

# Final Internal Audit Report

## Payments to Schools

### September 2024

Distribution: Corporate Director of Children, Young People & Education  
 Interim  
 Director of Education  
 Head of Education Services  
 Interim Head of Finance, Education  
 Corporate Director Resources and S151 Officer  
 Director of Finance and Deputy S151 Officer

Assurance Level	Issues Identified	
Limited Assurance	Priority 1	2
	Priority 2	2
	Priority 3	1

**Confidentiality and Disclosure Clause**

This report ("Report") was prepared by Forvis Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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## 1. Introduction

- 1.1 The Dedicated Schools Grant is the principal source of funding for the majority of local authority-maintained schools in England. The revenue funding is allocated to local authorities by the Education and Skills Funding Agency (ESFA) and is then distributed as Individual Schools Budgets (ISBs) in accordance with a locally determined formula, agreed with the ESFA. This includes drivers such as pupil numbers, sixth form pupils, special educational needs pupils and free school meals data sets which are submitted to the Department for Education (DfE). The Schools Finance Team within Croydon Council (Council) is responsible for calculating ISBs and for the termly advance payments made to schools.
- 1.2 To calculate individual school funding, the Council uses an Authority Proforma Tool (APT) in the form of a spreadsheet provided by the DfE. The formula provided with this can be adapted to meet the requirements of the Council with any changes being agreed by both the Schools Forum and the Cabinet. The formula is then updated and locked.
- 1.3 A monthly funding sheet is produced for each school and private, voluntary or independent (PVI) nursery setting within the Council. The funding sheets are available to all schools via the Croydon Schools Finance Support on SharePoint. Within this funding sheet, a school can find its allocated funding for each month and how this is broken down.
- 1.4 Schools submit quarterly returns detailing actual income and expenditure for the previous quarter and forecasts to year-end in addition to monthly VAT returns. Schools are also required to submit end of year accounts to the Council. The Council has a SharePoint site via which all information and returns are submitted by the schools.
- 1.5 Schools are only required to submit a bank statement as part of their year-end returns. If a school is about to go into overdraft, the bank would contact the Council directly to notify them of the situation.
- 1.6 At the time of the internal audit, the Council's Risk Register includes a high category risk in relation to, *'Increasing number of Council maintained schools moving into a financial deficit leading to default and arrears.'* According to the risk detail on the register, *'A decrease in pupil numbers is further impacting school budgets leading to an increased likelihood of moving into a financial deficit. The current financial situation of schools/education provision is further affected by the increases in energy prices and additional support needed for individual families, alongside already straining budgets.'*
- 1.7 Section 4.9 (Licensed Deficits) in the Croydon Scheme for Financing Schools (published by the Council in April 2022, updated with statutory guidance for local authorities issued by the DfE) details that, where schools enter a deficit budget, the plan to put the school back into surplus must not exceed three years. This is also detailed in section 6.9 of 'Schemes for financing local

authority maintained schools’ published by The DfE and ESFA which sets out that, *‘the scheme should specify the: maximum length, not to exceed three years, over which schools may repay the deficit (reach at least a zero balance), with appropriate mechanism to ensure that the deficits are not simply extended indefinitely.’*

- 1.8 Whilst the fieldwork for this review was completed remotely, we have been able to obtain all relevant documents required to complete the review.
- 1.9 This audit was undertaken as part of the agreed Internal Audit Plan for 2022/23. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

## 2. Key Issues

### Priority 1 Issues

Examination of the documentation held for seven schools in deficit identified that deficit plans were not in place for two schools. Of the five schools with deficit plans in place, one could not be evidenced as approved and dated by the Headteacher/Senior Leadership and Chair of Governors and none of the five plans had been signed by the Director of Education and Director of Finance or Assistant Chief Executive. In addition, three of the five deficit budget plans exceeded three years to put the school back into surplus. **(Issue 1)**

The deficit for three of the schools in deficit (out of seven) exceeded the *‘the maximum size of any deficit that may be agreed will be 20% of the school’s budget share’*. **(Issue 2)**

### Priority 2 Issues

Quarterly returns for the second quarter of the year were not signed for three schools (out of ten tested). In addition, one school had not submitted their second quarter return and there was no formal process or policy for the chasing of returns that are not submitted late or unsigned. **(Issue 3)**

Monthly returns for schools in deficit were not submitted for month 7 (October 2022) for three schools (out of seven in deficit). These had not yet been chased at the time of the audit in December 2022 and there was no formal procedure for chasing monthly returns. **(Issue 4)**

For the one Priority 3 Issue, see section 3.

