

ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Audit, Risk and Scrutiny Committee
<b>DATE</b>	4 December 2018
<b>REPORT TITLE</b>	Internal Audit Report AC1903 – Devolved School Management
<b>REPORT NUMBER</b>	IA/AC1903
<b>DIRECTOR</b>	N/A
<b>REPORT AUTHOR</b>	David Hughes
<b>TERMS OF REFERENCE</b>	2.2

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**1. PURPOSE OF REPORT**

- 1.1 The purpose of this report is to present the planned Internal Audit report on Devolved School Management.

**2. RECOMMENDATION**

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

**3. BACKGROUND / MAIN ISSUES**

- 3.1 Internal Audit has completed the attached report which relates to an audit of Devolved School Management.

**4. FINANCIAL IMPLICATIONS**

- 4.1 There are no direct financial implications arising from the recommendations of this report.

**5. LEGAL IMPLICATIONS**

- 5.1 There are no direct legal implications arising from the recommendations of this report.

**6. MANAGEMENT OF RISK**

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

## 7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

## 8. IMPACT ASSESSMENTS

<b>Assessment</b>	<b>Outcome</b>
<b>Equality &amp; Human Rights Impact Assessment</b>	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
<b>Privacy Impact Assessment</b>	Not required
<b>Duty of Due Regard / Fairer Scotland Duty</b>	Not applicable

## 9. APPENDICES

- 9.1 Internal Audit report AC1903 – Devolved School Management.

## 10. REPORT AUTHOR DETAILS

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## **Internal Audit Report**

### **Education**

## **Devolved School Management**

**Issued to:**

Rob Polkinghorne, Chief Operating Officer  
Steven Whyte, Director of Resources  
Graeme Simpson, Chief Officer of Integrated Children's and Family Services  
Fraser Bell, Chief Officer – Governance  
Jonathan Belford, Chief Officer – Finance  
Eleanor Sheppard, Chief Education Officer  
Sandy McPhee, DEM Co-ordinator  
External Audit

## **EXECUTIVE SUMMARY**

Under the Standards in Scotland's Schools etc Act 2000, education authorities, such as the Council, are required to have a scheme for delegating to school Head Teachers: the management of their share of the Council's budget for a financial year which is available for allocation to individual schools and the preparation of school development plans, with a view to securing improvement in the quality of school education and to raise standards in education.

The objective of this audit was to provide assurance that the devolved school management (DSM) scheme in place is adequate and that the decision making process is appropriate based on delegations in place.

Whilst there is a clear and detailed DSM framework in place prepared with reference to the principles of the national DSM Guidelines 2012, it does not reflect current arrangements in relation to staff budget virements and carry forwards, and devolved budget formulae guidance was also obsolete in parts. In addition, the framework has not been finalised and approved by Committee. The Service has agreed to address these issues.

Under the national DSM Guidelines 2012, Councils should review local DSM schemes every three years. The planned review in 2013 did not take place due to the DEM Co-ordinator being unavailable and a review procedure not being in place, although the 2016 review was completed. The Service has agreed to formalise the DSM review process.

In general, DSM budgets are being prepared in line with guidance; support is provided by Finance to schools; and expenditure is appropriate and in line with the scheme. It was noted that school trip expenditure processed through per capita had been incurred without obtaining quotations and without obtaining exemption from the requirement to obtain quotations from the relevant Chief Officer. The Service has confirmed it will obtain exemption from the requirement to obtain quotations for the school trips concerned from the relevant Chief Officer and remind procuring officers of the requirements of Financial Regulations in this regard.

School improvement plans had been produced in a timely manner in most cases however one improvement plan selected had not been produced as expected. This increases the risk of required improvements failing to be achieved. The Service has confirmed it will ensure school improvement plans are prepared in advance of the academic year they relate to.

