



Final Internal Audit Report

Howe Dell Primary School

Assurance on Schools Financial Value Standard Controls

Date of Audit Visit: 25/26 June 2019

Issued to: Debra Massey – Headteacher
Tony Young - Chair of Governors
Sam Brown - Chair of Resources Committee

Report Status: Final

Reference: 579

Assurance level **Good**

INDEX

<u>Section</u>	<u>Page</u>
1. Executive Summary	3
2. Assurance by Risk Area	6
Appendix A – Management Action Plan	7
Appendix B – Definitions of Assurance Level and Recommendation Priorities	10

1. EXECUTIVE SUMMARY

Introduction

- 1.1 The Shared Internal Audit Service (SIAS) provides internal audit services to Hertfordshire's maintained schools. Hertfordshire County Council's Schools Audit Strategy includes a requirement to annually establish the effectiveness of financial control, risk management and governance arrangements in a sample of schools. The Schools' Financial Value Standard (SFVS) was included as one of the three themes for 2019/20.
- 1.2 Annual SFVS returns are completed by the schools as a requirement for the Department for Education. This audit evidenced compliance by confirming that the SFVS controls are in operation.
- 1.3 Howe Dell Primary School was included in the sample of schools audited. Each school visited receives an individual report which provides independent assurance regarding the effectiveness of its internal controls in the audited areas. Learning obtained from all audits in the sample is condensed into a single, anonymised report and shared with officers of the County Council and all Hertfordshire schools via the School Bulletin and The Grid.
- 1.4 The audit assessed the effectiveness of controls in the following assurance areas:
 - The governing body and school staff
 - Setting the budget
 - Value for money
 - Protecting public money

Overall Audit opinion

- 1.5 Based on the audit work performed, we can provide overall **good assurance** that there are effective processes in place to mitigate risks in the assurance areas covered in this audit. The Assurance by Risk Area Table in Section 2 gives a more detailed breakdown of this overall opinion. The table at Appendix A shows the work that we covered.
- 1.6 In arriving at our overall opinion we identified that the majority of school systems and processes mirrored the good practice requirements of SFVS. We identified that governance arrangements are robust, with minutes of meetings confirming that governors provide robust levels of oversight on financial matters. We noted that the school have projected a balanced budget for the next three years, actively generating additional income to support the budget. As with the majority of Hertfordshire Schools, the longer term financial outlook is more challenging and work to minimise current in-year deficits will need to be a key objective for the forthcoming years. We provide below a summary of the findings and observations from the areas reviewed during this audit.
- 1.7 In relation to general governance arrangements, we were satisfied that these mirrored the SFVS standards. At the next Full Governing Body (FGB) meeting, due

to the changes to governors, the previous skills assessment is to be updated which will highlight any skills gaps in the FGB. This exercise will also support the school in maintaining appropriate succession planning arrangements for key roles such as the Chair's of the FGB and its committees.

- 1.8 In relation to budget management, we concluded that the current control and oversight arrangements were of a good standard. We identified that whilst the school is able to set a balanced budget for the next two financial years, this relies on the use of reserves to support predicted in-year overspends of £71k in 2020/21 and £100k in 2021/22. We have advised the school as part of the 2020/21 budget setting process more formalised plans should be created to detail how the school will attempt to reduce, or ideally eliminate, the current predicted in-year deficits.
- 1.9 A key area of expenditure to be considered within the above is staffing. The Education Funding Agency (EFA) has provided guidance indicating that where staff costs exceed 75% or more of total funding, this is considered to be unsustainable in the long term. The KPI's on the Medium Term Financial Plan shows that the school's staff is 78% of income.
- 1.10 In relation to value for money and protecting the public purse, we were satisfied that these mirrored the SFVS standards. In previous year's the fund account had not been audited so had not met the SFVS standard, see below.

