

Final Internal Audit Report

School Deficits & Surpluses (Conversion to Academy) 2018-19

March 2019

Distribution: Executive Director of Children, Families and Education (Final Only)
 Interim Director of Education and Youth Engagement
 Head of School Place Planning and Admissions
 Head of Commissioning and Procurement People
 Head of Finance
 Finance Manager

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	Priority 2	4
	Priority 3	0

Confidentiality and Disclosure Clause

This report ("Report") was prepared by 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 main legislation which provides guidance to local authorities for schools converting to academies is:
 - Academies Act 2010.
 - The Academy Conversions (Transfer of School Surpluses) Regulations 2013.
 - The School and Early Years Finance (England) Regulations 2018.
- 1.2 Converter academies are those that convert (whether as a standalone academy or as part of a multi academy trust) by means of an Academy Order (AO) made after an application by the governing body of the school. Schools which are eligible for intervention, within the meaning of Part 4 of the Education and Inspections Act 2006, and schools that have applied to become an academy but where the Regional Schools Commissioner (RSC), on behalf of Secretary of State (SoS), does not consider the school strong enough to convert without the additional support of a sponsor are treated as sponsored academies, even where their route to becoming an academy is through an application for an AO by the governing body.
- 1.3 For a School to open as a sponsored academy, there are two possible routes to closure of the maintained school: the route where the governing body or Interim Executive Board (IEB) applies for an AO; and the route where the SoS issues an AO in respect of a school eligible for intervention.
- 1.4 The 'Treatment of surplus and deficit balances when maintained schools become academies' guidance note was issued by the DfE in March 2018. This guidance note details that any surplus balances will normally transfer with the School and that any deficits for convertor academies will be reimbursed by the DfE and any deficits for sponsor academies will remain with the Local Authority.
- 1.5 The Council has an 'Academy Conversion' working group with co-ordinates and monitors the conversion of any maintained schools to academies. An academy conversion checklist is also completed for each conversion, including questions on Employment, Assets, Contracts and Finance, Property, Outstanding Works and Miscellaneous.
- 1.6 This audit is part of the agreed 2018/19 Internal Audit Plan.

2. Key Issues

Priority 2 Issues

The 'Academy Conversion' working group did not have a terms of reference in place. There was no form of Red Amber Green rating (or similar tool) monitoring of the key tasks associated with each academy conversion evident, **(Issue 1)**.

None of the Academy Orders or any of the correspondence seen regarding the converting schools distinguished whether the conversions were as convertor or sponsor academies, **(Issue 2)**.

The deficit or surplus upon conversion had not been agreed within the required four month period for the three converting schools sampled, **(Issue 3)**.

No procedure or guidance notes were available to detail how the monthly financial reports provided by converting schools would and should be checked. Furthermore, should inappropriate expenditure and budget disregard be detected, it was unclear what actions would then be taken, **(issue 4)**.

3. Actions and Key Findings/Rationale

Control Area 1: Legislative, Organisational and Management Requirements	
Priority	Action Proposed by Management
2	<p>A Terms of Reference has now been produced and circulated to the Academy Conversion Working Group for comments/approval on 26 February. Responses requested by 14 March 2019.</p> <p>RAG rating – the Academy Conversion checklist will be RAG rated to show the status of the actions.</p>
	<p>Detailed Finding/Rational – Issue 1</p> <p>The Council has an 'Academy Conversion' working group which-ordinates and monitors the conversion of any maintained schools to academies</p> <p>It was established that the 'Academy Conversion' working group did not have a terms of reference to detail the remit of the group, how often it meets and what the membership of the group is.</p> <p>Examination of the recent minutes of the working group, held on 19 July 2018, 19 December 2018 and 17 January 2019, confirmed that the group had, using the academy checklists, discussed the various impending academy conversions in detail; however, there was no form of RAG rating (or similar tool) monitoring of the key tasks associated with each conversion evident. Furthermore, the two most recently converted academies (in September and October 2018) were no longer discussed, despite the finance actions on these still being ongoing.</p> <p>Where a terms of reference is not in place, there is a risk that the working group lacks direction and does not achieve its objectives. Where a RAG rating or similar tool is not used to monitor the achievement of key actions for each conversion, there is a risk that the working group is not able to easily monitor progress against these actions.</p>
Responsible officer	Deadline
Head of School Place Planning and Admissions	14 March 2019

Control Area 2: School Conversion Management		Detailed Finding/Rational – Issue 2
Priority	Action Proposed by Management	<p>The Academies Act 2010 paragraph 4 (4) details that the Secretary of State must provide a copy of any AO issued for a school to the local authority. In order to help ensure that appropriate monitoring and management action is taken, the relevant parties with the Council should be informed as soon as possible that an Academy Order is received.</p> <p>For a sample of three academy conversions in 2018, it was confirmed that immediately upon the Council being provided the Academy Order, this was shared with the relevant parties of the 'Academy Conversion' working group. However, none of the Academy Orders or any of the correspondence seen regarding the conversions distinguished whether these were as convertor or sponsor academies.</p> <p>Where academy conversions are not distinguished as being convertor or sponsor academies, there is a risk that sponsor academies are not identified and sufficiently robust monitoring and management actions taken, allowing deficits on conversion to occur.</p>
2	<p>Academy Order (AO) is issued by the Department for Education via the Regional Schools Commissioner's Office. The covering letter normally states that "Following recent application of the governing body of the ... school to become an academy.."</p> <p>As we cannot amend the AO, we will ensure that it is noted the type of AO – convertor or sponsored – stating whether the surplus (goes with the school) or deficit (reimbursed by DfE) follows the school.</p>	
Responsible officer	Deadline	
Head of School Place Planning and Admissions	14 March 2019	

