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Dear Member

GOVERNANCE AND AUDIT COMMITTEE - THURSDAY, 26 JANUARY 2023

I am now able to enclose, for consideration at the Thursday, 26 January 2023 meeting of the Governance and Audit Committee, the following reports that were unavailable when the agenda was printed.

Agenda Item No

10 **Schools Audit Annual report (Pages 1 - 6)**

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ben Watts', is written over a faint circular stamp.

Benjamin Watts
General Counsel

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From: Rory Love, Cabinet Member for Education and Skills
Sarah Hammond, Corporate Director of Children, Young People and Education

To: Governance and Audit Committee – 26 January 2023

Subject: **SCHOOLS AUDIT ANNUAL REPORT- PERIOD APRIL 2021 TO MARCH 2022**

Classification: Unrestricted

Past Pathway of report: None

Future Pathway of report: **N/A**

Electoral Division: All

Summary: Kent County Council's (KCC) Chief Finance Officer (CFO) has to annually certify to the Department for Education (DfE) that there is a system of audit for Local Authority (LA) Maintained schools that gives adequate assurance over the standards of financial management and the regularity and propriety of their spending.

FOR ASSURANCE

1. Introduction

- 1.1 The DfE requires that the CFO, (i.e., the Corporate Director of Finance), signs an annual assurance statement by the 31 May each year, confirming that there is a system of audit for schools which gives adequate assurance over their standards of financial management and the regularity and propriety of their spending.
- 1.2 The content of this report provides detail of processes, metrics and controls that give the necessary assurance needed for the CFO to sign the annual DfE assurance statement.

2. Approach

- 2.1 The following are processes, metrics and controls that provide assurance over the financial management standards in LA schools, these processes unless stated are carried by Schools Financial Services (SFS), a service within The Education People:
- 2.2 Financial Compliance Programme – Each LA school will receive a financial compliance visit at least once every four years that consists of 120 targeted questions covering 8 different areas of control including Governance and Leadership, Financial Planning and Monitoring and

Procurement.

- 2.3 Due to Covid the financial compliance programme was suspended for the period March 2020 to September 2021 (17 Months). One consequence of suspending the programme was that some schools did not have a visit within the four year cycle. In order to meet the criterion of a visit once every four years at the soonest opportunity, KCC provided funding so that additional SFS resources could be focused on the compliance programme. During the period September 2021 to August 2022, 158 schools were visited compared to a typical year of between 100 and 105 schools. The compliance programme now meets the criterion of a school visit once every four years
- 2.4 Internal Audit of the Compliance Programme – The KCC Internal Audit Team annually (May/June) carry out an audit of the compliance programme to gain assurance that it is a robust programme. Due to other priorities elsewhere, Internal Audit removed it from their audit programme for 2022-23, therefore an audit has not taken place in respect of the period 2021-22. It is expected that Internal Audit will recommence the annual audit in 2023-24 for the period 2022-23
- 2.5 Financial Value Standard SFVS- Schools complete an annual self-assessment which is agreed by governors and is sent to SFS as part of schools' statutory returns. This document is referred to when conducting a compliance visit and is referenced within the report against any recommendations made. All 311 LA schools (1 Nursery, 263 primary, 21 Secondary, 21 Special, 5 PRU) submitted a return that met the required deadline.
- 2.6 Budget and monitoring statutory returns – LA schools have to provide annually a 3 Year Budget Plan by the 31 May, 6 and 9 month monitoring during the year and year end outturn. All schools have been compliant in providing these returns. SFS robustly scrutinise financial returns including using trend analysis, so that schools can be identified at the earliest opportunity if there is any sign of financial viability risk.
- 2.7 Traded financial services - SFS provides two types of financial service to schools, the benefit of this is twofold, the first is that it supports good financial management in schools and the second is that a gross profit margin of around 30% is achieved which contributes towards the cost of statutory services, for example free financial training to schools. The two types of traded services are:
- An individual school specific bursarial service for around 106 schools at any point in time throughout the year.
 - A Help Desk service providing guidance and support on school specific finance related matters, where around 405 schools subscribe. For the period April 2021 to March 2022 there were 16,101 (phone calls 6,293, emails 9,808) logged and completed incidents.

- 2.8 Training- There is a comprehensive finance training programme for Headteachers, senior leaders, bursars and governors and Finance Information Groups for bursars and other finance staff. During 2021-22 there were 99 training courses and 3 Finance Information Groups attended by over 1500 delegates from Kent maintained schools and academies.
- 2.9 School Finance Systems Support – A key component in maintaining financial management standards in schools is to ensure that schools have the appropriate financial systems and tools to achieve this. KCC (via SFS) currently support a monitoring and budgeting system called Business Planning Software provided by a company called Orovia and a financial accounting system called Financial Management System 6 provided by Education Solution Software.
- 2.10 KCC annual audit of accounts – Sample testing of schools’ financial statements are included in the annual KCC audit carried out by Grant Thornton.
- 2.11 Deficit Schools – If there was one statistic to evidence that there is good financial management in LA schools it is the number of schools in deficit, which should be considered in the context that Kent’s average Dedicated Schools Grant (DSG) National Funding Formula (NFF) per unit of funding is in the bottom 20%.

At the end of the financial year 2021-22, 1.6% (5 schools) of Kent LA schools were in deficit, compared to LA national average of 8.8%. 1.5% (4 schools) of Kent LA primary schools were in deficit compared to 7.6% nationally, 4.7% (1 school) of Kent LA secondary schools were in deficit compared to 12.9% nationally and 0% of Kent LA Special schools were in deficit compared to 9.8% nationally.

