

**Manchester City Council  
Report for Information**

**Report to:** Audit Committee – 26 July 2022  
**Subject:** Schools Assurance Report  
**Report of:** Head of Internal Audit and Risk Management

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**Summary**

In accordance with Public Sector Internal Audit Standards, the Head of Audit and Risk Management must “establish and maintain a system to monitor the disposition of results communicated to management; and a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action”. For Manchester City Council this system includes reporting to directors and their management teams, Strategic Management Team, Executive Members and Audit Committee.

Audit Committee requested an update on school assurance in response to recent audit reviews and issues reported through the annual Audit Opinion for 2021/22.

**Recommendations**

Audit Committee is recommended to note the governance arrangements and oversight for schools and note the progress update on school audit recommendations

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**Wards Affected:** All

<b>Environmental Impact Assessment</b> - the impact of the issues addressed in this report on achieving the zero-carbon target for the City
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None
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<b>Equality, Diversity, and Inclusion</b> - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments
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None
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<b>Manchester Strategy outcomes</b>	<b>Summary of how this report aligns to the OMS/Contribution to the Strategy</b>
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	An effective internal audit service is an integral part of the Council's governance arrangements. It helps to maintain and develop good governance and risk management and provides independent assurance over the effectiveness of the Council's systems of control. This contributes to being a well-run Council and indirectly to the achievement of organisational objectives and the OurManchester Strategy.
A highly skilled city: world class and home-grown talent sustaining the city's economic success	
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	
A liveable and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

**Financial Consequences – Revenue = None**

**Financial Consequences – Capital = None**

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**Background documents (available for public inspection):**

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy, please contact one of the contact officers above.

- Internal Audit assurance reports to Audit Committee
- Internal Audit Annual Opinion 2021-2022 – April 2022

## **1.0 Introduction**

- 1.1 Audit Committee are provided with regular reports on audit activity and assurance opinions, supported by executive summaries detailing the scope of work undertaken and outcomes.
- 1.2. In April 2022, the Committee reviewed the annual opinion of the Head of Audit and Risk Management for the period April 2021 to March 2022 and noted several limited opinion ratings for Local Authority maintained schools, through the programme of School Financial Health Check audits.
- 1.3 The Committee requested more detail on this work and sought wider assurances as to the level of risk this presents, when considered with other sources of assurance in addition to the work of Internal Audit.
- 1.4 Specifically this report will:
  - Outline key areas of the School Governance Framework, both external and internal to the City Council;
  - Clarify our approach to the audit of schools;
  - Inform Committee of the key themes and issues arising from school audits
  - Provide an update on implementation of school audit recommendations.

## **2.0 Background & Context**

- 2.1 Manchester has a total of 185 Schools. 110 of these schools are maintained schools which means they have their budgets delegated from the Local Authority and must therefore comply with the Manchester Scheme for Financing Schools and the Schools Financial Regulations.
- 2.2 There are different types of maintained schools:
  - Community - the Local Authority is the employer and funds are delegated from the Local Authority.
  - Voluntary Controlled - the Local Authority is the employer and funds are delegated from the Local Authority.
  - Voluntary Aided - the Local Authority is not the employer or land owner, but the funds are still delegated from the Local Authority.
- 2.3 The City Treasurer Section 151 officer has responsibility for financial oversight of schools with funds delegated through the Local Authority. Therefore, internal audit will seek assurance over the financial control arrangements at these schools.
- 2.4 The remaining 75 schools are classed as Free Schools and Academies; they have funds allocated directly from central government through the Education and Skills Funding Agency (ESFA). They have a totally separate financial accountability framework through to the ESFA with no statutory role for MCC; they are directly Accountable to the Secretary of State for Education.
- 2.5 Academies are set up as Charitable Trusts and their funding is provided to them directly by the ESFA. They must comply with the Academies Handbook and as

Trusts, must produce year-end financial accounts in line with the Charities Statement of Recommended Practice. They are required as part of the handbook to have annual external audit of their Annual Accounts and regular internal audit assurance over key risks and systems. Our only role as Internal Audit in relation to Academies and Free Schools is on a commercial basis; if they chose to buy audit services from us.

