



# The Planned Use of School Balances 2016/17

Final Report

Issue Date: 3<sup>rd</sup> October 2016

Working in Partnership to Deliver Audit Excellence

## Executive Summary

- This section provides an overview for senior management to understand the main conclusions of this audit review, including the opinion, significant findings and a summary of the corporate risk exposure.

## Findings and Outcomes

- This section contains the more detailed findings identified during this review for consideration by service managers. It details individual findings together with the potential risk exposure and an action plan for addressing the risk.

## Appendices:

- Audit Framework Definitions
- Support and Distribution
- Statement of Responsibility

# Executive Summary

## Overview

As part of the 2016/17 internal audit plan a themed review of the Planned Use of School Balances was carried out.

Each year the Department of Education (DfE) require the Local Authority's (L.A.) Chief Financial Officer to submit a statement on the Dedicated Schools Grant, giving assurance that it has been spent in accordance with the grant conditions. This includes the requirement that the L.A. has had less than 5% of all schools with a surplus of 15% or more of their budget, for the last five years. The DfE have indicated that if the L.A. exceed this threshold, then they will be subject to increased scrutiny.

In Somerset, the 5% threshold would equate to ten schools. At the end of 2014-15, Somerset had eight schools with a surplus that represented more than 15% of their budget for the last five years. A further eight schools had exceeded the 15% level for the last four years and the L.A. are therefore close to triggering the indicator for further DfE scrutiny.

This situation also raises the concern that, given that Somerset have raised the issue of L.A. schools struggling with their allocated funding, the data for surplus budgets will detrimentally affect the case for any further funding from the DfE. As part of the 2016-17 audit plan, it was agreed that SWAP would deliver a themed audit to provide assurance over the use of surplus funds, across a sample of ten schools, including one secondary and one special school.

Themed school reviews focus on a particular area across a sample of schools with results being consolidated into a report for the L.A. and Schools Forum. Where good practice or common weaknesses are identified, the L.A. will disseminate the information to other schools to ensure weaknesses can be rectified and best practice shared.

Ten schools were selected from a sample of those with relatively high balances provided by the Education Finance Team and visited to assess the extent to which they had a planned approach to the use of their surplus balance. The issues highlighted in this report are those which were common amongst the schools assessed and action in relation to the most significant issues needs to be considered by the L.A.

## Objective

The use of surplus funds in schools is appropriate, supported by detailed plans, consistent with the aims of the school and approved and monitored by governors.

## Audit Opinion:

Partial

All schools have been issued with a report and where issues have been identified, an action plan has been set out with agreed changes to enhance the framework of control. We were pleased with the positive attitude to recommendations made as a result of the audit process. Three schools received Substantial assurance. Of the remaining seven schools, six received a Reasonable level of assurance and one received a Partial opinion.

There was one significant finding identified across all schools visited but generally there was evidence that schools had plans to manage surplus balances. These schools have followed a prudent approach to financial planning, an approach which is in line with accepted financial practice and guards against overspending. The result of this approach collectively across all schools, is that balances are significant and now close to exceeding DfE guidelines, which means that as a L.A. it is difficult to demonstrate that the use of surplus funds across all schools is appropriate.

Currently there is limited guidance available to schools from the L.A., so although we found evidence of the control of surplus funds by schools, it is not always at the level expected by the DfE and the L.A. The overall Partial opinion of this theme report is based on the lack of central guidance to schools, as it is believed that many of the findings in schools can be attributed to the absence of a) a process that provides clarity about the acceptable reasons and levels of surplus balances and b) a control framework to manage any exceptional circumstances.

The Department of Education removed the requirement for a balance clawback scheme in May 2010 and Somerset subsequently removed the threshold limits. However, it was clear from our discussions with school officers and from review of governor minutes that, whilst there is an understanding that the percentage thresholds no longer exist, schools and governors still operate with these limits in mind and in some cases, these percentages are still seen as a desirable target for any unforeseen expenditure.

Other L.A.'s within the SWAP partnership have taken differing approaches to the removal of the DfE scheme, with some authorities introducing their own new schemes with new limits, to identify any significant balances and with a requirement to obtain approval at Director or Schools Forum level to exceed the limit.

As a result of our findings we recommend that Somerset consider introducing a business case process for the justification of large surplus balances. In itself, the current format of the Consistent Financial Report (CFR) does not prescribe a minimum level of detail of the reasons for uncommitted revenue balances and does not provide sufficient control for the purpose of identifying whether reasons given are acceptable.

A business case process could be implemented and linked to the CFR, so that when a school identifies a carried forward balance that exceeds a certain percentage, they are required to submit a costed plan that specifies the purpose(s) for balance, the amount of balance related to each purpose and the timescale by which the balance will be spent. The plans should be supported by evidence, such as minutes of Governing Body/Management Committee meetings, invoices and quotes for work, School Improvement/Development Plans and Asset Management Plans. The business case should require approval at a senior level. Financial Returns should then be monitored throughout the year to verify that planned expenditure becomes realised.

