

# ***Aberdeen City Council***

## **Devolved School Management – Phase 1**

Internal Audit Report  
2014/2015 for Aberdeen  
City Council

**November 2014**

<b>Internal Audit KPIs</b>	<b>Target Dates</b>	<b>Actual Dates</b>	<b>Red/Amber/Green</b>	<b>Commentary where applicable</b>
Terms of reference agreed 4 weeks prior to fieldwork	16.05.2014	02.05.2014	<b>Green</b>	
Planned fieldwork start date	30.06.2014	27.08.2014	<b>Red</b>	Delays in obtaining required documentation
Fieldwork completion date	11.09.2014	17.09.2014	<b>Red</b>	Extended leave of key ACC staff
Draft report issued for Management comment	06.08.2014	29.10.2014	<b>Red</b>	Extended leave of key ACC staff
Management Comments received	07.11.2014	07.11.2014	<b>Green</b>	
Report finalised	08.11.2014	08.11.2014	<b>Green</b>	
Submitted to Audit and Risk Committee	20.11.2014	20.11.2014	<b>Green</b>	



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Internal audit work will be performed in accordance with Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

# 1. Executive Summary

## ***Background***

Aberdeen City Council is undergoing a review of their Devolved School Management (DSM) scheme. As part of this review we have performed a gap analysis using the Council's current DSM scheme documentation and comparing against the Scottish Government's guidance on DSM. To do this we have used the 'Devolved School Management Self-Evaluation Toolkit' produced by the Scottish Government as a guide to evaluating whether the Council's scheme is aligned to good practice.

The DSM scheme document provided to us was approved in 1996. A new DSM framework document and budget allocation formulae and operational procedures document were drafted in 2012, in response to updated guidance issued by the national DSM steering group. However, this redrafted documentation was never taken to Committee for approval and, therefore, has never been officially implemented. Consequently, as requested by management, we have focused our review on the 1996 version of the DSM scheme framework that was approved and implemented.

## ***Summary of findings***

Overall we have identified that the scheme framework requires significant updating to properly reflect current good practice guidance. The draft version of the DSM framework prepared in 2012 could be used as a basis for this update as it is aligned to current good practice guidelines. The most significant updates required are as follows:

- Clear guidance should be included on the consultation process between establishments and the Council. This should also extend to clarifying the process through which other stakeholders are consulted and engaged on DSM;
- The DSM framework should clearly show how it is linked to the Council's corporate plan and education service plan as well as national and local strategic priorities;
- Cross sector and partnership working guidelines should be included and the processes defined;
- A policy on training for heads of establishments, Parent Councils, elected members and other key staff involved in DSM should be included; and
- The budget allocation formulae and operational procedures should be developed in consultation with stakeholders and agreed and approved by elected members.

The detailed gap analysis is included below in Section 2.

**Management Comments**

To ensure that the revised scheme meets the principles of the national guidance work has been undertaken in the following areas:

- Benchmarking the delegated budgets for schools against those in other similar sized Council areas;
- Reviewing the draft DSM scheme against those published in other Council areas and against the comments contained within section 2 of this document;
- Re-modelling of delegated budgets to ensure that budgets follow the child and that this can be evidenced; and
- Reviewing the effectiveness of spending to meet the needs of children and the outcomes of corporate and school plans.

Once the work to update the DSM scheme has been updated it will be submitted to the Education and Children's Service Committee for approval. It is expected that this will be early in calendar year 2015.

## 2. Detailed gap analysis

<b>Scottish Government Guidance Questions</b> <b>Subsidiarity and Empowerment</b>		<b>Gap Analysis Performed by Internal Audit</b>
What arrangements are there in place to discuss future Education Service budgets and are there any impacts on delegated school budgets?		The scheme document states the principle of partnership and involvement of key stakeholders in the DSM scheme. However, the document does not explicitly state the arrangements in place to discuss future Education Service Budgets.
Are there clear and transparent formulae in place to distribute staffing and non-staffing budgets?		<p>The scheme document provided does not include detail on formulae for distributing budgets.</p> <p>A draft 'Budget Allocation Formulae and Operational Procedures' document has been prepared. This document does elucidate the formulae to be applied; however this document has not been formally approved by Committee for implementation.</p>
Are head teachers, depute head teachers, heads of establishment (nursery and special schools) and officers with delegated finance responsibilities provided with training on the local authority's DSM Scheme and financial management?		Unknown – training in the DSM scheme and financial management is not specifically mentioned in the DSM scheme document.
Does your Council operate 3 year indicative budget cycles?		The DSM scheme document does not state whether the Council operates 3 year indicative budget cycles.
Are your Education Service financial plans linked to Corporate and Departmental plans and do they reflect national and local strategic priorities?		Unknown – this detail is not specified in the DSM scheme document.
Are head teachers and other staff involved in discussions on DSM? Is the LNCT consulted?		The DSM scheme document states the requirement of establishments to have in place a consultation process with staff, non-teaching staff and the School Board. However, the document does not detail any process for how consultation on DSM should be conducted between establishments and the local authority should be conducted.