If Kent were at the national average of 8.8% they would have 27 LA schools in deficit. The individual deficits of the four Primary schools are £191; £4,665; £4,917; and £22,220 making an average of around £8,000 per school compared a national average of £65,000 per school. The deficit of the one secondary was £109,505 compared to the national average of £680k per secondary school.

3. Summary of Findings

- 3.1 Alongside the compliance programme, the analysis of returns, training programme and traded activities with schools, SFS regularly liaise and work with other colleagues who support schools. This includes meetings with Area Education Officers, School Improvement Officers and Governors’ Service Officers to ensure KCC have a complete picture of a school, so that support can be provided to the Headteacher, finance staff and governors to ensure the school is financially well managed.

- 3.2 The compliance programme was suspended for 17 months and due to the dedication and additional commitment of the compliance team all schools from the 1 September 2022 are within the set criterion of a compliance visit at least once every four years.
- 3.3 The comparative data shows favorably the number of schools in deficit and the value of the deficits, which strongly suggests that financial management controls in place and non financial support network is robust and effective for Kent LA schools.

4. Opinion

- 4.1 It is considered that the comprehensive compliance programme analysis of statutory returns, financial training programme, support for schools in deficit and preventing them going into deficit, traded work completed in schools and the schools' own self assessments provide suitable assurance for the CFO to sign the annual DfE assurance statement.

5. Recommendations

- 5.1 Members are asked to note the contents of this report for assurance.

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**Schools Financial Services
Compliance Comparison**

Table 1 - from Sept 2021 to Mar 2022

Table 2 - from Apr 2022 to Aug 2022

Table 3 - from Sept 2022 to Present

	Total 2021-22
Total schools tested:	110
Total questions within each compliance visit	120
If process/procedure not in place:	
Total number of Critical recommendations	63
Total number of Requires Action recommendations	57
Total number of processes/procedures tested in all schools	13,200
Total number of processes/procedures not in place for all schools tested	1,113
% processes/procedures NOT in place	<u>8.43%</u>

	Total 2022-23
Total schools tested:	48
Total questions within each compliance visit	120
If process/procedure not in place:	
Total number of Critical recommendations	63
Total number of Requires Action recommendations	57
Total number of processes/procedures tested in all schools	5,760
Total number of processes/procedures not in place for all schools tested	651
% processes/procedures NOT in place	<u>11.30%</u>

	Total 2022-23
Total schools tested:	30
Total questions within each compliance visit	118
If process/procedure not in place:	
Total number of Critical recommendations	60
Total number of Requires Action recommendations	58
Total number of processes/procedures tested in all schools	3,540
Total number of processes/procedures not in place for all schools tested	285
% processes/procedures NOT in place	<u>8.05%</u>

Critical recommendations by Category	Total Questions Per School	Total Questions	Processes Not in Place	%	% Variance 17-18 to 18-19	Total Questions Per School	Total Questions	Processes Not in Place	%	Total Questions Per School	Total Questions	Processes Not in Place	%	% Variance 18-19 to 19-20	Changes From 18-19	Changes From 19-20
															Removed	Removed
Governance & Leadership	8	880	65	7.39%	7.39%	8	384	33	8.59%	7	210	17	8.10%	0.71%	1.01e	
Finance Policy	2	220	17	7.73%	7.73%	2	96	6	6.25%	2	60	9	15.00%	7.27%		
Financial Planning and Monitoring	6	660	65	9.85%	9.85%	6	288	29	10.07%	6	180	16	8.89%	-0.96%		
Bank Account and Petty Cash	15	1,650	153	9.27%	9.27%	15	720	108	15.00%	13	390	21	5.38%	-3.89%	3.03b	3.03c
Financial Controls	15	1,650	37	2.24%	2.24%	15	720	19	2.64%	15	450	15	3.33%	1.09%		
Payroll	7	770	101	13.12%	13.12%	7	336	67	19.94%	7	210	17	8.10%	-5.02%		
Procurement	7	770	109	14.16%	14.16%	7	336	62	18.45%	7	210	34	16.19%	2.03%		
Assests	3	330	16	4.85%	4.85%	3	144	11	7.64%	3	90	4	4.44%	-0.40%		
Total	63	6,930	563	8.12%	8.12%	63	3,024	335	11.08%	60	1,800	133	7.39%	-0.74%		
Requires Action recommendations by category															Added	Added
Governance & Leadership	12	1,320	123	9.32%	9.32%	12	360	86	23.89%	13	390	47	12.05%	2.73%	1.01e	
Finance Policy	12	1,320	119	9.02%	9.02%	12	360	57	15.83%	12	360	32	8.89%	-0.13%		
Financial Planning and Monitoring	9	990	80	8.08%	8.08%	9	270	36	13.33%	9	270	23	8.52%	0.44%		
Bank Account and Petty Cash	3	330	62	18.79%	18.79%	3	90	34	37.78%	3	90	11	12.22%	-6.57%		
Financial Controls	9	990	18	1.82%	1.82%	9	270	14	5.19%	9	270	1	0.37%	-1.45%		
Payroll	0	0	4	0.00%	0.00%	0	0	1	0.00%	0	0	0	0.00%	0.00%		
Procurement	6	660	64	9.70%	9.70%	6	180	47	26.11%	6	180	14	7.78%	-1.92%		
Assests	6	660	80	12.12%	12.12%	6	180	41	22.78%	6	180	24	13.33%	1.21%		
Total	57	6,270	550	8.77%	8.77%	57	1,710	316	18.48%	58	1,740	152	8.74%	-0.04%		
Overall Total	120	13,200	1,113	8.43%	8.43%	4,734	651	13.75%		3,540	285	8.05%	-0.38%			

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