

**AUDIT COMMITTEE: 10<sup>TH</sup> SEPTEMBER 2019**

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**TITLE OF REPORT – SCHOOL GOVERNANCE, BALANCES AND DEFICITS**

**REPORT OF DIRECTOR OF EDUCATION**

**AGENDA ITEM: 4.1**

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**Reason for this Report**

1. Following an Audit Committee Meeting in June 2014, it has been arranged for the Committee to receive annual reports on governance in schools, and updated figures and information on the management of the corporate risk relating to school balances. In its meeting on 28 November 2018, Audit Committee requested the reports in respect of school governance be received biannually.
2. The Audit Committee has requested this update in respect of its role to:
  - Monitor progress in addressing risk-related issues reported to the Committee;
  - Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions;
  - Consider the Council’s arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements;
  - Review the assessment of fraud risks and potential harm to the Council from fraud and corruption.

**Background**

3. The annual net budget delegated to the 127 schools in Cardiff in the 2019/2020 financial year was £241.344m. School Governing Bodies are delegated the responsibility for the effective governance of these funds and are accountable for the proper use of that funding.
4. The Welsh Government’s School Funding (Wales) Regulations 2010 (“The Regulations”) set the parameters for how Local Authorities in Wales should fund individual schools and also oblige each Local Authority (LA) to publish a Scheme for Financing Schools (“The Scheme”). The Regulations list the matters that are required to be included in The Scheme, including financial reporting requirements, audit, banking and procurement obligations.
5. In addition to The Scheme, schools receive regular advice and guidance on financial issues through the Council’s Local Financial Management Team and the Council’s Internal Audit Section.
6. Each LA in Wales is obliged to have a School Budget Forum, which is key to developing informed and confident dialogue between the LA and its schools on

budgetary issues including school funding levels, financial pressures on schools, changes to local funding formulae and the review of contracts/service level agreements between an LA and schools.

7. In Cardiff, the terms of reference, membership listing, all agendas and the minutes of each meeting of the School Budget Forum are published on the Council's website.

**Issues**

**a) Control Risk Self-Assessment (CRSA) and Thematic Audit**

8. Internal Audit has continued to apply a CRSA approach for cyclical assurance across all schools. This tool continues to be used in all schools to promote improved self-governance and accountability. The Council's Internal Audit Section receives each completed CRSA to quality assure the return used to assess risk.
9. Following a full CRSA exercise which was completed by all schools and reviewed by audit colleagues in 2017/18, the approach has involved the use of focussed CRSA reviews, to audit targeted areas in greater depth, as follows:

Area	Coverage	Status
<b>ICT Governance CRSA</b>	All Secondary Schools	Audit testing complete and an overall opinion of 'Effective with opportunity for improvement' provided.
<b>Counter-Fraud CRSA</b>	All Schools	All schools will be required to complete the assessment in the Autumn Term 2019, for audit testing.

10. Internal Audit has planned to complete the next full CRSA exercise for all schools next year, as part of their review cycle.
11. A thematic audit on income collection in schools is planned for later this year, which will be informed by the counter-fraud CRSA in which income security is an area of focus. For further support in internal control matters, in recent months audit colleagues have attended a strategic briefing for Chairs of Governors and the School Budget Forum, to provide guidance on good practice in procurement, and to introduce the corporate Counter-Fraud Strategy and the CRSA approach.

**b) Individual School Audits**

12. During the 2018/2019 financial year and in 2019/20 to date, the following assurance audit work has been undertaken in schools:

