

Schools Audit Policy



1. INTRODUCTION

- 1.1. The responsibility for maintaining an adequate and effective system of internal control within Southampton City Council lies with the Executive Director of Resources, as the authority's Chief Finance Officer or s151 officer.
- 1.2. Internal audit is an assurance function that provides an independent and objective opinion to management on the control environment, comprising risk management, internal control and governance, by evaluating its effectiveness in achieving stated objectives.
- 1.3. In accordance with the 'Internal Audit Strategy' all audit work intended to provide an audit opinion will be undertaken using a Risk Based Audit approach. Under this approach, risks and controls associated with the achievement of defined business objectives are identified, assessed and tested, to ascertain the residual risk to the achievement of managements' objectives.
- 1.4. This policy supports the delivery of the Internal Audit Strategy through definition of the approach to the internal audit review of schools. The policy sets out the framework under which internal audit will draw from other sources of assurance (in particular, the assessment against the Financial Management Standard in Schools) as appropriate in the conduct of its work to minimise the burden of inspection on the authority's schools.

2. FINANCIAL MANAGEMENT STANDARD in SCHOOLS (FMSiS)

- 2.1. In October 2006, the Department for Education and Skills [DfES] (now the Department for Children, Schools and Families) introduced the Financial Management Standard in Schools [the standard], which sets out the characteristics that would be expected to be found in schools that are well managed financially.
- 2.2. Ministers have determined that from January 2007 meeting the standard is a legal requirement for schools (subject to phasing).
- 2.3. The FMSiS toolkit is intended to help schools evaluate the quality of their financial management and to train staff and governors to become better financial managers. The toolkit covers standards and processes that should already be in place in schools.
- 2.4. All schools are required to meet the standard by March 2010. Secondary schools were expected to have met the standard by March 2007. The targets for Primary, Nursery and Special Schools are 40% by March 2008, 80% by March 2009 and 100% by March 2010.

- 2.5. Schools are required to complete a self assessment to determine how they compare with the standard. The self assessment must include provision of evidence that demonstrates how judgements for each area of the criteria have been attained.
- 2.6. The s151 Officer is responsible for confirming each school's adherence to the standard. In order to form that judgement, each school's self assessment is externally assessed by Southampton City Council's Internal Audit Service.
- 2.7. The s151 Officer is required to make a declaration to the Department for Children, Schools and Families at the end of each financial year on the arrangements in place to ensure that all Southampton City Council's schools meet the standard and to remedy any shortfalls.
- 2.8. Schools successful in meeting the standard will be notified by letter from the Chief Internal Auditor. Notification will also be made to the Chair of Governors; Executive Director of Children's Services and Learning; Executive Director of Resources; Head of School Standards / Chief Inspector; Principal Accountant, Children's Services and Learning and the Department for Children, Schools and Families.
- 2.9. Schools narrowly failing to meet the requirements of the standard, [Conditional Pass] will be notified by letter. Notification will also be made to the Chair of Governors. An action plan of additional evidence required to meet the criterion before a final decision is made will also be provided.
- 2.10. Schools awarded a Conditional Pass are allowed a further 20 working days to submit the required additional evidence, after which a final decision will be made.
- 2.11. If a school is assessed as not meeting the standard, notification will be made in writing detailing actions necessary to meet the standard. The school will be required to resubmit a further self assessment on enactment of those actions.
- 2.12. Notification that a school has not met the standard will be made to the Chair of Governors; Executive Director of Children's Services and Learning; Executive Director of Resources; Head of School Standards / Chief Inspector and the Principal Accountant, Children's Services and Learning
- 2.13. The standard requires that schools should be reassessed once every three years. The renewal date being three years from the date it was judged that the school has met the requirements of the standard.

3. THEMATIC INTERNAL AUDIT REVIEWS

- 3.1 Historically, internal audit reviews of schools were undertaken on a cyclical basis, following a programme of review based on the Audit Commission and Ofsted's 'Keeping Your Balance – Standard for Financial Management in Schools'.

- 3.2 A significant proportion of those areas of review are now included in the new FMSiS. As such, it is essential that assurance work is directed in such a way that it: focuses on other key areas of risk to the delivery of school services; complements the FMSiS external assessment; avoids duplication; and delivers an assurance service that is of value to Headteachers, Governors and the Local Authority.
- 3.3 This will be achieved by delivering a programme of “thematic” or cross-cutting reviews. The aim of these reviews is to evaluate the framework of governance, risk management and internal control for a “high risk” theme across a representative sample of the authority’s schools.
- 3.4 Sources for the identification of key areas of risk for thematic review will include:
- The ‘Statement of Internal Control’ completed by each school;
 - The Financial Risk and Control checklist, completed as part of the schools FMSiS assessment;
 - Areas of commonality emanating from the external assessment of FMSiS;
 - ‘Keeping Your Balance’ standards not specifically covered within FMSiS;
 - The corporate risk register and performance framework, supplemented by internal audit’s own assessment of risk; and
 - Liaison with key personnel (Executive Director of Children’s Services and Learning; Head of School Standards / Chief Inspector; Children’s Service and Learning Finance).