Head Teachers have access to eFinancials where 'real time' budget monitoring reports can be reviewed. Effective budget monitoring relies on Head Teachers / School Administrators regularly accessing eFinancials to monitor their school's financial position. The likelihood of this occurring would increase if budget monitoring reports were emailed to schools on a monthly basis. Finance has agreed to investigate whether monthly DSM budget monitoring reports can be issued automatically.

# 1. INTRODUCTION

- 1.1 Under the Standards in Scotland's Schools etc Act 2000, education authorities, such as the Council, are required to have a scheme for delegating to school Head Teachers: the management of their share of the Council's budget for a financial year which is available for allocation to individual schools and the preparation of school development plans, with a view to securing improvement in the quality of school education and to raise standards in education.
- 1.2 DSM was introduced in 1993 to enhance and improve the management of resources at school level. The guidelines produced at that time required local authorities to devolve 80% of school budgets to Head Teachers, with the twin aims of improving local decision-making and providing more flexibility to Head Teachers in responding to the needs of individual schools. The guidelines were revised in 2006, with a recommendation that local authorities increase the level of devolved budgets to 90%. That advice reflected the principle that everything that could be devolved should be devolved, except for certain areas of expenditure that were not considered suitable for devolution.
- 1.3 The revised DSM Guidelines 2012 aimed to empower Head Teachers to meet local needs and deliver the best possible outcomes for young learners, in line with the objectives of Curriculum for Excellence, Getting it Right for Every Child (GIRFEC), and the Early Years Framework. The principles of the scheme include empowerment, partnership working, accountability, and local flexibility.
- 1.4 The Scottish Government launched a Governance Review in September 2016 partly with the objective of further empowering teachers, starting with the presumption that decisions about children's learning and school life should be taken at a school level. This included transferring legal responsibilities for delivering education and raising standards from local authorities to schools as well as developing a national funding formula for allocating resources directly to schools. Following consultation, legislative changes are no longer being sought and instead an agreement has been reached between the Scottish Government and COSLA setting out a shared commitment to empower schools. Under this agreement Head Teachers will be supported to make additional decisions on learning and teaching and on the day-to-day running of their schools.
- 1.5 All nursery, primary, special and secondary schools in Aberdeen City have been operating under devolved school management since August 1997. £107.222 million was spent by schools through devolved budgets in 2017/18 while £53.648 million (48% of the 2018/19 budget) has been spent in 2018/19 as at 30 September 2018. The 2018/19 DSM budget is £110.9 million and represents 25% of the Council's budget.
- 1.6 The objective of this audit was to provide assurance that the scheme in place is adequate and that the decision making process is appropriate based on delegations in place.
- 1.7 The factual accuracy of this report and action to be taken with the recommendations made have been agreed with Chief Education Officer, Eleanor Sheppard, Sandy McPhee, DEM Co-ordinator, and Brian Dow, Finance Partner.

## 2. FINDINGS AND RECOMMENDATIONS

### 2.1 Written Procedures

- 2.1.1 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance that correct and consistent instructions are available to staff, important in the event of an experienced employee being absent or leaving.
- 2.1.2 The Education and Children's Services (ECS) Draft Framework for Devolved School Management Schools and Services (draft DSM framework) was prepared in February 2018 and sets out a framework within which DSM operates within the Council.
- 2.1.3 The framework acknowledges the history of DSM in Scotland and has been prepared with reference to the principles of the national DSM Guidelines 2012 which are linked to the requirements of the Standards in Scotland's Schools (2000) etc Act. These principles cover subsidiarity and empowerment (promotion of local decision making), partnership working (collaboration with third party agencies and internally between Head Teachers, Officers, and Councillors), accountability and responsibility (seeking to obtain Best Value and continuous improvement), and local flexibility (allocation of budget based on criteria such as school roll and deprivation factors, resource use that meets needs of school).
- 2.1.4 The draft framework covers: the roles of key stakeholders; the requirement for consultation as part of DSM; which expenditure and income is devolved, devolved but ring-fenced, and which is non-devolved; and, support available to establishments operating DSM, e.g. budget training and the requirements for a 3 yearly review of the DSM framework. Whilst the draft DSM framework is clear and detailed it has not been approved by Committee. In addition, as detailed in sections 2.4 and 2.5 of this report, the draft DSM Framework does not reflect current arrangements in relation to school staff virements, the ring-fenced nature of devolved staffing budgets, and carry-forwards.
- 2.1.5 The national DSM guidelines are currently being reviewed. The scope of the review includes creating a template framework to allow local authorities to adopt a common framework whilst allowing local flexibility. This will include a review of existing schemes at a local level to identify best practice and avoid poor practice.