<p>What criteria are used to create budget formulae in your local authority?</p> <p>Do budget formulae take account of school roll, deprivation factors, the numbers of young people at each stage in the school and rurality issues?</p> <p>Are these criteria agreed by elected members in consultation with all appropriate stakeholders i.e. schools, parents and Parent Councils?</p>	<p>The scheme document provided does not include detail on formulae for distributing budgets.</p> <p>A draft 'Budget Allocation Formulae and Operational Procedures' document has been prepared. This document does elucidate the formulae to be applied; however this document has not been formally approved by Committee for implementation.</p>
<b>Partnership Working</b>	
Is there an appropriate framework in place to deliver strategic outcomes and local priorities?	The DSM scheme document does not include any framework on delivering strategic outcomes and local priorities.
Do schools contribute to partnership working?	The document does not specify how schools will contribute to partnership working.
Is there an appropriate consultation mechanism to engage with relevant stakeholders when the Council sets its Revenue Budget?	The DSM scheme document states the requirement of establishments to have in place a consultation process with staff, non-teaching staff and the School Board. However, the document does not detail any process for how consultation on DSM should between establishments and the local authority should be conducted.
Do schools link with other services and agencies in line with the principles outlined in Getting It Right for Every Child (GIRFEC) and the Early Years Framework?	The document does not reference GIRFEC or the Early Years Framework.
Are head teachers, other staff and parents involved in discussions on DSM?	School Boards are identified as requiring consultation on DSM. The form of how that consultation is managed between the establishments and the local authority is not defined.
Are consultation arrangements in place to ensure that relevant stakeholders are involved in setting the Education Service budget as part of the wider Council budget, in terms of likely impact on the level of resources delegated to schools?	The DSM scheme document states the requirement of establishments to have in place a consultation process with staff, non-teaching staff and the School Board. However, the document does not detail any process for how consultation on DSM should between establishments and the local authority should be conducted.
How do the objectives of your Corporate Plan and/or Community Plan promote cross sector working?	The document does not include any references to the Corporate Plan.

Is there a framework at authority level that sets out clearly how schools will work with other schools and agencies?	The document does not reference any framework.
As part of the budget setting process, does your local authority create separate budgets at Learning Community level (school clusters) which can be accessed by all establishments collaboratively to ensure successful outcomes?	Learning Community level budgets are not referenced in the document.
<b>Accountability and Responsibility</b>	
Is the content of the Corporate Plan/Community Plan/Single Outcome Agreement shared with head teachers?	Unknown – no reference to the Corporate Plan is included in the DSM scheme document.
Is elected member training on DSM offered?	Unknown – the plan for member training is not included in the document.
Have the Education Service Plan objectives been discussed with head teachers?	Unknown – the document does not provide information on whether Education Service Plan objectives have been discussed with head teachers.
Does your scheme set out a policy on deficits, carry-forwards and virement?	The document does set out a policy for carry-overs and virement.
Does the scheme encourage responsible use of those flexibilities in line with the principles of DSM?	The document does not detail any policies on how these flexibilities should be used.
Do school leaders have access to local and/or national leadership programmes and training which ensures an approach to DSM that encourages enterprising decision-making to promote better outcomes?	Unknown – the document does not reference any local and/or national programmes or training on DSM.
Has the local authority given clear guidelines to head teachers on how to prepare School Improvement Plans?	Unknown – the document does not reference School Improvement Plans.
Have Parent Councils been given training on their role?	Unknown – the document does not reference any training for Parent Councils.
<b>Local Flexibility</b>	
An underlying principles should be that devolution should be meaningful and allow head teachers genuine flexibility.  Does your local authority scheme follow these guidelines?	N/a – not within the scope of the DSM document.
Once the budget is set, and in the context of 3 year indicative budget horizon, councils should seek to avoid mid-year reductions to school budgets.  Is this the case in your local authority area?	N/a – not within the scope of the DSM document.