- 2.6 The government's Schools 'White Paper' is progressing through parliament. Government proposes to introduce a fully Trust led system with a single uniform regulatory approach with the intention of improving standards; through the growth of stronger Trusts and the establishment of new ones, including those established by Local Authorities.
- 2.7 By 2030 the government's ambition is that all children will benefit from being taught in a strong Multi-Academy Trust (MAT) or their school will have plans to join or form one. MATs will be on a trajectory for at least 7500 pupils or 10 schools (no maximum size). There will be 55 Education Investment Areas (EIAs) including Manchester to increase funding and support to areas in most need, plus extra funding for 24 of these areas considered a priority with the most entrenched underperformance.
- 2.8 The EIAs will have Area Based Commissioning approaches with a prospectus being produced in Autumn 2022 outlining priorities for MAT development in each area. The proposals also include transition to the National Funding Formula to set school budgets directly without local amendment.

### **3 External Schools Governance**

#### **OFSTED**

- 3.1 The Education Inspection Framework through the Office for Standards in Education (Ofsted) have responsibility for the inspection framework of all maintained schools and academies. They ensure that schools and other institutions are providing education services in England to an appropriate standard.
- 3.2 Inspection frequency depends on the findings of the previous Ofsted inspection, more specifically:
- New schools are usually inspected in first three years after opening,
  - Schools judged good or outstanding normally receive inspections approximately every three years,
  - Schools judged as requires improvement are inspected again within 30 months,
  - Schools judged as inadequate are placed in a category of concern and are issued with an Academy Order, the school will then become a sponsored academy.
- 3.3 The Areas covered in an Ofsted Inspection are as follows:
- Quality of Education

- Behaviour and attitudes
- Personal development
- Leadership and management.

3.4 As a Local Authority the outcomes of Ofsted inspections feed into the Council's school's assurance framework and adds to our own internal intelligence and assurances. A poor Ofsted inspection mainly highlights concerns regarding the provision of education; however, it can also indicate that financial control is also suboptimal.

### **Other External Governance**

3.5 There are other regulatory bodies that oversee and moderate exams and assessments at primary and secondary schools, namely: -

- The Standards and Testing Agency who have oversight and complete moderation of primary school tests at key stage 1 and 2.
- The Office of Qualifications and Examination Regulation (Ofqual) regulates qualifications, examinations, and assessments in England.

## **4 Internal Schools Governance**

### Financial Governance

4.1 The Scheme for Financing Schools sets out the financial relationship between MCC and the maintained schools in Manchester. It contains requirements relating to financial management and associated issues that are binding on both the Authority and Schools. This document is a requirement under Section 48 of the School's Standards and Framework Act 1998.

4.2 The Scheme stipulates the need for financial regulations and requires that schools manage and control their finances within rules set out in the School Financial Regulations. These regulations provide a framework for maintained schools to manage their financial affairs and are issued under S151 of the Local Government act 1972. Internal Audit confirm compliance or otherwise with these financial regulations during our Financial Health Check visits.

4.3 The Council are required to submit an annual return to the Department for Education entitled the Chief Financial Officer's Assurance Statement. This statement requires the CFO to confirm that they have systems of audit in place that provide adequate assurance over the standard of financial management and the regularity and propriety of spending.

4.4 The statement also includes a breakdown of the number and types of schools within the Local Authority that have completed the Schools Financial Value Standard (SFVS) return. Our financial health check and thematic audit activity is used to provide the necessary independent assurances to the City Treasurer to support signing the assurance statement.

4.5 The SFVS return is a mandatory self-assessment that all maintained Schools must complete and submit to their Local Authority annually. Manchester schools submit

these to Internal Audit, who combine the results and produce the CFO assurance statement. Audit also provide a summary of assurance opinion on school audits for the year, and completed documents are submitted to the Department for Education.