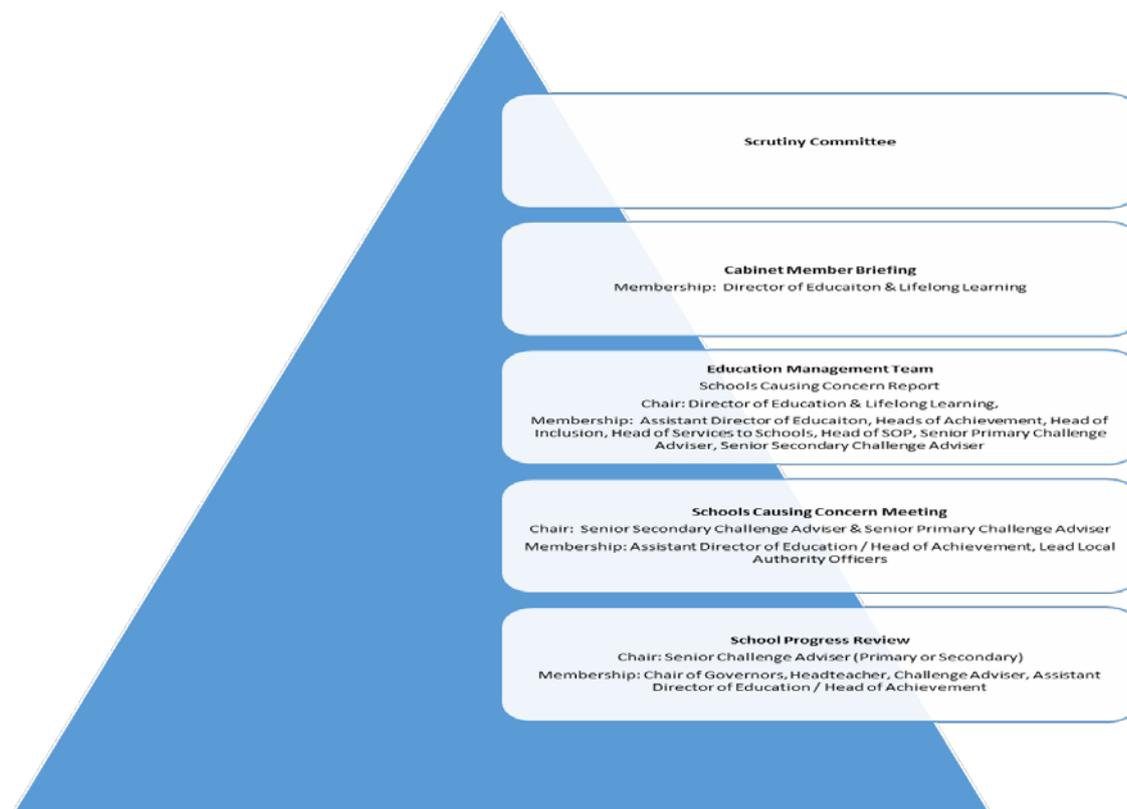
Audit	Status	Assurance Rating	Number of Recommendations
Baden Powell	Final	Insufficient with major improvement needed	16
Llandaff Church in Wales	Final	Effective with Opportunity for Improvement	15
Pontprenau	Final	Unsatisfactory	16
St. David's	Final	Insufficient with major improvement needed	10
St Peter's	Final	Unsatisfactory	20

Whitchurch Primary School	Final	Effective with opportunity for improvement	11
Willows	Final	Effective with opportunity for improvement	7
Ysgol Glantaf	Final	Insufficient with major improvement needed	12
Whitchurch High School	Final	Insufficient with major improvement needed	12

**c) Managing School Governance**

13. Within the Education Directorate, the Education Management Team (EMT), which meets on a weekly basis, provides the forum for co-ordinating the approach to assurance work. In addition to receiving and discussing every school audit report, EMT also receives an analysis of the work that is undertaken through the Schools Causing Concern process – see fig1 below. Each half term, officers from across the Council (HR, LFMS, Health and Safety, Education and Internal Audit) come together with colleagues from the Central South Consortium to identify and discuss individual school related issues to form a holistic view as to whether individual schools require additional support or intervention.

Fig 1 – Governance arrangements in Cardiff for Schools Causing Concern



14. An example of this increased support and intervention may be evidenced through the decision taken, following the receipt of an adverse Estyn Inspection and Audit Report, to intervene in the governance of St. Peter’s Primary RC School in January 2019. The intervention that has been put in place includes the withdrawal of financial delegation and the appointment of additional governors, including the Chair of the Governing Body.