#### **Recommendation**

The DSM framework should be updated to reflect current arrangements, finalised and approved by Committee.

#### **Service Response / Action**

Agreed. The DSM framework will be finalised and reported to Committee for approval once the national review is concluded.

#### **Implementation Date**

June 2019

#### **Responsible Officer**

DEM Co-ordinator

#### **Grading**

Significant within audited area

- 2.1.6 The Devolved School Management Budget Allocation Formulae and Operational Procedure (Budget Allocation Formulae procedure) explains in detail the basis of formulae used to calculate devolved school budgets, including staffing, support costs, and year end budget carry forwards. It was noted, however, that the description of the carry forward calculation was outdated, since it does not reflect the current practice advised by the Service of all overspends being carried forward (as opposed to 2.5%) and it does not reflect the fact that underspends on staffing budgets cannot be carried forward. The

Service also advised that telephone budgets are no longer calculated in accordance with the Budget Allocation Formula procedure, instead being based on historic costs.

2.1.7 Whilst landlord (Council) and tenant (school) responsibilities are described in relation to DSM property repairs and maintenance budgets in a separate agreement, the Budget Allocation Formulae procedure does not indicate how these budgets are calculated, nor does it include the basis of income devolved to schools.

2.1.8 Staffing allocations and school rolls used to calculate devolved budgets are communicated to staff via school circulars. A 'Quality Assurance Framework – Financial Management schools' procedure is in place for schools describing budget monitoring requirements, available support from Finance, and budget carry forwards. However, this procedure also reflects the historic arrangements for budget carry forwards.

**Recommendation**

The DSM Budget Allocation Formulae and Operational procedure and Quality Assurance Framework – Financial Management schools procedure should be updated to reflect current devolved budget arrangements.

**Service Response / Action**

Agreed.

**Implementation Date**

March 2019

**Responsible Officer**

DEM Co-ordinator

**Grading**

Significant within audited area

**2.2 Budget Allocation**

2.2.1 According to the Budget Allocation Formulae procedure, budgets are devolved based on a range of formulae developed locally and nationally and where appropriate in accordance with negotiated agreements. Budget formulae are intended to ensure an equitable distribution of available resources.

2.2.2 Devolved budgets include: Staff Costs (Teachers including management, Supply Teacher absence cover up to 10 days, School Support Managers, School Administrators, Library Resource Centre Co-ordinators, Pupil Support Assistants, Technicians, Early Years Practitioners); Premises Costs (property repairs and maintenance (tenant)); Supplies and Service (Extended Per Capita Allowance (pupil per capita allowance and furniture, equipment and postage); school focused development (staff training); and, telephone call charges); Income (per capita recoveries and phone recoveries).

2.2.3 The 2018/19 budget spreadsheets were obtained and checked to ensure the budgets had been calculated in accordance with the Budget Allocation Formulae procedure, with the exception of income, premises costs and telephone call charges, which the Service had confirmed were being prepared on a different basis to that described in the procedure or guidance was not present, as indicated in paragraphs 2.1.4 and 2.1.5.

2.2.4 Staffing and Extended Per Capita Allowance budgets are primarily based on pupil roll (September / October prior to the financial year commencing), year of schooling and deprivation factors. The School Focused Development budget is for teacher training and is based on £115 per teacher FTE. These budgets were prepared in accordance with the Budget Allocation Formulae procedure.

