>Examples of this being:</p> <ul style="list-style-type: none"> • I have direct access to the DSG report with ongoing discussions. The final report is signed off by myself, effectively signing off the KPI. • Reports to the School Forum, DfE submissions and reports to Committee and schools all have defined timeframes and deadlines that have to be achieved. • The schools budget is a part of the overall budget setting process and shows that it has been implemented on a timely basis and carried out accurately. 	<p>Formal monthly meetings are now in place, starting from January 2020</p> <p>Head of Finance – Children Education and Families</p>

REVIEW SCHOOLS FINANCE TEAM

DETAILED FINDINGS AND ACTION PLAN

APPENDIX A

No	Finding	Risk	Recommendation and Priority *Raised in previous Audit	Management Response	Agreed timescale and responsible manager
	<p>and whilst there was no update during the audit we have now been informed that a successful appointment has been made.</p>	<p>determination of ISB. Without a notice of their funding for the year, it may not be possible for schools to prepare a realistic budget.</p>		<p>As such there are sufficient controls in place, but they are not formally recorded. Failure to deliver would be identified by the recipients, the DfE, Members, Bromley Finance or schools and therefore constantly monitored</p> <p>Moving forward there will be formal recording but there has been monitoring of this contract. Delivery of all elements accurately and on time evidences that the relationship between client and service provider has been successful. There has been no poor performance to address or challenge. The work delivered by the service provider involves ongoing dialogue and input from myself that allows continuous monitoring and would be an early alert to any problems.</p>	

Assurance Level

Assurance Level	Definition
Substantial Assurance	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
Reasonable Assurance	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
Limited Assurance	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
No Assurance	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

Recommendation ratings

Risk rating	Definition
Priority 1	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
Priority 2	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
Priority 3	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.