

Review of Council arrangements in respect of Copland School

Brent Council

Audit 2009/10

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Status of our reports

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- any director/member or officer in their individual capacity; or
 - any third party.
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Purpose and status of this report

- 1 This report sets out my review of the Brent Council's arrangements for the proper administration of schools' financial affairs. I was alerted to concerns about the Council's arrangements following issues arising at Copland School, a state funded foundation school within the Council's jurisdiction.
- 2 I am the auditor of the Council; I am not the auditor of the School. My review focuses solely on the arrangements at the Council and on their response following the receipt of allegations about the School.

Background

- 3 In April 2009 I received allegations of financial mismanagement and undue patronage thought to be occurring at Copland School.
- 4 In the context of my responsibilities, I made enquiries at the Council. I found the Council had also received a copy of the allegations and that it had asked its internal auditors to carry out a detailed investigation. I satisfied myself that the scope of the Council's investigation covered all aspects of the allegations. I decided that I should wait for the outcome of the Council's investigations before deciding what more action I should take.
- 5 Following an initial review, internal audit quickly established there was substance to the allegations. Based on early findings the Council took action to suspend the School's delegated budget, suspend the schools Head, Deputy Head and Bursar, and appoint an Interim Executive Board (IEB) to govern the school.
- 6 The detailed investigation was completed in October 2009. The findings confirmed the School's finances were mismanaged over several years, and specifically that:
 - bonuses and extra payments were awarded to teachers outside the scope of statutory terms for teachers' pay;
 - some members of staff were promoted without proper reason;
 - national rules for deciding the pay of non-teaching staff were not applied;
 - school funds were used inappropriately for social events and loans to staff; and
 - financial record keeping was inadequate.
- 7 Internal audit also found there was a culture of nepotism and patronage within the School and that overall, there was a general disregard for proper financial management.
- 8 Following completion of the investigation the findings have been reviewed and considered by the School and the Council. The School took disciplinary action against those involved. The Deputy Head was dismissed. Others involved resigned before the disciplinary action could be concluded. The Council has now referred matters to the police. Both the School and the Council continue to take legal advice about what further action, if any, to take.

My role and responsibilities

- 9 As the auditor of the Council, my responsibilities are to review and report on the Council's financial statements, its statement of internal control, and to report on whether the Council made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Background

- 10** In line with my responsibilities, the focus of my work was whether the Council had suitable arrangements in place to carry out its responsibilities for the School, and whether those arrangements worked properly in practice.
- 11** The approach I adopted involved:
- reviewing the nature, scope and findings of the investigation carried out by the Council's internal auditors;
 - interviewing Council officers including the Director of Finance and Corporate Resources, Head of Audit and Investigations, finance officers from Children and Families and the Borough Solicitor;
 - assessing the Council's internal controls over school expenditure and compliance with the Council's financial instructions;
 - reviewing relevant documents, including reports and minutes;
 - reviewing financial instructions and guidance to schools issued by the Council;
 - reviewing the actions taken by the Council to address the issues identified in the investigation; and
 - seeking my own legal advice where appropriate.
- 12** In carrying out my review I have had regard to the following.
- Relevant legislation, specifically the Education Act 2002, the Local Government Act 1972 and the Accounts and Audit Regulations 2003.
 - Department of Children, Schools and Families Code of Practice on Local Education Authorities – School relations.
 - The Financial Management Standard for Schools published by the Department for Children, Schools and Families.
 - Relevant publications by the Chartered Institute of Public Finance and Accountancy (CIPFA), specifically its Statement on the Role of the Finance Director and Introductory Guide to Education Finance 2008.

The role of the School

- 13** A foundation school has greater freedom than other types of state schools. The governing body owns the school's land and buildings, employs the school's staff and has responsibility for admissions to the school, subject to rules imposed by central government. Schools' capital and running costs are met by central government.
- 14** For a foundation school the governing body consists of parent governors (elected by parents), staff governors (elected by staff), Local Authority governors (appointed by the council), community governors and foundation or partnership governors (appointed by the governing body).
- 15** The statutory responsibilities of a governing body are set out in section 21 of the Education Act 2002. The governing body has a statutory responsibility for the oversight of most areas of school life, including financial management.

- 16 The school governors appoint and performance manage the head teacher, who is responsible for the running of the school, within the framework set by the governors.
- 17 Copland School receives funding from government through the Dedicated Schools Grant, administered by Brent Council. The Council gives an annual budget to the School based on a schools local funding formula. Schools make their own decisions about how to spend their budgets.

