

<b>Item No.</b>	<b>Classification:</b> Open	<b>Date:</b> 15 November 2023	<b>Decision Taker:</b> Audit, Governance and Standards Committee
<b>Report title:</b>		Response to Internal Audit Schools Summary Report 2022-23	
<b>Ward(s) or groups affected:</b>		All	
<b>From:</b>		Director, Children's Services	

## **PURPOSE OF REPORT**

1. The purpose of this report is to inform the Audit, Governance and Standards Committee in detail about the work undertaken by officers in relation to the common themes identified in the Internal Audit Schools Summary Report 2022-23 for London Borough of Southwark (henceforth referred to as Summary Report 2023). It does not provide information on individual schools.

## **RECOMMENDATION(S)**

2. That the Audit, Governance and Standards Committee note this report.

## **BACKGROUND INFORMATION**

3. On 17 July 2023 the Audit, Governance and Standards Committee considered the Summary Report 2022-23. The report summarises the approach and key findings regarding the London Borough of Southwark school audits which were completed during 2022/23 by BDO LLP on behalf of the Council. The committee recommended to invite the Director of Education to the Audit, Governance and Standards Committee in September 2023.
4. On 6 September 2023 the Audit, Governance and Standards Committee received a short report from the Director of Education who was unable to attend. The committee requested a more detailed report be provided to the committee.
5. The Council has overall responsibility for 66 maintained schools in Southwark. The Council has no responsibility for schools who are academies, or private schools.

## KEY ISSUES FOR CONSIDERATION

### Summary of legal framework for financing maintained schools

6. The statutory responsibilities of the governing body of a maintained school are detailed in [section 21 of the Education Act 2002](#).
7. Their key financial roles are to:
  - manage the school budget
  - decide on how to spend the delegated school budget, depending on any conditions for maintained schools set out in the local authority scheme for financing schools
  - be consulted by their local authority on funding
  - ensure accurate school accounts are kept
  - determine the number and type of staff and a pay policy in accordance with the [school teachers' pay and conditions](#)
  - act as a 'critical friend' to the headteacher by providing advice, challenge and support
8. Local authorities are required to publish schemes for financing schools, setting out the financial relationship between them and the schools they maintain. This is set out in issue 15 (March 2023) of statutory guidance given by the Secretary of State pursuant to s.48(4) and paragraph 2A(2) of Schedule 14 to the School Standards and Framework Act 1998, [School Standards and Framework Act 1998](#).
9. The Council scheme for financing schools was updated in April 2023 and is publicly available on the Schools Finance section of the council website ([Scheme for Financing Schools April 2023](#)).
10. The purpose of the scheme is to set out the financial relationship between the local authority the London Borough of Southwark; hereafter, "Southwark", or "LA" or the "authority and its maintained schools. The scheme sets out the requirements for sound financial management and associated issues.
11. The scheme makes clear the Council's overall responsibility to monitor school finances, and the governing body of maintained schools responsibility to manage and be accountable for their delegated school budget.

## Approach to schools audit and governance

12. The Summary Report 2023 sets out the approach to the internal audit of schools. It describes the hiatus in such auditing at the outset of the Covid 19 pandemic particularly through the year 2020/21. It notes the resumption of a full programme of audits in 2022/23 that covered 20 schools.

13. The Summary Report 2023 states the purpose of a school audit as follows:

*The purpose of a school audit is to assess whether adequate controls are in place to help prevent financial management weaknesses within the school that could result in budget overspend or inappropriate expenditure.*

14. At the start of every school year the Council makes an assessment of risk factors associated with a school and ranks schools as a low, medium or high risk.

15. A high-risk school would be scheduled for an internal audit each year. A low risk school will be scheduled for an internal audit once every four years.

16. The programme of schools to be audited each year has been agreed by the Director of Education in consultation with senior officers with overview and understanding of the workings of schools, each schools financial position, and the annual risk assessment. This allows schools to be prioritised with some brought forward or delayed as needed. For 2024-25 onwards this programme will be agreed by the Director of Children's Services following the same considerations.

17. The findings of each audit are shared with the Head Teacher and the Chair of Governors who provide a response to each of the recommendations alongside proposed actions to address these. A school lead is identified for each recommendation and a timescale for completing it.