### 3. Actions and Key Findings/Rationale

#### Audit Area 4: Schools in Deficit

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 1
1	<p>A Briefing note was sent to the schools setting out monitoring requirements and specifying timescales and expectations was issued at the start of the financial year. Crosfield and Selhurst are federated and were in 2022/23 subject to a high-level review by the Mayor, Senior colleagues from the Education Department and Representatives of the Governing Body to establish whether the Federation would be viable in the future. The submission was not enforced at the time due to the challenges for the school to meet the deadline. The school; however, submitted the monthly monitoring returns and Termly meetings with the Exec. Head and members of the GB in that year.</p> <p>In 2023/24 the established monitoring of the Budget</p>	<p><b><u>Expected Control</u></b></p> <p>The Croydon Scheme for Financing Schools (April 2022) details that, <i>‘In certain circumstances, a school may plan for a deficit budget, with the agreement of the LA only if there:</i></p> <ul style="list-style-type: none"> <li><i>• is a significant unforeseen decrease in pupil numbers</i></li> <li><i>• is a significant over-projection in pupil numbers</i></li> <li><i>• are extreme circumstances that could not be foreseen or catered for by the school</i></li> </ul> <p><i>The school must agree an action plan with the LA (authorisation from the Director of Finance, Investment and Risk and S151 Officer) in order that a non-deficit budget can be set at the end of a specified period.’</i> In addition, <i>‘The plan to put the school back into surplus must not exceed three years.’</i></p> <p><b><u>Issue/Finding</u></b></p> <p>At the start of 2022/23, there were nine schools in deficit within the borough, however two of these were projected to be in surplus by the end of the year and therefore deficit plans were not required for these schools (Heavers Farm and Norbury Manor).</p> <p>Of the seven schools in deficit (and projected to continue to be in deficit into 2023/24), examination of the documentation held for these schools identified:</p> <ul style="list-style-type: none"> <li>• Whilst deficit plans were in place for five (All Saints CofE Primary, Archbishop Tension’s CofE High School, Thomas More Catholic School, Purley Nursery and Tunstall Nursery), two schools in deficit did not have an agreed deficit budget plan in place (Crosfield Nursery</li> </ul>

	<p>continued together with the termly face to face meetings with the Executive Head and Members of the GB. Much progress has been made and Signed Deficit application requests were submitted on time and the current deficits have reduced considerably.</p>	<p>and Selhurst Nursery). We were informed that these schools had staffing issues and had not submitted deficit applications.</p> <ul style="list-style-type: none"> <li>• Of the five schools with deficit plans in place, we were only provided with evidence to confirm that four were approved and dated by the respective Headteacher/Senior Leadership and Chair of Governors. The other (Purley Nursery) plan had not been signed as approved by the Chair of Governors and Headteacher/Senior Leadership of the school.</li> <li>• None of the five deficit plans reviewed had been signed as approved by the Director of Education, Director of Finance or the Assistant Chief Executive.</li> <li>• Three of the deficit budget plans exceeded the maximum of three years to put the school back into surplus. These include Purley Nursery (2022/23 budgeted deficit of -£117,932) and Tunstall Nursery (-£61,639), both of which have a worsening forecast deficit in 2023/24, and Thomas More Catholic School (-£393,231) which has already been in deficit for a number of years and is not forecasting a significant improvement.</li> </ul>
<p><b>Responsible Officer</b></p>	<p><b>Deadline</b></p>	<p><b><u>Risk</u></b></p>
<p>Principal Accountant</p>	<p>Completed</p>	<p>Where the Council does not manage and properly oversee schools with deficit budgets, there is a risk that these deficits grow, leading to further financial damage for both the school and the Council as well as the potential closing of schools.</p>

