

AUDIT AND GOVERNANCE COMMITTEE

25 November 2011

OVERSIGHT OF FINANCIAL MANAGEMENT IN LA MAINTAINED SCHOOLS

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

- 1.1 To provide an update on a report issued by the National Audit Office (NAO) with regard to the Department for Education's (the Department) oversight of financial management in Local Authority maintained schools.

2. Background

- 2.1 The NAO has recently issued a report providing the findings of its review of the oversight of financial management in schools by the Department for Education. During 2011/12, £34.1bn of funding will have been provided to Local Authority maintained schools in England. Over £160m is received by schools in Sunderland. The report also explores how assurance is gained on the financial management capacity and capability in maintained schools through local authority oversight and intervention. The NAO report covers:
- the information available to the Department about schools' financial management and local authorities' monitoring systems and intervention.
 - how the Department helps improve schools' financial management expertise.
 - the Department's and local authorities' arrangements to support good financial management and cost reductions in schools.

3. Key Findings

- 3.1 The overall conclusion of the report is as follows:

The Department is accountable to Parliament and the public for the proper management of the money given to schools. In the current financial environment, more schools are having to manage with reduced funding. Strong financial management in schools is more important than ever. The Department has set standards for financial management in maintained schools, and has a framework in place for gaining assurance which relies on local authority oversight of schools.

The Department needs to know that this framework is meeting the intended objectives, and is capable of alerting it to systemic issues with schools' financial management that require action or intervention as they emerge.

4. Recommendations

- 4.1 Following the review, the NAO has made a number of recommendations to the Department which are designed to help meet the challenges of assuring effective financial management in the schools' system. The recommendations are as follows:
- a) The production of the accountability systems statement provides an opportunity for the Department to communicate its approach to securing a coherent and effective system. It should set out in the statement how it intends to review how the system is working, and whether any changes are needed as the financial risks to schools change over time.
 - b) Greater use of the information the Department receives on schools' finances would improve its oversight of financial management in the schools' sector. Without adding to the information burden on schools and local authorities or challenging their autonomy, the Department should:
 - further analyse the financial information it already collects, for example, on surpluses, deficits and schools' spend, to better understand the actions local authorities and schools are taking and their consequences; and
 - use this analysis to inform the development of support for good financial management in local authorities and schools.
 - c) The Department has limited knowledge of how schools are using its financial benchmarking website. Benchmarking is potentially a powerful tool for helping schools improve their financial management and make savings. The Department should:
 - systematically monitor the website's usage to identify those local authorities and schools that are not using it, and promote its use; and
 - promote the website as a tool to help the Department and local authorities to identify efficient schools which could serve as examples of good practice.
 - d) The Department accepts that it needs to strengthen its response where it has evidence that local authorities are not fulfilling some functions in relation to schools as well as they should. The Department should:

- establish what its response will be if any of a local authority's schools fail to meet the Schools Financial Value Standard by the set deadlines; and
 - develop contingency plans, and criteria for implementation, in case a local authority is ineffective in dealing with serious financial difficulties in its schools.
- 4.2 Internal Audit coverage of Local Authority maintained schools in Sunderland continues to be undertaken on a cyclical basis with every school being visited every three years. Since the abolition of the Financial Management Standard in Schools the audit programme has been streamlined to concentrate on key governance issues and specifically financial management. In addition, audits are also undertaken on the central financial support services provided to schools and the allocation of funding arrangements. The current internal audit opinion of these arrangements in relation to schools is 'good'.
- 4.3 The Council will monitor developments in this area and respond accordingly.

5. Recommendations

- 5.1 Members are asked to note the report.

Background Papers

None