Key risk areas will be evaluated and prioritised using the standard internal audit risk assessment methodology.

4. AD-HOC AUDIT REVIEWS

- 4.1 There may from time to time be occasions when it would be beneficial or deemed necessary to carry out a comprehensive internal audit review of the whole framework or elements of the framework of governance, risk management and internal control at an individual school. The annual internal audit plan will therefore contain a contingency resource allocation to support the undertaking of such reviews as necessary. All such reviews will be carried out in accordance with the Internal Audit Strategy.

5. AUDIT REPORTING

- 5.1 All formal internal audit assignments will result in a published report. The reporting procedure is detailed within the ‘Internal Audit Strategy’ (the current procedure is reflected in Appendix 1 to this policy).
- 5.2 Reports will be issued to the Chair of Governors; Headteacher; Director of Children’s Services and Learning; Director of Resources and any other management action owners as appropriate.
- 5.3 Those schools sampled for inclusion within a thematic review will receive specific feedback on the audit assessment of the framework in place at that school.

- 5.4 A summary of key observations from thematic reviews, including areas of common weakness and good practice will be disseminated to all Southampton schools. This will enable all schools to benefit from good practice identified and to act on areas of common weakness, resulting in a strengthened system of internal control and improved management of risk. The Schools Forum and Schools Finance Bulletin will be used as the reporting mechanism to ensure that the outcomes from thematic reviews are appropriately disseminated.
- 5.5 Internal audit reports must, where appropriate be presented to the Full Governing Body of the school, ensuring those charged with governance are engaged in the assurance process, in accordance with good practice as laid down in the Southampton City Council Scheme for Financing Schools. The school is required to notify internal audit of the date of the meeting to which the audit report is to be presented to enable attendance if deemed appropriate.

6. ACTION PLANS.

- 6.1 Action plans will form an integral part of the report and will be used to record:
- those risks considered to be inadequately controlled by the internal control, risk management and governance framework in place at the time of the audit review;
 - audit's observations or findings that led it to its conclusion on the effectiveness of risk management;
 - management's definition of the acceptable level of risk exposure (risk appetite); and
 - the actions management propose to bring the risks within acceptable parameters, the officer(s) responsible for those actions and the dates for completion.
- 6.2 All action plans must be fully endorsed by the Headteacher and the Board of Governors who will be accountable for any actions agreed within the action plans and responsible for ensuring actions are properly implemented within the agreed timescales.
- 6.3 Internal audit will request progress reports from the school, including evidence of actions taken where appropriate, within a timeframe that reflects delivery dates for agreed actions. The auditor will consider the schools response and evidence submitted, and exercise judgment as to whether any further action (e.g. a follow up visit) is required by internal audit.
- 6.4 Any responses judged to be inadequate will be escalated by the Chief Internal Auditor in the first instance to the Board of Governors; Executive Director of Children's Services and Learning or the Executive Director of Resources; the Chief Officers' Management Team (COMT) and finally, the Audit Committee, as deemed appropriate.
- 6.5 Actions will be tracked by internal audit to implementation or, as occasionally happens in times of rapid change, to obsolescence. The audit sponsor will be notified that an audit has been closed.

Appendix 1
Reporting Methodology

Assignment reporting

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.

Any key (serious) issues arising during the course of the audit review will be promptly reported to the Chief Internal Auditor to determine impact on the scope of the review. Key issues will also be promptly brought to management’s attention during the course of the review to enable appropriate remedial action to be taken prior to being formally published in the audit report.

The ‘level’ of opinion provided in the formal report will be based on the following definitions:

Assurance Levels

Assurance Opinion	Framework of governance, risk management and management control
Substantial Assurance	Basically a sound framework in place and operating effectively, however, some non-critical weaknesses or immaterial evidence of inconsistent application of the framework may have been identified.
Limited Assurance	Critical weakness (es) identified within the framework or significant evidence of inconsistent application.
No Assurance	Fundamental weaknesses have been identified or the framework is ineffective or absent.