## **2.3 DSM Support**

- 2.3.1 The Budget Allocation Formulae procedure states that schools are to have a budget holder meeting with Finance on a timetabled basis throughout the year, to discuss budget, actuals and forecast. The 2018/19 timetable showed all Academies, 24 primaries and 1 special school had been visited during August and September 2018.

## **2.4 Virements**

- 2.4.1 Virement is the mechanism for transferring funds between budgets. The Council's draft DSM framework states that maximum flexibility exists within and between fully devolved budgets such as staff costs. Finance process virements on behalf of schools at their request.
- 2.4.2 Finance monitors staff underspends due to vacancies across all Council budgets and vires the related unused budget to a centrally held 'Staff Vacancy Factor' budget. £12.68 million has been removed from devolved staffing budgets since 1 April 2016 as follows: 2016/17 - £4.953 million; 2017/18 - £4.835 million; and 1 April to 28 September 2018 - £2.892 million.
- 2.4.3 Requests can be made by Head Teachers for staff vacancy budget to be vired to a school's Per Capita budget in order to procure the services of an external body to deliver the curriculum e.g. pupil counselling services.
- 2.4.4 The arrangements in relation to staff virements described in paragraphs 2.4.2 and 2.4.3 are not reflected within the current DSM framework and have the effect of making staff costs a ring-fenced school budget. A recommendation to update the DSM framework to reflect current arrangements has already been made at paragraph 2.1.5.

## **2.5 Carry Forwards**

- 2.5.1 The Service advised devolved budget balances are carried forward to the following financial year as follows: 2.5% of non-staffing underspend, overspends are carried forward in full, and staff underspends will not be carried forward. Budget carry forwards are further restricted on this basis when compared to the draft DSM framework, which states an establishment may carry forward up to 2.5% of its total devolved budgets (including ring-fenced budget) as either an under or overspend into the next financial year. A recommendation to update the DSM framework to reflect current arrangements has already been made at paragraph 2.1.5.
- 2.5.2 A sample of Primary, Secondary and Special school carry forward balances was selected to ensure they were prepared as indicated by the Service and that the April 2018 opening carry forward balances agreed to the carry forward balances calculated at year-end 2017/18. This was found to be the case.

## **2.6 Monitoring**

- 2.6.1 Head Teachers have access to eFinancials where 'real time' financial information can be reviewed. Head Teachers also receive monthly financial monitoring reports, which show the full year budget, budget to date, spend to date, over / under spend to date, projected annual spend, and projected annual overspend / underspend. These are further supplemented for Schools by additional DSM monitoring reports, which in addition to the information on the general monitoring report also detail the provisional carry forward limit and a range of additional transactional information. These reports are useful at identifying where underspends and overspends are developing during the financial year and need to be addressed. The Head Teacher concerned can then use eFinancials to investigate the



related transactions and if required flag any miscodings to Finance to arrange a correcting journal entry.

- 2.6.2 Effective budget monitoring relies on Head Teachers / School Administrators regularly accessing eFinancials to monitor their school's financial position. The likelihood of this occurring would increase if DSM budget monitoring reports were emailed to schools on a monthly basis.

<b><u>Recommendation</u></b>		
Finance should investigate whether automated monthly DSM budget monitoring reports can be issued to schools.		
<b><u>Service Response / Action</u></b>		
Agreed.		
<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
January 2019	Finance Partner	Important within audited area

## 2.7 Expenditure

- 2.7.1 Devolved expenditure should improve the quality of school education and raise educational standards in accordance with the Standards in Scotland's Schools etc Act 2000. The Council's 2012 draft DSM framework describes expenditure which can and cannot be devolved to schools. Non-devolved expenditure includes: certain staff costs such as long service awards; landlord repairs and maintenance costs (mainly anything structural); certain course expenses; and, transport costs including hired transport and season tickets. Devolved expenditure is as described in paragraph 2.2.2.