- 4.4 Additional assurances are provided through the requirement to operate a Schools Forum. There are clear national regulations which govern the composition, constitution, and procedures of this forum. It acts as a consultative and decision-making body where schools can put forward their views to the Council on matters such as the allocation and distribution of funding. The meetings are public, and all minutes are available on the Council's website.
- 4.5 The Council have clear financial reporting requirements for schools to provide the City Council with updates on their financial position which are set out in the school's Financial Regulations. There are quarterly returns required from schools which must be submitted through to the Education Finance team. Specifically;
- At the start of the year, three-year budget plans and assumptions must be clear,
  - Period 6 and period 9 monitoring during the year, detailing actual performance against budget, and
  - At year end schools must complete a return and provide details of their reserves.
- 4.6 Returns are reviewed by the schools Finance Team with attention being focused on any low balances being projected in year one and two. In these instances, the finance team contact the school to determine underlying causes and assess recovery options. Future returns are subject to additional scrutiny.
- 4.7 Low budget balances or schools in or at risk of falling into a deficit position are brought to the attention of the City Treasurer and Director of Education, and other senior corporate and education staff if necessary.

### **Schools Quality Assurance**

- 4.8 The Council has developed a Schools Quality Assurance Protocol to promote and secure continuous improvement, using a process of self-evaluation validated by external quality assurance professionals, appropriate challenge and support when required.
- 4.9 Every maintained school is provided with a funded quality assurance professional to undertake an annual external review, produce a report and associated advice and guidance. These quality assurance professionals are not employed by the Council but are commissioned through a framework procured by the Council. This report is sent to the Head Teacher and Governing Body and shared with the Senior Schools Quality Assurance (SSQA) teams. The report highlights actions to be taken forward by Governors. This offer is also extended to all academies in the city and is taken up by the vast majority.
- 4.10 Where challenges are identified which highlight a school would benefit from additional support the Headteacher/Principal and Chair of Governors/CEO of the

Trust are invited to attend a Support and Challenge Board meeting with the Director of Education to agree a plan of support.

- 4.11 There are five Senior School Quality Assurance Officers (SSQAs) who all have an allocation of schools usually on a geographical basis. These officers are the key contacts for each school with the Council. They maintain an overview of their schools and broker additional support when required.
- 4.12 The Quality Assurance Board is a Council Board to review data, inspection outcomes and information on school performance and improvement led by the Director of Education.
- 4.13 Schools Assurance Meetings – this is a Council group which brings together a range of Council departments including SSQAs, Finance, Internal Audit and HR to discuss schools at risk or with concerns based on local intelligence to agree suitable support and challenge. These meetings are used to agree the best approach for addressing these wider issues and engaging with the schools.

## **5 Schools – the internal audit approach**

- 5.1 The main school audits completed are the school Financial Health Check audits to provide assurance to the City Treasurer Section 151 Officer over the key financial controls operating therein. In previous years we have planned to complete a minimum of ten of these audits per annum, with a combination of primary, special, and secondary schools selected.
- 5.2 Audit focuses on the key financial controls and risks in the following areas: -
- The allocation of financial roles and responsibilities – we review the Scheme of Financial Delegation and Financial Procedures to confirm appropriate coverage of core financial systems.
  - Long term financial planning, budget approval and monitoring and recovery planning.
  - Key financial reconciliations – bank, payroll, and income reconciliations, including supporting documentation, segregation of duties, review and oversight from the Head Teacher.
  - Expenditure, specifically purchasing and payroll. – we sample test purchases, including high value purchases that should have quotes and tenders, and test a sample of payroll starter and leavers and any payroll changes or discrepancies.
  - Income collection and recording. – if we identify cash income we will test cash receipting, counting, and banking. Most schools now operate cashless systems, with minor exceptions like school dinner money. We also test income from any school property lettings.
- 5.5 We also complete other thematic school audits, prioritised on risk exposure. These are usually completed in an area where the Council has a statutory duty (monitoring school attendance, off rolling) or where we think there are reputational risks to schools, safeguarding or financial risks (background personnel security checks, a cyber thematic audit on the current years plan.)