18. A final report is then issued and the governing body should discuss the report at the next meeting of the school governing body. Senior Education and Finance officers receive a copy of all final reports.

19. All concerns relating to good financial governance are followed up with Chairs of Governors and Head Teachers in the ongoing work with schools and the Schools Finance Team as necessary. Issues may, where appropriate, also be revisited through the schools deficit recovery process.

20. A quarter of all schools audited during 2022-23, that is five in total, were assessed with a limited assurance level for the effectiveness of their internal financial control environment. The identified areas identified for improvement are primarily addressed by supporting schools with targeted training, refreshed procedural guidance and general briefings to school leadership teams. No schools were found to have no level of assurance.
21. Some of the issues identified indicate stretched capacity at schools and highlights lack of experience and expertise. Thus a range of training is provided via the [Training and Development Programme 2023-24](#) so that procedures and processes are tightened.
22. Targeted and timely information is shared through regular communication with governors, school leadership teams and school business managers either directly or through clerks/governor development advisors via: Governor Services Clerk's Briefings; Chair of Governor's Forum; Southwark Governors Association; monthly Schools Bulletin; Southwark Education Website; GovernorHub; Head Teacher Breakfast Briefings; Head Teachers Induction packages.
23. The common themes identified in the Summary Report 2022/23 are found in other local authorities and the systems and processes to support schools good financial management have been developed over many years, often through feedback from schools and auditors about what is useful.
24. Specific actions taken to support schools in response to the common themes are outlined in Table 1 below.
25. More general risks and issues facing all schools and the Council are outlined in Tables 2 and 3.
26. It is important for the committee to note that the number of maintained schools in deficit has reduced from 24 in 2019-20, to 14 at the end of 2022-23, reflecting the positive impact of the action taken to strengthen and support financial management in schools.

**Table 1: Response to Internal Audit common themes**

Area	Comment	Action
Governance	<p>Irregular review of:</p> <ul style="list-style-type: none"> <li>• Register of Business Interests</li> <li>• Scheme of Delegation</li> <li>• Financial Procedures</li> </ul>	<p>Online resources can be located on the <a href="#">School Governors</a> website linking to all relevant statutory documents and includes an annual work planner which covers the need to update the Register of Business Interests annually. Many of the courses available to all governors in the <a href="#">Training and Development Programme 2023-24</a> cover the same requirements.</p> <p>The termly Chair's Forum also provides an opportunity to communicate to schools the common themes emerging from Internal Audits.</p> <p>A revised School Financial Procedures Manual (SFPM) and model Schools' Scheme of Delegation due for release in time for the 2024-25 financial year, to be accompanied by enhanced training highlighting main areas of concern in internal audit findings. The current SFPM is located at <a href="#">Schools Finance</a> website.</p>
Bank Account	<ul style="list-style-type: none"> <li>• Direct debit mandates not retained or up to date</li> <li>• Preparation and review of bank reconciliations not complete</li> </ul>	<p>The New Governor Induction training course, module 6: School Finance (presented by Southwark Schools Finance team) explains the governors' role and responsibilities in overseeing the financial management in their schools and broadly covers the content of the SFPM which specifically addresses the requirement to retain direct debit mandates and complete monthly bank reconciliations</p>
Budget	<ul style="list-style-type: none"> <li>• Cashflow forecasting not completed</li> <li>• Budgets not approved by 31/05</li> </ul>	<p>The SFPM contains a specific section on Cash Flow Management, including the requirement to monitor monthly, and having an approved budget by 31<sup>st</sup> May each year.</p> <p>The detail in the SFPM is supplemented by the Budget planning and monitoring training course (held twice each year) which provides a practical, hands-on course involving working with governors' own school budget plans and budget monitoring reports.</p> <p>The Schools Finance Team will follow up any outstanding Budget Plans and escalate continuing delays to the Education Leadership Team.</p>