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 2				
1	Enhanced termly review meetings are now held for deficit schools and meetings are chaired by the Head of Education with Finance representation and input from the school often with Governor representation.	<p><b><u>Expected Control</u></b></p> <p>The Croydon's Scheme for Financing Schools details that, '<i>The maximum size of any deficit that may be agreed will be 20% of the school's budget share and the minimum £10,000. The maximum proportion of the collective balances held by the LA that will be used to back the arrangement will not exceed 40%.</i>'</p> <p><b><u>Issue/Finding</u></b></p> <p>Comparison of Local Authority delegated budget and agreed deficits for the seven schools with deficit plans in place identified that, in three cases, the agreed deficit exceeded 20% of the delegated budget (Purley Nursery 21.41%, Crosfield Nursery 21.92% and Selhurst Nursery 43.57%).</p> <p><b><u>Risk</u></b></p> <p>Where the Council does not manage and oversee school deficits, the deficit can grow and lead to further financial damage for both the school and the council as well as the potential closing of schools.</p>				
	<table border="1"> <thead> <tr> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Principal Accountant</td> <td>Started Spring 2023 – on-going</td> </tr> </tbody> </table>	Responsible Officer	Deadline	Principal Accountant	Started Spring 2023 – on-going	
Responsible Officer	Deadline					
Principal Accountant	Started Spring 2023 – on-going					

**Audit Area 3: Monitoring of Returns**

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 3
2	<p>11 schools submitted Licenced Deficit Requests, all were signed by the Head Teacher and Chair of Governors and 9 had deficits of less than 20%. Crosfield and Selhurst nursery schools had deficits exceeding 20% and these are subject to an ongoing High-level discussion to establish future viability.</p> <p>The Finance team is now considering implementing a stronger follow up process. This involves a three-stage escalation process. One month delay in submitting returns requires meeting with Headteacher</p> <p>Two-month delay - escalation to School governors responsible for school finances</p> <p>Three-month delay requires an urgent meeting with the Headteacher and Full Governing Body to discuss the unsatisfactory situation.</p>	<p><b><u>Expected Control</u></b></p> <p>The Croydon Scheme for financing Schools details that, ‘<i>Schools must provide the LA with the reports and returns on anticipated and actual income and expenditure in a form and at times determined by the LA.</i>’</p> <p>We were informed that Croydon requires all schools to submit quarterly returns detailing income and expenditure for the previous quarter and forecasts to year-end within 21 days following quarter end.</p> <p><b><u>Issue/Finding</u></b></p> <p>The Quarter 2 (Q2) returns from a sample of 10 schools were reviewed and it was identified that, although all schools in the sample had submitted their returns, in three cases, the returns had not been signed by the Chair of Governors and Headteacher/Senior Leadership (Ridgeway Primary, St Mary’s RC High and Selsdon Primary).</p> <p>Quarterly returns are tracked on a spreadsheet with those that have not been submitted are highlighted. Review of this tracker identified that one school (Beulah Junior) was recorded as not having submitted the Q2 return. However, the tracker did not identify returns that have not been signed nor where returns are submitted after the deadline.</p> <p>In addition, there is no official policy or procedure for chasing schools or process of escalation with school governance where schools have not provided monthly returns in a timely manner.</p> <p><b><u>Risk</u></b></p> <p>Where returns are not signed there is a risk that information within the return has not been verified by senior leadership. Where returns are chased inconsistently, there is a risk that returns are not submitted in a timely manner and therefore issues are not identified and addressed. Where the tracker spreadsheet does not identify unsigned returns and returns that</p>



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	Thereafter consider the possibility of withdrawing delegated facilities.	are submitted late, there is the risk that schools that repeatedly submit late and unsigned returns are not flagged and measures taken.
Responsible Officer	Deadline	
Finance Manager / Head of Education Services / Principal Accountant	On-going	

**Audit Area 4: Schools in Deficit**

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 4
2	<p>Licensed Deficit Applications and supporting documentation were submitted to the Finance Manager in August 2023 for sign off by the Director of Finance.</p> <p>We are considering a proposal for delegated sign off depending on the amount provided it's within the scheme of delegation and approved by all.</p> <p>A Briefing note was sent to the schools setting out monitoring requirements and specifying timescales and expectations was issued at the start of the financial year.</p> <p>Enhanced termly review meetings are now held for deficit schools and meetings are chaired by the Head of Education with Finance representation and input from the school often with Governor representation.</p>	<p><b><u>Expected Control</u></b></p> <p>The Croydon Scheme for Financing Schools, Appendix H details for schools with a deficit budget that, <i>'The School will be required to provide a monthly return to the same standard as the quarterly returns demonstrating action and progress to recover the deficit position until the deficit is resolved.'</i></p> <p><b><u>Issue/Finding</u></b></p> <p>Review of the monthly returns submitted by the nine schools that had deficit budgets in place at the beginning of the year found that evidence of the month 7 (October 2022) monthly returns was not available for three of the schools (Thomas More Catholic School, Crosfield Nursery and Norbury Manor Primary School).</p> <p>These schools were highlighted on the monthly returns tracker spreadsheet as they were overdue. However, we were informed that there was no official policy or procedure for chasing schools or process of escalation with school governance where schools had not provided monthly returns on time. We were also informed that the month 7 returns that had not been submitted were yet to be chased at the time of the audit (December 2022).</p> <p><b><u>Risk</u></b></p> <p>Where monthly returns are not provided to the Council and chased where late, there is a risk that the Council is not able to effectively monitor the financial position of these schools and that the deficits for these schools grow.</p>
Responsible Officer	Deadline	