The role of Council

- 18 Section 151 of the Local Government Act 1972 requires every local authority to arrange for the proper administration of their financial affairs and requires one officer to be named and to take responsibility administering those affairs. The 'Section 151 officer' is usually the local authority's treasurer or finance director and must be a qualified accountant. The Section 151 officer has several statutory duties, including the duty to report any unlawful financial activity involving the council or a failure to set or keep to a balanced budget.
- 19 Foundation schools are managed autonomously by their own governing bodies; at the same time they are part of the relevant 'local authority' (the Council in this case). This means the Council has responsibility under section 151 of the Local Government Act 1972 to 'make arrangements for the proper administration' of the schools' financial affairs.
- 20 Also, the Accounts and Audit Regulations 2003 require a local authority to 'maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with proper audit practices.' CIPFA's Statement on the Role of the Finance Director makes it clear the responsibility for maintaining an adequate and efficient internal audit system rests with the finance director of the local authority.
- 21 The Council reports on its governance arrangements each year in an Annual Governance Report. The report includes a review of the effectiveness of its system of internal control.
- 22 To help finance directors, school governing bodies and other interested parties, in 2004 the government introduced the Financial Management Standard for Schools (FMSiS). Achievement of the Standard shows that a school has, at least, the minimum standard of financial management. Initially adoption of the Standard was a matter for the school. However, FMSiS became a compulsory requirement to be met by all secondary schools by 31 March 2007. All schools were required by law to meet the Standard by March 2010.

The Council's arrangements to ensure the proper administration of the School's affairs

- 23** Copland School was considered by the Council to be a successful school. Therefore, the School was given a high level of autonomy from the Council. This approach was in line with guidance from the Department of Children, Schools and Families (DCSF). In the DCSF *Code of Practice on LEA - School Relations*, councils are advised to let successful schools be as autonomous as possible and not to intervene unnecessarily. Council's are required to allow schools to obtain external audit certification of its accounts, separate from any authority internal or external audit process.
- 24** Until the issues at Copland School came to light, the Council believed its governance arrangements were sufficient to discharge its school responsibilities. A lighter touch was taken with successful schools in line with DCSF guidance. This was the case at Copland School.
- 25** On the face of it the Council was justified in its approach. A qualified accountant held the post of Bursar. The School achieved Financial Management Standard in Schools (FMSiS) following an independent accreditation process. Checks the Council carried out at the time did not highlight any concerns. Ofsted reviewed and reported on Copland School in 2000 and 2006. The reports raised no significant issues. Copland's 2000 Ofsted report included positive comments about financial management. The 2006 did not touch on financial management to any significant extent.
- 26** However, there were some key weaknesses in the Council's arrangements. Had the arrangements been working properly, the Council may have been alerted to management failings within the School at an earlier stage.

Audit

- 27** The Council required all its schools, including Copland, to agree to a regular internal audit. The audit was required to cover compliance with regulations, financial management and control and internal control.
- 28** Foundation schools had historically appointed their own auditors to audit their annual accounts (an 'external audit'). The external audit of foundation schools stopped as a requirement in 1999 when grant maintained schools were brought back under the umbrella of local councils. However, where schools had an existing relationship with an external audit provider, and wished to continue with this arrangement, this was allowed providing the school ensured the external audit provider covered the Council's internal audit requirements. On this basis the School continued with its existing audit arrangements.

- 29** The School elected to appoint its own auditors, a medium sized accountancy firm with appropriate auditing experience. The audit, as agreed by the School, covered the School's annual accounts and an opinion on whether the School complied with the applicable regulations and whether the accounts give a true and fair view¹ of the School's affairs. But, despite regular reminders from the Council about internal audit requirements, the audit, as agreed by the School with its auditors, did not appear to cover the all aspects of the Council's requirements.
- 30** The Council wrote to its foundation schools every year to highlight internal audit requirements and to obtain copies of audited accounts and management reports. When the Council did not receive management reports from the School's auditor, the Council checked the audit took place by telephone call to the School but did not insist on a copy of the audit engagement letter or any written management reports. Therefore the Council was not aware the external auditor's work did not fulfil the required scope.
- 31** In 2007/08, and in previous years, the auditor issued a 'qualified' audit opinion. This means that the auditor was not satisfied, in all respects, that the accounts showed a true and fair view. The qualification related to how the School accounted for capital expenditure. It charged this expenditure to its income and expenditure account rather than recording an increase in the fixed assets on its balance sheet as required by accounting standards. The qualification did not relate to financial management or salaries and the Council viewed the qualification as a 'technical' qualification. However, the Council could have considered the School was a higher risk because of the qualified accounts, and it did not make any enquiries or take any action in response to the qualified opinion.