The process should be supported by documented guidance that provides schools with clarity about the typical and acceptable reasons for carrying balances forward. There should also be clear communication that where a business case is not approved the L.A. may deduct from the current year's budget share, an amount equal to the excess.

By implementing this process and the other recommendations within this report, the L.A. will increase the assurance that surplus funds in schools are appropriate, supported by detailed plans, consistent with the aims of the school and approved and monitored by governors.

# Findings and Outcomes

## Method and Scope

Fieldwork for this audit comprised a review of evidence collected and reviewed during our visits to the ten schools, including one secondary and one special school, together with the key documents and records requested prior to the audit visit.

Visits were made to the schools between 29<sup>th</sup> June – 18<sup>th</sup> July 2016, during which we reviewed the budgets for 2014-15 and 2015-16, as well as the future projections for the school's finances. This was supported by examination of a range of documents and samples of reconciliations and budget monitoring reports.

The findings were discussed with the Head Teacher and School Finance Officer or Business Manager at each school. As each school's Governing Body has a responsibility to ensure that adequate procedures and controls exist, each school received its own internal audit report to which it was required to respond and detail how it intended to address the weaknesses identified.

**1 Risk: High balances of surplus funds are held by the School without appropriate plans to ensure that they are used for the benefit of current pupils.**

### 1.1.1 Finding and Impact

**Priority 2**

At seven of the ten schools visited, there was no evidence that governors had approved the Consistent Financial Report (CFR) prior to its submission to the Local Authority. In some cases there was evidence of retrospective approval, but others where the CFR did not appear to have been discussed at all. Schools commented that the CFR deadline is difficult because governor committee meeting cycles are largely driven by the timing of the budget approval and often they will not have a scheduled meeting in the period between the drafting of the CFR and its submission, therefore having no opportunity to approve it before the deadline. The L.A. deadline is determined by the timescales set by the Department of Education and therefore cannot be varied.

There is a risk that if governors do not approve the CFR in a timely manner, they are not fulfilling their statutory duty and this also compromises the degree to which they have a full understanding of the school's financial position at the start of the financial year.

#### 1.1.1a Agreed Outcome:

We recommend that schools should ensure that the Consistent Financial Report (CFR) is presented to Governors prior to submission to the Local Authority (L.A.) and that the approval is formally recorded in the minutes of the meeting at which it is discussed.

The L.A. should consider issuing a reminder of this requirement to all schools, making clear that the CFR is a statutory responsibility of the governing body.

#### Action Plan:

Person Responsible:	Service Manager - Schools Finance	Target Date:	Autumn term Schools Forum and ADL meetings to raise issues. Spring term ADL for any revised processes/guidance.
Management Response:	As the CFR data is generated from SIMS, there is no risk if the report is approved retrospectively. However, the approval should be minuted in a timely manner.		

1.1.2 Finding and Impact

Priority 3

At five of the ten schools we recommended that, in view of the specific circumstances that had led to the school carrying forward a surplus budget, they should consider additional budget planning activity. This would constitute producing a number of alternative budget models that are based on a range of potential scenarios, which can help the school to anticipate the impact on the finances when a particular situation is realised.

In four schools, this situation was the unpredictability of pupil numbers and a reluctance to release funds until there was greater certainty about the new intake. The Somerset School Population Forecast provides schools with an estimate of their intake, but cannot account for specific local factors. Fluctuating pupil numbers can impact on the budget by as much as £2,000 per child.

There is a risk that if schools do not produce alternative forecasts to reflect the potential range of pupil numbers, an intake significantly below the Local Authority’s forecast would have a detrimental impact on the budget for future years and compromise the ability of the school to prepare for such a situation. Other circumstances, such as changes to the staffing structure could also be subject to scenario planning. These projections should also be shared with governors so they are informed about the impact on the budget.

There is also a risk that if schools do not forecast their finances to quantify the impact of potential changes, they have reduced assurance that the budget is sustainable and without better forward planning, the levels of surplus funds will increase further.

At three schools we also made recommendations about specific improvements to budget planning and accounting practices, where projections had not been included or updated in a timely manner.

1.1.2a Agreed Outcome:

We recommend that schools should consider building alternative budget models, based on a range of scenarios so that they can project how finances will be affected if circumstances vary from what is anticipated. These projections should be shared with Governors to ensure that they are aware of all budget factors.

The L.A. should consider providing further guidance to schools regarding more rigorous budget planning, particularly where there are specific uncertainties. This could also be communicated to schools via the support they receive from their allocated Senior Finance Officers.

Action Plan:

Person Responsible:	Service Manager - Schools Finance	Target Date:	Autumn term Schools Forum and ADL meetings to raise issues. Spring term ADL for any revised processes/guidance.
Management Response:	Schools Finance will review existing budget planning guidance and consider whether it can be improved. Schools Finance will liaise with the Schools Planning Commissioner to establish whether improved information and guidance can be issued in respect of population forecasts.		