Action plans will form an integral part of the report and will be used to record:

- those risks considered to be inadequately controlled by the internal control, risk management and governance framework in place at the time of the audit review;
- audit’s observations or findings that led it to its conclusion on the effectiveness of risk management;
- management’s definition of the acceptable level of risk exposure (risk appetite); and
- the actions management propose to bring the risks within acceptable parameters, the officer(s) responsible for those actions and the dates for completion.

Priority

Priority Ratings	Current Risk	Action required
High	A significant risk of: failure to achieve objectives; fraud or impropriety; system breakdown; loss; or qualification of the accounts by Audit Commission. Such risk could lead to adverse impact on the Council or expose the Council to criticism	Immediate action required
Medium	A serious, but not immediate risk of: failure to achieve objectives; system breakdown; or loss.	Appropriately timed action required
Low	Areas that individually have no major impact, but where management would benefit from improved risk management and/or have the opportunity to achieve greater efficiency and/or effectiveness.	Action recommended to enhance standards of control

The auditor will draft action plans from significant points arising and arrange to meet with management, to ensure factual accuracy of the audit observations and findings and to ensure a proper understanding of the risks to which any action plan relates. These meetings should take place within two weeks of completion of the audit fieldwork. “Low priority” actions may be reported in the form of memorandum.

The auditor will discuss management’s risk appetite and will advise on the appropriateness of established and planned controls. Management will be required to provide details of actions to be taken to bring the risk within the parameters of the defined risk appetite for inclusion in the audit report.

Management will be required to provide a response to the action plans within one week of meeting with the auditor.

Any areas of disagreement between the auditor and management, regarding audit’s observations and/or the auditor’s assessment of current risk exposure, which cannot be resolved by discussion, will be recorded in the action plans.

Within one week of receipt of all action plans, the auditor will draft a clear, concise and constructive executive summary report, following an agreed format, outlining:

- management objectives under review;
- the overall level of assurance opinion, based on the auditor’s professional judgement as to the risk to the achievement of management objectives and the effectiveness of the framework of internal control, risk management and governance;
- the auditor’s assessment of the current key risks to the achievement of the management objectives, following corporate risk management guidelines;

- a brief outline of the audit coverage, i.e. an outline of the extent of the audit and what was examined in order to deliver the opinion, including any restrictions on the scope of the review; and
- a short narrative on audit observations to include:
 - areas of good practice identified;
 - any opportunities for efficiency gains identified including any examples of “over management” of risk; and
 - a summary of findings/observations, to include an explanation of the risk, its potential impact and the identified control weaknesses.

Following review by the lead auditor, the final draft report together with completed action plans will be submitted to the Chief Internal Auditor for approval of issue. An exit meeting will be arranged to enable the auditor to brief the audit sponsor on the conclusions of the review.

The final report will be issued in the names of the auditor conducting the review and the Chief Internal Auditor. Final reports will be copied to:

- the audit sponsor;
- the audit client;
- the Executive Director of Resources, as proper officer;
- all ‘action plan’ owners related to the review;
- the ‘final reports’ folder; and
- the audit file.
- copies may also be provided to the External Auditor as requested.

Action tracking

Management is accountable for any actions agreed within the action plans and responsible for ensuring actions are properly implemented within the agreed timescales.

Internal audit will request progress reports from management, including evidence of actions taken where appropriate, within a timeframe that reflects delivery dates for agreed actions. The auditor will consider management’s response and evidence submitted, and exercise judgment as to whether any further action (e.g. a follow up visit) is required by internal audit.

Any responses judged to be inadequate will be escalated by the Chief Internal Auditor to the Board of Governors; audit sponsor (i.e. relevant Executive Director); the Chief Officers’ Management Team (COMT) and finally, the Audit Committee, as deemed appropriate.

Actions will be tracked by internal audit to implementation or, as occasionally happens in times of rapid change, to obsolescence. The audit sponsor will be notified through the COMT report (see below) that an audit has been closed.

Reports to Chief Officers Management Team and the Audit Committee

A status report on internal audit work will be presented to COMT and the Audit Committee on a quarterly basis (approximately). This report will include a summary of:

- audit opinion and current status of all 'live' internal audit reports, i.e. those where internal audit work is completed and actions are planned to improve the framework of governance, risk management and control;
- executive summaries of all internal audit reports published since the last report where critical weaknesses or unacceptable levels of risk were identified;
- latest positions statements from management in addressing issues raised in reports where critical weaknesses or unacceptable levels of risk were identified, including high priority actions where implementation is overdue;
- a summary of internal audit performance, planning and resourcing issues; and
- an update on progress of the annual audit plan.