- 2.7.2 A sample of 10 schools was selected and all invoices processed between April 2018 and June 2018 that were above £10,000 and were charged to Per Capita and Repairs and Maintenance devolved budgets were reviewed. The spend was found to be appropriate and in line with the draft DSM framework. It was, however, noted that a contract was not in place for 3 suppliers used relating to school trips. Each trip cost less than £50,000 and quotations had not been obtained by the schools concerned prior to engaging the suppliers used. Two schools submitted Quotation Exemption Forms however one of these was not authorised by the relevant Chief Officer as required by Financial Regulations. In addition, one school did not request exemption from the requirement to obtain quotations.

<b><u>Recommendation</u></b>		
Ferryhill school and Mile End school should obtain exemption from the requirement to obtain quotations for the school trips concerned from the relevant Chief Officer.		
A reminder should be issued to schools of the requirement to obtain quotations or to seek exemption from this requirement for expenditure under £50,000.		
<b><u>Service Response / Action</u></b>		
Agreed.		
<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
December 2018	Chief Education Officer	Significant within audited area

- 2.7.3 A recommendation is outstanding from Internal Audit report AC1623 "Compliance with Procurement Legislation", that the Service should ensure that spend on supplies which are likely to be used by more than one school is forecast so that appropriate Committee

approval and tendering can be completed for aggregate spend. This included spend on school trips. The Service intends to resolve this by developing a work plan for Education and Children's Services supported by business cases, approval for which will be sought from the Strategic Commissioning Committee.

## 2.8 Development Plans

- 2.8.1 As stated in paragraph 1.1, under the Standards in Scotland's Schools etc Act 2000, the Council is required to have a scheme for delegating to school Head Teachers the preparation of school development plans. The plans are required to set objectives for schools, taking into account the Council's education improvement objectives.
- 2.8.2 The draft DSM Framework states that the key to quality management at establishment level is the development plan and that the linkages between the plan, devolved processes, and devolved budgets are critical to the effective delivery of the curriculum.
- 2.8.3 School 'Improvement Plans' are prepared by Head Teachers at the beginning of the school year. These include national, Council and school key priorities. An action plan is included for each school priority, including required resources, measures of success, implementation dates, progress to date, and intended impact. The plan also includes continued development work, a copy of the Pupil Equity Fund (PEF) plan, and a summary of the actions and consultation that has taken place with staff, parents and pupils on improvement priorities.
- 2.8.4 A sample of 10 schools was selected to establish if improvement plans had been prepared for 2018/19 in a timely manner, they refer to national and Council education improvement objectives, and there is evidence of consultation with parents, pupils and staff. This was found to be the case with the exception of one school who had not produced their 2018/19 improvement plan as at 30 October 2018. Delays producing improvement plans increase the risk that school improvements will fail to be achieved.

<b><u>Recommendation</u></b>		
School improvement plans should be formalised ahead of the academic year they relate to.		
<b><u>Service Response / Action</u></b>		
Agreed.		
<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
January 2019	Quality Improvement Manager	Significant within audited area

## 2.9 DSM Review

- 2.9.1 Under the national DSM Guidelines 2012, Councils should review local DSM schemes every three years. Although individual elements of the scheme, such as adjustments to formulae, have been subject to review in February 2018, the scheme was last fully reviewed in 2016 and previously in June 2010. The planned review in 2013 did not take place due to the DEM Co-ordinator being unavailable. This suggests there is a lack of shared knowledge to enable a DEM review to take place in the absence of the DEM Co-ordinator. There is not currently a procedure in place covering the DSM review process.

**Recommendation**

A procedure should be prepared covering the DSM review process.

**Service Response / Action**

Agreed.

**Implementation Date**

March 2019

**Responsible Officer**

DEM Co-ordinator

**Grading**

Significant within audited  
area

**AUDITORS:** D Hughes  
A Johnston  
A McDonald

## Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
<b>Major at a Corporate Level</b>	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
<b>Major at a Service Level</b>	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
<b>Significant within audited area</b>	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
<b>Important within audited area</b>	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.