Recommendations

- 1.11 To further strengthen internal control we have made two medium priority recommendations. There are five advisory actions raised at 1.15-1.19 of the report below. Details of the recommendations are shown in the Management Action Plan at Appendix A with explanations of priority levels attached as Appendix B.
- 1.12 Included in the Management Action Plan are the associated potential risks, related to the audit finding. These are included to give context to the issues reported. The associated potential risks are not statements of the current situation in school but are suggestions as to what could potentially occur as a result of a recommendation not being acted upon.
- 1.13 The matters raised in this report are those which came to our attention during the audit visit. They are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Advisory Actions

- 1.14 During the course of this audit we identified the following findings that, whilst not presenting a material risk to the robustness of the control environment, merit action by the school.
- 1.15 Governors Skills

The Chair of Governors of the school will be leaving at the end of term and takes with her a wealth of experience, however we are aware that there is an appropriate

pool of experienced governors who would be able to assume this role going forward. We were informed that a full governors skills audit will be undertaken at the next Full Governing Body, including any new governors, to support future governor training and development, or identify any skills gaps for the Governing Body as a whole.

We noted that members of the Resources Committee had also completed the governors financial competency matrices but for each competency area there was a tick instead of a score. As a minor improvement we we highlight that future matrices should be completed with the scored assessment of competency, as this will allow the assessments to more clearly indicate the range of experience or knowledge of governors for the purpose of the assessment of the committee as a collective.

1.16 Resources Committee Terms of Reference (ToR)

The Resources Committee ToR only includes the responsibilities delegated to the Committee. It does not include any of the more general governance arrangements of the committee such as voting rights, frequency and timing of meetings and quoracy requirements. We noted that the above elements were included in the ToR for the FGB, and therefore advise that a similar approach should be followed for sub-committee ToR's for completeness purposes.

1.17 Staff Financial Competency Matrices

We identified that staff involved in financial management and processing activities at the school had completed a document similar to that completed by governors, rather than the more specific competency assessment for staff.

Since the audit visit, we have been sent a copy of the finance staff competencies using the appropriate form, which the school will use to assess any future training needs of the office staff.

1.18 Medium Term Financial Plan (MTFP)

Although there is a significant surplus at the school of £223K (which includes surpluses for both the school and the day care together), the current budget for 2019/20 shows an in-year deficit of £43K increasing to an estimated £71K for 2020/21 and continuing to increase going forward. Based on discussions with the Head Teacher we are aware that the existing MTFP projections can be supported through retained reserves for the next two years, with the extent of in-year deficits also likely to be lower than forecast due to consultancy income relating to work performed by Head Teacher and other school staff. We noted that such consultancy income has not been included within the MTFP income projections as this work may not continue if the existing staffing structure were to change.

The above suggests that the existing MTFP forecasts are produced using a cautious approach, however for the 2020-21 budget we recommend that consideration is given to either reflecting consultancy income within the MTFP projections, or alternatively the school should investigate other alternative routes to bridge the current gap between forecast income and expenditure. If the latter approach is

adopted the school should create a formal savings or efficiencies strategy as part of the 2020-21 budget setting process, with delivery of this overseen by Governors.

1.19 School Fund Account

The School Fund Account had been audited this year and met the timescales recommended within the SFVS. We did note that prior years had not been subject to independent review and therefore it is important that the school continue with the current approach going forward. However, we noted that the Office Manager has always provided the Resources Committee with annual reports on the fund account.

2. Assurance by Risk Area

2.1 Our specific objectives in undertaking this work, as per the Terms of Reference, were to provide Hertfordshire County Council and the school with assurance on the adequacy and effectiveness of internal controls, processes and records in place to mitigate risks in the following areas:

Risk Area	No	Limited	Satisfactory	Good
The Governing Body and School Staff (SFVS Q1-8)				
Setting the Budget – (SFVS Q10-13)				
Value for Money – (SFVS Q14 & 15)				
Protecting Public Money – (SFVS Q21, 23 & 24)				
SFVS Overall				