2 Risk: Surplus funds are not supported by robust plans, or plans are not fully developed to ensure that funds are spent efficiently, effectively and in a timely manner.

2.1.1 Finding and Impact

Priority 4

Three of the ten schools audited had only notional plans for the use of their surplus balance, and we identified that further work was required to ensure that they produced documented plans that were fully costed and could be delivered in line with their aspirations. The remaining seven schools were able to provide evidence that their plans had been developed and documented.

One of these schools had allocated the remainder of their surplus to a General Contingency fund that represented 21% of their annual budget and there were no documented plans to support how it would be spent. It should be noted that this was the only significant finding across all of the ten schools visited and the only instance where we made a high priority recommendation in relation to the planned use of the surplus balance.

One other school were awaiting confirmation of their future pupil numbers in order to determine whether the surplus budget would be spent on the opening of an additional classroom and we recommended that they should consider alternative plans for the surplus, to ensure that regardless of the outcome, the funds will be spent on the benefit of current pupils.

There is a risk that if contingency budgets are not supported by documented plans for the use of funds, they will not be used for the benefit of current pupils.

**2.1.1a** Agreed Outcome:

We recommend that schools should agree a specific use for their current contingency budget, document their plans including outline costings and monitor the plans through to delivery. Any unallocated surplus should be minimised and subject to ongoing monitoring to ensure that it can be allocated to priorities for the benefit of current pupils.

The L.A. should develop and issue further guidance to schools in respect of contingency budgets and consider implementing a business case requirement, as outlined in the Audit Opinion section of this report.

Action Plan:

Person Responsible:	Service Manager - Schools Finance	Target Date:	Autumn term Schools Forum and ADL meetings to raise issues. Spring term ADL for any revised processes/guidance.
Management Response:	Schools Finance will review the existing process and guidance and compare it to practices at other local authorities.		

**2.2.1** Finding and Impact

**Priority 3**

At three schools we found that priorities identified in the school's Asset Plan or School Development Plan had not been considered as uses of surplus funds, especially where there were items that had not been costed.

There is a risk that priorities will not be delivered and surplus funds will continue to accumulate if schools do not cost their plans and consider whether contingency funds can be released to meet them.

**2.2.1a** Agreed Outcome:

We recommended that further consideration should be given by schools to allocating the carried forward balance towards the priorities identified in the school's Asset Plan or School Development Plan

The L.A. should develop and issue further guidance to schools in respect of contingency budgets and consider implementing a business case requirement, as outlined in the Audit Opinion section of this report.

Action Plan:

Person Responsible:	Service Manager - Schools Finance	Target Date:	Autumn term Schools Forum and ADL meetings to raise issues. Spring term ADL for any revised processes/guidance.
Management Response:	Consideration will be given to using the Schools Forum Technical Working Group and the possibility of setting-up a panel process for additional scrutiny of schools with high surplus balances.		

**3** Risk: Surplus budgets are not subject to regular monitoring to ensure that funds are properly spent on the pupils currently in education, or that the planned use of funds will deliver the intended outcomes.

**3.1.1 Finding and Impact** **Priority 3**

At seven schools, we recommended that they should add a standing item to the agenda of all Governor meetings for specific discussion of the surplus budget. This was because there was either insufficient evidence of ongoing scrutiny by Governors and levels of discussion were not consistent or detailed, or that the minutes lacked detail to indicate the surplus budget was being rigorously monitored.

There is a risk that without a specific item on the agenda, there will be periods where the status of the surplus is not discussed and levels of monitoring may be compromised. The position of surplus funds should be discussed by the Governors on a termly basis.

**3.1.1a Agreed Outcome:**

We recommended that schools should ensure that an item is added to the standard agenda for the Governors to discuss the status of the surplus funds.

**Action Plan:**

Person Responsible:	Not Applicable	Target Date:	Not Applicable
Management Response:	No further action for Schools Finance.		



# Audit Framework and Definitions

Assurance Definitions	
<b>None</b>	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Partial</b>	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Reasonable</b>	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Substantial</b>	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Definition of Corporate Risks	
Risk	Reporting Implications
<b>High</b>	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
<b>Medium</b>	Issues which should be addressed by management in their areas of responsibility.
<b>Low</b>	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations	
<p>When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.</p>	
<b>Priority 5</b>	Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
<b>Priority 4</b>	Important findings that need to be resolved by management.
<b>Priority 3</b>	The accuracy of records is at risk and requires attention.
<p><i>Priority 2 and 1 Actions will normally be reported verbally to the Service Manager.</i></p>	

## Report Authors

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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:

- The officers and governors of the ten schools visited.

## Distribution List

This report has been distributed to the following individuals:

- Ken Rushton, Service Manager - Schools Finance
- Dave Farrow, Head of Improving Outcomes

## Working in Partnership with

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# Statement of Responsibility

**Conformance with Professional Standards**  
SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Auditing Standards.

## SWAP Responsibility

Please note that this report has been prepared and distributed in accordance with agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person.