Area	Comment	Action
Payroll	<ul style="list-style-type: none"> <li>• Payroll reports not signed by preparer and reviewer</li> <li>• Overtime claims not signed</li> <li>• Starter/leaver forms not retained</li> </ul>	<p>The SFPM contains a specific guidance on the authorisation of payments and the need for appropriate divisions of duty.</p> <p>Training, accompanying the launch of the revised SFPM, will highlight these areas of concern.</p>
Procurement	<p>In most cases, no evidence that sufficient number of quotes had been obtained to:</p> <ul style="list-style-type: none"> <li>• appoint a provider (Payroll and IT)</li> <li>• purchase goods/services</li> </ul>	<p>The SFPM review included increased attention to ensure that schools' procurement rules were consistent with the Councils Contract Standing Orders and the model Scheme of Delegation, training will highlight this aspect as well as the need to retain documentary evidence.</p>
Data	<p>No evidence that sufficient number of quotes had been obtained for ICT contract</p>	<p>See above action in response to the main findings re: procurement</p>
Cash	<p>Cash collection processes not subject to adequate separation of duties</p>	<p>Cash is increasingly obsolete due to digital forms of payment but schools will be reminded of appropriate controls that need to be in place for any cash collection/expenditure processes – included in SFPM and covered in governor's training programme.</p>

**Table 2: General financial risks – Schools**

Area	Comment	Action
<p>Balancing the Budget - governing bodies are required to set a balanced budget annually.</p>	<p>Austerity and the significant reduction in pupil numbers has put extraordinary financial pressure on schools.</p> <p>As funding decreases, running costs are rising due to staff pay, energy and contractual commitments. Schools are increasingly diverting their limited resources to support vulnerable and disadvantaged children and families through the cost of living crisis and general loss of learning due to the pandemic.</p>	<p>The Keeping Education Strong (KES) strategy was agreed by Cabinet in December 2022 (item 10) as an approach for future-proofing the quality of education and supply of school places. The strategy set out the phenomenon of falling school rolls, provides an assessment of the financial risk and outlines an approach to deal with this, based upon a series of options to be taken by the council and local schools.</p> <p><a href="#">Place planning Across Southwark’s Primary Schools: A strategy for future-proofing quality and supply</a></p> <p>This was followed by a report in June 2023 where Cabinet (item 8) agreed to a number of Pupil Admission Number reductions and school amalgamations.</p> <p><a href="#">KES Recommendations</a></p> <p>A School Place Planning report is presented to Cabinet, annually, with the most recent noted in October 2023 (item 12).</p> <p><a href="#">Annual School Place Planning report 2023<sup>1</sup></a></p>
<p>School Estate – condition of schools buildings / vacant buildings</p>	<p>The condition of school buildings is deteriorating, with many requiring significant reconstruction or refurbishment.</p> <p>Between 2009-10 and 2022-23, DfE capital spending declined by 28% in cash terms and 46% in real terms<sup>2</sup>.</p> <p>The <a href="#">School Rebuilding Programme</a> (launched June 2020) funds the replacement of 400 ageing school</p>	<p>Appointment of dedicated Education Capital Projects Officer (July 2023)</p> <p>Developing a centralised Education Asset database for all maintained schools, including CAD plans, condition surveys and Net Capacity Assessments. The data collected from the surveys will shape the school capital program for the next two years. The new survey results will be given priority, and the works will be scheduled for 2025-26 delivery with major works scheduled in school holiday periods</p> <p>RAAC inspections on all Southwark maintained schools completed by 4<sup>th</sup> September 2023 with no RAAC found in any of the schools.</p> <p>Cross council working to maximise funding to meet the Council’s net zero targets in</p>

<sup>1</sup> Surplus capacity @ reception 2022: 22%, 2023: 17%; 2024 (post KES): 10%

<sup>2</sup> [House of Commons Library Research Briefing: "School buildings and capital funding"; 19 October 2023](#)