Financial management requirements

- 32** In addition to FMSiS accreditation as mentioned above, the Council provided schools with a Scheme for Financing Schools every year, and required them to adopt it. The Scheme includes financial regulations schools must comply with. Compliance with the Scheme would normally be reviewed as part of the internal audit programme of checks. However, as the School did not appear to have commissioned the full scope of internal audit review, these checks were not undertaken.

Oversight

- 33** The Council's arrangements consisted of:
- internal audit arrangements as described above;
 - reviewing minutes of governing bodies. The Council required all schools to submit minutes of school governor meetings. However, the Council did not check that all minutes were provided and reviewed;
 - undertaking reasonableness checks of year end figures received from schools, including comparing totals to the Council's own record of what the school had spent, and reviews of different categories of spending;

¹ A judgement on whether the accounts comply with generally accepted accounting principles and standard accounting practices.

The Council's arrangements to ensure the proper administration of the School's affairs

- holding regular meetings with schools to review governance and performance issues, financial management and financial standing and internal audit findings. Each school is rated by the Council based on the robustness of school arrangements, the knowledge and expertise of the Bursar and financial performance; and
- providing governor training and support. Participation was not compulsory and not monitored.

The Council's response once it was alerted to the Schools failings

34 The Council acted swiftly and decisively once the Council was alerted to the School's failings:

- a full investigation was commissioned;
- the then Head Teacher, Deputy Head teacher and Bursar were suspended;
- the Council suspended the School's delegated budget and took over the responsibility for the day to day financial management of the School;
- a letter was sent to the then School governors highlighting the areas of concern and seeking their comments; and
- an experienced Acting Head Teacher was appointed whilst the investigation was underway.

35 Those responsible were held to account and replaced. A new governing body was appointed. A new Head has been appointed.

36 Internal audit and FMSiS accreditation for foundation schools is now being undertaken by the Council's internal audit function. The Council is working with the School to ensure financial management is strengthened.

Conclusions

- 37** Even though foundation schools have a high level of autonomy, the Council retains a responsibility over the proper administration of schools' affairs. This includes ensuring that satisfactory systems of internal control are in place and there is an effective internal audit.
- 38** There were some key weaknesses in the Council's arrangements and how they were applied.
- Although checks are made to ensure compliance with the Council's Scheme for Financing Schools through internal audit, the School did not have satisfactory internal audit coverage therefore this control did not work in practice.
 - The Council did not check the scope of audit coverage met its requirements at schools who kept their external auditors. The scope of the School's external audit engagement was limited to the audit of the accounts. It did not appear to cover all aspects of the Council's internal audit requirements.
 - The Council did not adequately consider the form and content of the audit opinion given by the School's external auditors, and the risks arising from qualified opinions.
 - The Council does not check that all school meeting minutes are provided and reviewed.
 - Whilst the Council has enough information to benchmark schools against one another, it does not routinely undertake benchmarking. It could usefully undertake some regular benchmarking of schools, which would be a more valuable control in identifying irregularities.
 - The Council did not monitor or assess the take-up of or attendance at training provided for governors.
- 39** Had satisfactory arrangements been in place, the Council could have been alerted to management failings within the School at an earlier stage.
- 40** Once the Council was alerted to the School's failings it acted swiftly and decisively to ensure that those responsible were held to account and suitably replaced. The Council has already recognised that their arrangements did not work effectively and has taken action to strengthen its arrangements.
- 41** I recommend that the Council:
- apply risk management techniques to assess whether more checks for higher risk schools are needed;
 - check that all audit work undertaken by external audit suppliers complies with the required scope, including a review of controls;
 - ensure that it receives and reviews all audit reports from external suppliers;
 - act on any audit findings, including qualified audit opinions, including feeding this information into the risk assessment;

- ask that all schools provide minutes for review, identify those which do not comply and feed the results into the risk assessment;
- undertake regular benchmarking of schools data, to identify anomalies for investigation, and feed this into the risk assessment; and
- monitor participation in governor training and feed the results into the risk assessment.

42 Both the School and the Council continue to take legal advice about what further action, if any, to take.

Consideration of whether to issue a Public Interest Report

- 43** It is my duty under section 8 of the Audit Commission Act 1998 to consider whether to make a public interest report on any matter coming to my notice during my audit. A public interest report aims to ensure councils consider matters of importance or to bring important matters to the attention of the public.
- 44** From the outset, the issues about the School were widely reported in the local and national media, reflecting the public interest. During the course of the investigation, the Council has issued press releases to keep the public informed. I am satisfied that the Council recognises its own failings, as reflected in the Council's 2008/09 Annual Governance Report, published by the Council on their website.
- 45** I have therefore decided not to issue a public interest report as the matters are already in the public domain. The Council has already taken action to address the failings at the School and to strengthen its own arrangements.

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