2.2 Please see definitions for the above assurance levels at Appendix B.

No.	Finding / Associated Risk	SFVS Reference	Priority	Recommendation	Management Response	Target Date
1.	<p>School Development Plan (SDP)</p> <p>From review of the school's SDP we identified that the total cost of development activities for 2018-19 totalled approximately £28K.</p> <p>Whilst including the costs associated with proposed activities, the SDP does not currently provide a clear demonstrable link to the budget from which each activity will be funded from.</p> <p><u>Associated Potential Risk</u> The absence of available budgets to meet the costs on the SDP may result in the school's priorities not being met as they are unaffordable. This may impact negatively on the educational experience of the children in the school.</p>	B10	Medium	Budget codes should be included in future SDP's to provide a link between the school's budget and its proposed development activities.	<p>Action Owner: Head</p> <p>There are codes throughout the School Plan but these were minimised in Financial Mid Term Forecast due to expected shortfall in contingency arising from mixed FSS advice. New money raised was 'held back' as we were alerted there was a risk to sustainability of Day Care and school funding which could jeopardise staffing: this proved not to be the case.</p> <p>Action to be taken: Development Plan for financial large projects can be more realistically planned now consistent FSS</p>	Next Budget Setting year from Feb to May 2020 when new School

No.	Finding / Associated Risk	SFVS Reference	Priority	Recommendation	Management Response	Target Date
					advice received and not dependent on consultancy.	Plan will be written.
2.	<p>Hospitality/Wellbeing Policy</p> <p>A hospitality policy is in place at the school relating to some of the wellbeing options available to staff should they meet the criteria. However we identified that some elements of the policy were not sufficiently clear and no maximum level of expenditure in relation to hospitality appeared to have been set for individual staff members.</p> <p>Finally we noted that the hospitality / wellbeing policy does not currently state the key objectives or outcomes that the policy is attempting to achieve. In the absence of this it may be more difficult for the school to justify how specific expenditure made aligns to the policy.</p>	A8	Medium	<p>We recommend that the hospitality policy is updated to provide greater clarity over expenditure types, limits and sources of funding. The policy should also include a maximum expenditure value per annum available for each individual staff member, should they meet the criteria.</p> <p>We also recommend that clearer definitions are included (or a separate policy created) of the over-riding aims and objectives of the schools approach to wellbeing, thereby allowing the school to more clearly demonstrate how expenditure made links to the policy.</p> <p>The amended policy should be approved by</p>	<p>Action Owner: Office Manager and Head to prepare for FGB.</p> <p>Limits of £15/head for food and drink already in place as is cost per head for flowers or individual recognition. Any specific large expenses eg supplementing Christmas meal is already agreed and logged in FGB minutes, which were available to the auditor.</p> <p>Again staff well-being such as 'Smiley Days' is noted in annually updated Staff</p>	

No.	Finding / Associated Risk	SFVS Reference	Priority	Recommendation	Management Response	Target Date
	<p><u>Associated Potential Risk</u></p> <ul style="list-style-type: none"> • Inappropriate use of funds where policy is unclear. • Wellbeing options available to staff challenged by parents leading to reputational damage of the school. 			governors with the approval minuted. The policy should also be subject to periodic review in accordance with the timeline for reviewing the policies.	<p>Handbook which was made available and highlighted for Auditor. This is agreed by FGB each July. This is at no cost to School. Further evidence was submitted on request to endorse this during 2 weeks after the audit had been completed.</p> <p>Action to be taken: Review wording in Staff handbook and cross reference with Hospitality Policy.</p> <p>Also full review of staff well-being and work/life balance currently underway.</p>	<p>Sept 2019 (Hospitality Policy) Jul (as ever) 2020 for annual review of Staff Handbook.</p> <p>Initial indications of key issues raised with staff Summer 2019 and submitted to FGB Sept 2019. Began April 2019 and continued at INSET Sept 2019 to be presented with staff voice at Sept 2020 FGB, then updated via policies Dec 2019.</p>

Assurance Level	Definition
Good	The design and operation of the internal control framework is effective, thereby ensuring that the key risks in scope are being well managed and core objectives will likely be achieved. There are minor reportable audit findings.
Satisfactory	The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements.
Limited	The system of internal control is only partially effective, with important audit findings in key areas. Improvement in the design and/or operation of the control environment is necessary to gain assurance risks are being managed to an acceptable level, and core objectives will be achieved.
No	The system of internal control has serious gaps, and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.

Priority Level			Definition
Corporate	Critical		Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
Service	High		Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
	Medium		Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low / Advisory		Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.