Area	Comment	Action
	<p>buildings in poor condition schools of which one, Dulwich Hamlet Junior School, is located in Southwark.</p> <p>The National Audit Office report <u>Condition of School Buildings</u> (June 2023), found that the national rate of school rebuilding is significantly below what the DfE estimated was required to maintain the school estate.</p>	<p>schools, synchronising the current maintenance programme with energy efficient repairs and replacement.</p> <p>The Council is committed to continuing to progress initiatives to reduce air pollution around schools:</p> <ul style="list-style-type: none"> <li>• Southwark School Air Quality Audits finalised in March 2023</li> <li>• liaising with 23 schools to share the findings of the issues and recommendations, and discuss what priorities they would like to see progressed, making use of a £5,000 Air Quality Starter Grant (e.g. walking routes, secure and weatherproof storage for cycle and scooter parking, screening from passing traffic in playgrounds and outdoor spaces, electric vehicle charging points)</li> <li>• support schools in identifying potential funding opportunities, to implement some of those measures identified (e.g. natural ventilation, inefficient heating, ageing boilers, implement / improve functionality of Building Management Systems)</li> </ul> <p>Opportunities from the proposed rationalisation of the School Estate include potentially raising additional funds to re-invest in a capital programme and /or offset any deficit balance that may fall to the LA by:</p> <ul style="list-style-type: none"> <li>• Disposing of Premises Managers houses that are surplus to requirements; or</li> <li>• Consider disposal of schools sites no longer required, recognising that LAs require the Secretary of State’s (SoS) consent<sup>3</sup> to dispose of or appropriate school land and to change the use of school playing field land and also must notify the SoS of any proposal to change the use of school land so that it ceases to be capable of school</li> </ul>

---

<sup>3</sup> Section 77 of the *School Standards and Framework Act 1998*



Area	Comment	Action
		<p>use.</p> <ul style="list-style-type: none"> <li>• Surplus schools sites could be utilised as alternative educational provision<sup>4</sup> or explored for the potential as income generating sites whilst being retained for any future change in future education demand.</li> </ul>

---

<sup>4</sup> see Item 8 [Education and Local Economy Scrutiny Commission, 19/10/2023](#)

**Table 3: General financial risks – Local Authority**

Area	Comment	Action
Number of schools in deficit	<p>14 maintained schools have a 2022-23 year-end deficit balance,</p> <p>Whilst there will be a positive impact on the overall financial position of schools as a result of the school organisation changes under the Keeping Education Strong strategy, if a school closes with a deficit balance remaining that balance still falls to the Council's general fund and, therefore, the residents of Southwark.</p>	<p>The number of maintained schools in deficit has reduced from 24 in 2019-20, to 14 at the end of 2022-23, reflecting the positive impact of the action taken to strengthen and support financial management in schools:</p> <ul style="list-style-type: none"> <li>• Reviewed and amended Southwark's Scheme for Financing Schools, strengthening governance arrangements for approval of licensed deficits;</li> <li>• Developed a licensed deficit framework, enshrining all party's responsibilities and input into the process from first identifying the need to set a deficit budget to approval, monitoring and elimination of the deficit;</li> <li>• Deficit draft recovery plans in place, in accordance with the Scheme, for all maintained schools with deficit balances ;</li> <li>• Commissioned School Resource Management Adviser (SRMA), a free DfE resource, completing a deep dive financial analysis of three schools with more problematic financial positions;</li> <li>• Implemented the Balance Control Mechanism, capping schools' excess balances. – with further controls anticipated for 2024-25</li> </ul>
Dedicated Schools Grant (DSG) Deficit	<p>Southwark entered into a formal Safety Valve Agreement (SVA) with the DfE during 2022-23, securing £23m in order to eliminate the DSG deficit by 2026-27.</p> <p>The Council must successfully meet the financial targets in terms of both value and timeline as evidence of meeting the conditions of the SVA and thus secure the full funding</p>	<p>SEND Transformation / Safety Valve Delivery Programme established in January 2023 to support and monitor the progression and delivery of the actions required to achieve the financial targets contained in the agreed DSG Management Plan and compliance with the conditions of the agreement.</p> <p>In order to do so, the Council acknowledged the need to invest in the delivery of the SEND Strategy programme to secure the savings proposed in the DSG Management Plan. This overall investment has been secured and resources are in situ to support the implementation within the timescales committed to.</p> <p>Two risks associated with the Council's capacity to implement the agreement have been mitigated to the extent that they no longer present a significant risk:</p>