Control Area 3: Converter Academies					
Priority	Action Proposed by Management				
2	<p>We accept the need for the finalisation of the returns needs to be made within the time line set out in the regulations. There are ongoing issues with the billings in respect of utilities that the schools have accrued for but have not received invoices for. Thus the reconciliation has been delayed and not finalised.</p> <p>We recognise that the schools will require to have all issues resolved prior to their first year-end in the August of the year following conversion.</p> <p>The 3 schools have surplus balances that should have been transferred to the school. We envisage this will no longer be an issue once the legacy utilities issues are resolved and the schools are then moved to the new direct billing systems.</p>				
	<p>Detailed Finding/Rational – Issue 3</p> <p>The Academy Conversions (Transfer of School Surpluses) Regulations 2013 paragraph 6 requires the local authority to notify the amount of any surplus upon conversion to the converted school within four months of conversion. The local authority then has one month to pay the surplus. The ‘Treatment of surplus and deficit balances when maintained schools become academies’ guidance note details that it is the DfE’s policy to treat deficits in a similar way, with the DfE reimbursing the local authority.</p> <p>Examination of the documentation available for a sample of three academy conversions (two on 1 September 2018 and one on 1 October 2018) found that (at the time of audit in February 2019) for all three the surplus or deficit upon conversion was still being agreed and thus that no payments to the schools or reimbursements from the DfE had been sought.</p> <p>Where surpluses or deficits upon conversion are not agreed and settled in a timely manner, there is a risk that the Council is in breach of The Academy Conversions (Transfer of School Surpluses) Regulations 2013 and that it may not be able to recoup any deficits from the DfE.</p>				
	<table border="1"> <thead> <tr> <th>Responsible officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Finance Manager</td> <td>Ongoing</td> </tr> </tbody> </table>	Responsible officer	Deadline	Finance Manager	Ongoing
Responsible officer	Deadline				
Finance Manager	Ongoing				

Control Area 4: Sponsored Academies		Detailed Finding/Rational – Issue 4
Priority	Action Proposed by Management	
2	<p>We accept the need for a procedure or guidance note is required in order to assist the individual reviewing the monthly returns from converting schools to detect inappropriate expenditure and budget disregard.</p> <p>An agenda item will be added to the next Academy Conversion Working Group meeting that will review and agree what constitutes “inappropriate expenditure and budget disregard” and what actions should be taken when this is identified.</p>	<p>The ‘Treatment of surplus and deficit balances when maintained schools become academies’ guidance note, details that any deficits upon conversion for sponsor academies will remain with the Local Authority. It is therefore key that robust monitoring and management actions are implemented for any sponsor academy conversions to prevent and minimise any deficits upon conversion.</p> <p>It was confirmed that, following the conversion of a sponsor academy with a deficit in 2017/18, the ‘Academy Conversion’ working group had recognised that additional and more robust actions were needed to monitor and manage these schools prior to conversion. This included the requirement, implemented in 2018, for converting schools to send through monthly financial reports. However, no procedure or guidance notes were available to detail how these monthly financial reports would be checked to detect inappropriate expenditure and budget disregard.</p> <p>Furthermore, should inappropriate expenditure and budget disregard be detected, it was unclear what actions would then be taken. (For instance, it would be expected that arrangements would be in place to enable an IEB (Interim Executive Board) to be rapidly put in place, if necessary).</p> <p>There is a risk that inappropriate expenditure and budget disregard by a sponsor academy may not be detected or managed in a timely enough manner to prevent a deficit on conversion.</p>
Responsible officer	Deadline	
Finance Manager / Head of School Place Planning and Admissions	Quarter 1 2019	

TERMS OF REFERENCE

School Deficits & Surpluses (Conversion to Academy)

1. INTRODUCTION

- 1.1 The main legislation which provides guidance to local authorities for schools converting to academies is:
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- 1.3 For a School to open as a sponsored academy, there are two possible routes to closure of the maintained school: the route where the governing body or Interim Executive Board (IEB) applies for an AO; and the route where the SoS issues an AO in respect of a school eligible for intervention.
- 1.4 Where a maintained school converts to an academy with a budget deficit, this deficit is written off.

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 This audit will examine the Council's arrangements in relation to School Deficits & Surpluses on Conversion to Academy, and included the following areas:





School Deficits & Surpluses (Conversion to Academy) 2018-19

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisational and Management Requirements;	0	1	0
School Conversion Management;	0	1	0
Converter Academies;	0	1	0
Sponsored Academies; and	0	1	0
Management Reporting.	0	0	0
Total	0	4	0

DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

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 consistently 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 which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

STATEMENT OF RESPONSIBILITY

We take responsibility to the 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.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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