- 5.6 The School Assurance Meeting is a key forum where common risks and issues are shared and is a valuable source of intelligence for internal audit in selecting the highest priority schools to test.
- 5.7 Our work is risk based and focused on reviews that will produce the maximum benefit for the school and by association, the Council. Because of this selection criteria, the likelihood of health checks finding instances of non-compliance is proportionally high, as opposed to taking a purely random sample. It follows therefore, that most audit assurance opinions are likely to be Limited / Reasonable, as opposed to Substantial / Reasonable.
- 5.8 Some of the criteria that helps us select schools for health checks are often discussed at the Schools Assurance Meeting, and include: -
- High staff turnover or new Head Teacher/ new Business Manager,
  - School operating at a deficit or in some cases excessive surplus,
  - Intelligence gathered through an investigation / Whistleblowing,
  - Where educational concerns have been raised which could suggest the need to assure sound financial management, or
  - Significant time has elapsed since we last audited the school.
- 5.9 Once we have identified the schools to review and the block of resource is approved by the Audit Committee, we schedule these throughout the year and issue terms of reference to Head Teachers and copy to relevant Council officers.
- 5.10 We continue to link our work where possible to the SFVS. We will review the schools SFVS submission as part of an audit and if our findings are inconsistent with the outcome of the self-assessment, we will highlight this in the school's report. If a school does not submit their return or if there were any concerns, we would schedule the school for an audit.

## **6 Key Audit issues and themes**

- 6.1 The key concerns coming out of our school financial health checks over the last 12 months are as follows:
- Higher numbers of critical and significant recommendations being made in reports than previously.
  - Recommendations being made where interim controls implemented during the pandemic lockdowns have not returned to business as usual.
  - Most of our high-level recommendations relate to a lack of compliance with key controls, rather than a lack of actual controls.
- 6.2 The main themes coming out of recent audits are as follows:
- Non-compliance with agreed purchasing procedures. This includes examples of purchases being made without orders being raised, improper / retrospective authorisation, and poor controls around debit card purchases.
  - Higher value purchases not being supported by quotations and tenders.
  - Issues with separation of duties across key financial controls.

- Reduced management oversight of key reconciliation than we have previously seen.

## **7 Recommendation Implementation Update**

- 7.1 Recent follow up audits have been completed in all 10 Schools who received limited audit assurance opinions since the start of the 2018/19 audit year. There was a total of 61 critical and significant risk recommendations made through auditing these schools.
- 7.2 We can confirm that 29 (51%) of these recommendations had been fully implemented with another nine (16%) being at least partially implemented. This represents a considerable reduction in the risk exposure across the schools we have reviewed, with positive action being taken for 67% of the recommendations made. See **Appendix 1** for more detail.
- 7.3 There is still scope for further action to be taken to reduce financial risk exposure. We have communicated with each school and left clear instructions as to our requirements and the need to implement recommendations in a timely manner. We will continue to monitor the progress of schools and undertake follow up audits as required.
- 7.4 Good progress can be reported at several schools; Benchill, Lily Lane, Sacred Heart, St Margarets, All Saints Newton Heath, and St Phillips have seen a significant reduction in the exposure to risk. We are concerned that there are three schools where there is slow, or no progress being made. We have written to the Head Teachers and will follow up with site visits to each school, providing support and guidance.
- 7.5 If in any instances we see further evidence of a lack of progress we will ensure that these concerns are raised at the Schools Assurance meeting to enable a discussion and agreement for a Council wide approach to support the school to re-establish the desired levels of control.

## **8 Conclusion**

- 8.1 This paper describes the wider governance arrangements for local schools, and that Internal Audit is part of a broader assurance framework. Although we are unable to audit every school, every year, we apply a sound methodology to choose our sample, based on strong intelligence.
- 8.2 There is no doubt that the pandemic has had a detrimental impact on financial controls and disrupted business as usual processes, coupled with a shortage of capacity and capability in pivotal business management roles. We are aware of systemic issues within schools and the Council, working with external partners and support agencies like One Education, the Director of Education and audit can drive step changes through more co-ordinated and targeted support.
- 8.3 We are confident that through the continuing provision of support and guidance, as audit recommendations are implemented and become operational, we will see the frequency of limited opinion audits fall and financial control will return to normal.

## **9 Appendices**

- Appendix 1 - Recommendations and Risk Exposure (school specific).