#### d) School Balances

15. Attached as Appendix A is an analysis of individual school balances as at 31<sup>st</sup> March 2019, together with the previous five financial years balances for each school. Attached as Appendix B is an analysis of school balances as at 31<sup>st</sup> March 2019 which also shows the balance as a % proportion of the school's annual delegated budget.
16. Overall, the level of surplus balances held by schools has reduced from £7.319m at 31<sup>st</sup> March 2018, to £5.658m at 31<sup>st</sup> March 2019.
17. **Deficit Balances** - there are 12 schools - six Primary and six Secondary Schools - which carried forward a deficit balance. This is a worse position than in the previous year when there were nine schools (five Primary and four Secondary Schools) with deficit balances. Each school with a deficit budget has a medium term financial plan showing how it will reduce its deficit to a balanced position. There is an assigned monitoring officer for each school with a deficit, working closely with the school and governing body to monitor the delivery of the medium term plan.
18. **Surplus Balances – Appendix B** indicates that, as at 31<sup>st</sup> March 2019, there were 44 schools with a balance which was in excess of both the Welsh Government recommended level (£50,000 for Primary Schools and £100,000 for a Secondary or Special School) and 4% of the school's annual delegated budget (a threshold agreed after consultation with schools).

#### e) Managing School Balances

19. The number and level of schools with a deficit balance remains too high. Colleagues from Financial Services, Education and the Central South Consortium continue to work with schools together to formulate and monitor individual school budget recovery plan. However, I have continued to identify this risk on the Corporate Risk Register.
20. Whilst the overall level of school balances has decreased, I continue to work with colleagues in Financial Services to monitor and challenge schools where I believe a surplus balance is too excessive.
21. The Chair of Governors of the 44 schools that have exceeded the WG value threshold and the locally agreed percentage threshold will be asked to provide a justification of holding that balance and a description of their planned use of the balance within the 2019/2020 financial year.
22. Appendix B also indicates (with an asterisk mark in the right hand column) the schools that received a letter directing them to spend their surplus balance held at the end of the 2017/2018 financial year. The 18 schools identified had exceeded the thresholds for three consecutive years. From the balances held at 31<sup>st</sup> March 2019, only a small proportion of those schools actually complied with that direction.
23. The Council has retained the ability to either direct spending of the surplus balance to a Governing Body or reclaim either part or the whole of a surplus balance if a governing body does not have a robust plan to spend or has retained a balance for a number of financial years. Those schools who did not comply with the letter of direction issued to them in the 2018/19 financial year will be asked to meet with Officers from Education and Financial Services to justify their continued holding of

such balances before a decision is made whether to reclaim either part of all of the surplus balance from the school.

**f) Director's Opinion**

24. I continue to be encouraged by the work undertaken through the Control Risk Assessment Tool and the audits that have been undertaken during 2018/2019 and those audits ongoing and planned for 2019/20.
25. However, during the year there are still too many schools being assessed less than satisfactory. I will continue to exercise the LA powers of intervention on those schools where poor financial management and poor governance are identified, and warrant such action.

**Legal Implications**

26. The statutory functions of the Audit Committee include the duty to review, scrutinise and issue reports and recommendations on the appropriateness of the authority's risk management, internal control and corporate governance arrangements (pursuant to Part 6 Chapter 2 of the Local Government (Wales) Measure 2011). In discharging its functions, the Audit Committee must have regard to all relevant guidance, in particular the CIPFA guidance for Audit Committees.

**Financial Implications**

27. The financial implications (if any) arising from this report have been contained within the body of the report.

**Recommendations**

28. That the Audit Committee considers and notes the content of the report.

**NAME: NICK BATCHELAR**

**DESIGNATION: DIRECTOR OF EDUCATION AND LIFELONG LEARNING**

**Date: 10 SEPTEMBER 2019**

*The following Appendix is attached:*

*Appendix A – Analysis of Individual School Balances showing balance for the last six financial years.*

*Appendix B – Analysis of Individual School Balances showing balance as a proportion of delegated budget.*