Area	Comment	Action
	required to eliminate the DSG deficit.	<ul style="list-style-type: none"> <li>• The assessed shortfall in officer capacity to deliver the SEND Strategy and the DSG management plan has been addressed by the injection of Council investment and securing the necessary extra resource required, as outlined above.</li> <li>• The Council has also moved quickly to ensure continuity in leadership and filled key posts as vacancies have arisen.</li> </ul> <p>£9.22m grant received in 2022-23 with additional £1.847m received after two successful monitoring reports evidencing that the programme is currently on track. Final monitoring report for 2023-24 (of tri-annual reporting to the DfE) due in December 2023.</p>
Statutory override and impact on general reserves	<p>In 2020, the government introduced a three year statutory override which separates DSG deficits from Councils' wider financial position. The statutory override has since been extended from 2023-24 to 2025-26.</p> <p>This recent decision by the government means that the DSG deficit will not be transferred back to the Council's total Earmarked Reserves leading to serious financial implications to local authorities.</p>	<p>If the DfE were to lift the statutory override for the DSG, most boroughs facing a DSG deficit noted that would place their general fund reserves under substantial pressure.</p> <p>If the Safety Valve delivery programme continues to remain on track and all other things remaining equal, Southwark expects to have eliminated the DSG deficit before the override is lifted.</p>

27. The Council must raise expectations regarding compliance to the rules and procedures – continuing to following up with non-compliant schools to facilitate the required processes and procedures becoming business as usual. This should happen alongside the review of the Scheme for Financing Schools and School Financial Procedures.
28. This in turn will create capacity to provide value added services, including helping to identify additional support or considering more serious intervention in schools causing concern by:
- regularly updating financial indicators for priority support to provide the financial analysis aspect of assessing those schools undertaken by the Education directorate;
  - reporting, in line with monthly budget monitoring reports, to the Education directorate to support statutory responsibilities in respect of schools causing concern and powers of intervention, including the withdrawal of financial delegation, when there is a breakdown in the way a maintained school is managed or governed, including evidence of poor financial management and oversight (e.g. consistent overspending of the school's budget beyond agreed thresholds);
  - facilitating an annual report on Internal Audit outcomes and actions the Council may take to further support schools improving their assurance levels to the School Forum.
29. Further opportunity to may be gained by investigating and supporting schools to minimise any underlying differences in the conclusions between the School Financial Value Standard and Internal Audit reports;
- focus on those schools that are in financial difficulty; and
  - continue to horizon scan and determine the financial impact on the Council of government policy, particularly the proposed introduction of the National Funding Formula (NFF).

### **Policy framework implications**

30. This report is not considered to have direct policy implications.

## **Community, equalities (including socio-economic) and health impacts**

### **Community impact statement**

31. This report is not considered to contain any proposals that would have a significant impact on any particular community or group.

### **Equalities (including socio-economic) impact statement**

32. This report is not considered to contain any proposals that would have a significant equalities impact.

### **Health impact statement**

33. This report is not considered to contain any proposals that would have a significant health impact.

### **Climate change implications**

34. This report is not considered to contain any proposals that would have a significant impact on climate change.

### **Resource implications**

35. If there are direct resource implications in this report, these will be met from existing budget provision

### **Consultation**

36. There has been no consultation on this report.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

37. None required.

## **BACKGROUND DOCUMENTS**

<b>Background Papers</b>	<b>Held At</b>	<b>Contact</b>
School Governors Training and Development Programme 2023/24 <a href="#">Training and development programme 2023 - 2024   Southwark Schools</a>	Children's and Adults' Services / Learning and Achievement / 160 Tooley St, London SE1 2QH	Donna-Marie Muir Head of Governor Services 07729601354

Background Papers	Held At	Contact
Schools finance: Policies and procedures <a href="#">Schools finance - Southwark Council</a>	Finance and Governance / Professional Finance Service 160 Tooley St, London SE1 2QH	Aron Brown Senior Finance Manager 02075255034

## AUDIT TRAIL

<b>Lead Officer</b>	Alasdair Smith, Director Children's Services	
<b>Report Author</b>	Kate Bingham, Senior Finance Consultant, Children and Adult's Services Richard Hunter, Principal Advisor, Education, Learning and Achievement	
<b>Version</b>	Final	
<b>Dated</b>	06/11/2023	
<b>Key Decision?</b>	No	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments Included</b>
Director of Law and Governance	No	
Strategic Director of Finance and Governance	No	
List other officers here		
<b>Cabinet Member</b>	No	
<b>Date final report sent to Constitutional Team / Scrutiny Team</b>	<i>6<sup>th</sup> November, 2023</i>	