# Appendix 1 – Agreed Terms of reference

## **Background**

Devolved School Management (DSM) was introduced in 1993 to improve the management of resources within schools. As a result, councils were required to devolve 80% of school budgets to Head teachers with the aims of improving local decision making and providing more flexibility to respond to the needs of individual schools.

In 2006, the guidelines recommended that local authorities increase the level of devolved budgets to 90%; reflecting the principle that everything, except for specific areas of expenditure, should be devolved. Due to significant changes in policy landscape and financial climate for local authorities, further DSM guidelines were published in March 2012 which highlighted the principles of empowerment, partnership working, accountability and local flexibility.

Expenditure within schools across Aberdeen City Council currently accounts for £100 million (60%) of the total Education, Culture and Sport budget, with 90% of this being currently devolved through local DSM arrangements.

Education, Culture and Sport are performing an in-house review of the current DSM arrangement, in particular assessing the existing documentation in place which provides the frameworks and guidance for all stakeholders. The purpose of the review is to ensure that the Aberdeen City Council DSM scheme meets best practice and complies fully with the national guidance which was issued in 2012. The review will propose changes to procedures, processes and controls to ensure compliance.

## **Scope**

Internal Audit will work alongside the work-stream to provide independent and objective assurance over the review. The expected internal audit input, timings and days allocated are outlined in the table overleaf.

An interim report, proving an assessment of progress and any internal audit observations will be reported to the Audit and Risk Committee in September 2014. A final report, providing an assessment of whether the DSM scheme design meets best practice and complies with the national guidance will be provided to the Audit and Risk Committee December 2014. A review to assess the effectiveness of controls implemented will be proposed for inclusion within the 2015/16 internal audit plan.



Phase	Objectives	Period	Days allocated
1	Participate in monthly workstream meetings	Jun-Sep 14	2
2	Perform a gap analysis of the Council's existing DSM scheme documentation and 2012 national guidance to assess if the scheme's principles meet national best practice.	Jun-Jul 14	7
3	Review the proposed internal controls and procedures to assess if design meets the requirements of the gap analysis performed in phase 2.	Aug-14	3
4	Provide support to the Infrastructure and Assets Programme Manager in rolling out the DSM scheme through workshops and stakeholders meetings.	Sep-14	3

### Limitations of scope

The scope of our review is outlined above. This will be undertaken on a sample basis

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

### Audit approach

Our audit approach is as follows:

- Attend workstream meetings
- Identify the key risks in respect of devolved school management.
- Review guidelines and workstream deliverables to evaluate the design of controls in place currently, and proposed as part of the new DSM scheme.

**Internal audit team**

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To ensure that the revised scheme meets the principles of the national guidance work has been undertaken in the following areas:

- Benchmarking the delegated budgets for schools against those in other similar sized Council areas;
- Reviewing the draft DSM scheme against those published in other Council areas and against the comments contained within section 2 of this document;
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## Timetable

<b>Review start date</b>	01 July 2014
<b>Review completion date</b>	30 September 2014
<b>Interim report to client</b>	06 August 2014
<b>Response from client</b>	20 August 2014
<b>Interim report to Audit and Risk Committee</b>	September 2014
<b>Final report to client</b>	13 October 2014
<b>Response from client</b>	27 October 2014
<b>Final report to Audit and Risk Committee</b>	December 2014

In addition to the normal reporting cycle to the Audit and Risk Committee management have requested that a report is submitted to the Education Culture and Sport Committee in November. Internal Audit will work alongside the Infrastructure and Asset Programme Manager to produce this.

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request
- Staff and management will make reasonable time available for discussions and will respond promptly to follow-up questions or requests for documentation.

# Appendix 2 - Limitations and responsibilities

## Limitations inherent to the internal auditor's work

We have undertaken a review of IT Security (network and perimeter), subject to the limitations outlined below.

### Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

### Future periods

Our assessment of controls relating to IT Security (network and perimeter) is as at 05 August 2014. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate.

## Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

In the event that, pursuant to a request which Aberdeen City Council has received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the “Legislation”), Aberdeen City Council is required to disclose any information contained in this document, it will notify PwC promptly and will consult with PwC prior to disclosing such document. Aberdeen City Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation. If, following consultation with PwC, Aberdeen City Council discloses any this document or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for Aberdeen City Council and solely for the purpose and on the terms agreed with Aberdeen City Council in our agreement dated 4 October 2010. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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