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Finance Manager - delegated sign off to be agreed by Director of Finance in June 2024.	June 2024	
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### Priority 3 Issue

Agreed action	Findings
<p><b>Control Area 5: Financial and Management Reporting</b></p> <p><b><u>Management Response:</u></b></p> <p>All schools have submitted quarterly returns for 2023/24 and in addition to regular follow-up procedures we have started recording dates returns are received and whether they have been signed by the Headteacher and Chair of Governors or are unsigned – some are unsigned initially depending on timing of Governors meetings and subject to resource availability need following up to ensure signed copies are provided.</p> <p>For 2024/25 we have agreed with Schools Business Managers that the LA will check that initial budgets are signed and that when quarterly/monthly returns are not submitted promptly the issue will be escalated to the GB especially for schools in deficit.</p> <p><b><u>Responsible Officer:</u></b></p> <p>Principal Accountant</p> <p><b><u>Deadline:</u></b></p> <p>June 2024</p>	<p><b><u>Expected Control</u></b></p> <p>The Croydon Scheme for Financing Schools details that, ‘<i>Governing bodies are responsible for agreeing an income and expenditure plan for the coming financial year. The approved signed plan must be submitted to Croydon Council by 1st May</i>’. The Schools Finance team requests a signed copy of the budget plan from each school.</p> <p><b><u>Issue/Finding</u></b></p> <p>For a sample of 10 schools, the income and expenditure plans for 2022/23 were reviewed and it was identified that, in five cases, the plans submitted were not signed by the Headteacher and Chair of Governors (Ridgeway Primary, St Mary’s Roman Catholic High, Selsdon Primary, The Hayes Primary, and Winterbourne Junior).</p> <p><b><u>Risk</u></b></p> <p>Where the Council does not obtain signed copies of income expenditure plans, it is not possible to verify that the wider management of the school is aware of the agreed budget plan and has approved it.</p>

## AUDIT TERMS OF REFERENCE

### Payments to Schools – 2022/23

#### **1 INTRODUCTION**

- 1.1 The Dedicated Schools Grant is the principal source of funding for the majority of local authority maintained schools in England. The revenue funding is allocated to local authorities by the Education Funding Agency (EFA) and is then distributed as Individual Schools Budgets (ISBs) in accordance with a local formula, agreed with the EFA.
- 1.2 This includes drivers such as pupil numbers, sixth form pupils, special educational needs pupils and free school meals data sets which are submitted to the Department for Education. The Schools Finance Team is responsible for calculating ISBs and for the termly advance payments made to schools.
- 1.3 The Council's risk register includes a high risk, which details that 'Increasing number of Council maintained schools moving into a financial deficit leading to default and arrears.' A decrease in pupil numbers is further impacting school budgets and the likelihood of moving into a financial deficit. The current financial situation of schools/education provision is further impacted by the increases in energy prices and additional support needed for individual families, alongside already straining budgets.
- 1.4 This audit is being undertaken as part of the agreed Internal Audit Plan for 2022/23.

#### **2 OBJECTIVES AND METHOD**

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit will for each controls / process being considered:
  - Walkthrough the processes to consider the key controls;
  - Conduct sample testing of the identified key controls, and
  - Report on these accordingly.

#### **3 SCOPE**





- 3.1 The audit included the following areas (including the number of issues identified):

Audit Area	Identified Issues		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisational and Management Requirements	0	0	0
Advances to Schools and Private, Voluntary and Independents (PVIs)	0	0	0
Monitoring of Returns	0	1	0
Schools in Deficit	2	1	0
Financial and Management Reporting	0	0	1
<b>Totals</b>	<b>2</b>	<b>2</b>	<b>1</b>

## Definitions for Audit Opinions and Identified Issues

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to identified issues are based on the following criteria:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
<b>Priority 3 (Low)</b>	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

## **Statement of Responsibility**

We take responsibility to London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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