

ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Audit, Risk and Scrutiny Committee
<b>DATE</b>	23 November 2023
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Internal Audit Report AC2403 – Pupil Equity Fund
<b>REPORT NUMBER</b>	IA/AC2403
<b>DIRECTOR</b>	N/A
<b>REPORT AUTHOR</b>	Jamie Dale
<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 the Pupil Equity Fund.

**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. CURRENT SITUATION**

3.1 Internal Audit has completed the attached report which relates to an audit of the Pupil Equity Fund.

**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. ENVIRONMENTAL IMPLICATIONS**

6.1 There are no direct environmental implications arising from the recommendations of this report.

**7. RISK**

7.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council's Risk Appetite Statement, are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

## 8. OUTCOMES

8.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.

8.2 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.

## 9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	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.
Privacy Impact Assessment	Not required

## 10. BACKGROUND PAPERS

10.1 There are no relevant background papers related directly to this report.

## 11. APPENDICES

11.1 Internal Audit report AC2403 – Pupil Equity Fund

## 12. REPORT AUTHOR CONTACT DETAILS

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## Internal Audit

### Assurance Review of Pupil Equity Fund

**Status:** Final

**Date:** 27 September 2023

**Risk Level:** Function

**Report No:** AC2403

**Assurance Year:** 2023/24

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable

Report Tracking	Planned Date	Actual Date
Scope issued	16-May-23	15-May-23
Scope agreed	23-May-23	20-May-23
Fieldwork commenced	29-May-23	29-May-23
Fieldwork completed	14-Jul-23	24-Jul-23
Draft report issued	28-Jul-23	28-Jul-23
Process owner response	18-Aug-23	21-Sept-23
Director response	25-Aug-23	22-Sept-23
Final report issued	01-Sep-23	27-Sep-23
Audit Committee	23-Nov-23	

Distribution	
Document type	Assurance Report
Director	Eleanor Sheppard, Interim Director Children's & Family Services
Process Owner	Caroline Johnstone – Quality Improvement Manager
Stakeholder	Shona Milne, Chief Education Officer
*Final only	Vikki Cuthbert, Interim Chief Officer – Governance*
	Jonathan Belford, Chief Officer - Finance*
	External Audit*
Lead auditor	Graeme Flood, Auditor

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# 1 Introduction

## 1.1 Area subject to review

Pupil Equity Funding (PEF) is Scottish Government funding to deliver the Scottish Government's Scottish Attainment Challenge policy. The funding is allocated directly to schools and targeted at closing the poverty related attainment gap. This funding is to be spent at the discretion of Head Teachers (HTs) working in partnership with each other and their local authority. In 2022/23 Aberdeen City schools received a total of £3.264m with the allocation fixed through to financial year 2025/26. The allocation per school was based on £1,225 per pupil, in primary 1 to secondary 3, estimated by the Scottish Government as being registered for free school meals (FSM).

The key principles of the funding as set out in the Pupil Equity Fund national guidance 2022 are:

- Headteachers will have access to their school's full allocated amount of Pupil Equity Funding and should work in partnership with each other, and their local authority, to agree the use of the funding.
- Pupil Equity Funding must enable schools to deliver activities, approaches or resources which are clearly additional to universal local improvement plans.
- Teachers, parents and carers, children and young people and other key stakeholders should be meaningfully involved throughout the processes of planning, implementing and evaluating approaches.
- Funding must provide targeted support for children and young people (and their families if appropriate) affected by poverty to achieve their full potential, focusing on targeted improvement activity in literacy, numeracy and health and wellbeing.
- Although the Pupil Equity Funding is allocated on the basis of free school meal registration, headteachers can use their professional judgement to identify children in their school who may benefit from the targeted interventions and approaches, with the aim of closing the poverty-related attainment gap.
- Schools must take account of the statutory responsibilities of the authority to deliver educational improvement, secure Best Value, and the authority's role as employer. Local Guidance will set out more detail on how this will operate. The contributions of wider services supporting children and young people and their families are vital to supporting pupils' readiness to learn. Collaboration across services is crucial in tackling the poverty related attainment gap.
- The operation of the Pupil Equity Funding should be included within existing planning procedures e.g. through School Improvement Plans and Standards and Quality reports, or equivalent report if appropriate, each of which should be easily accessible to stakeholders. This must provide clarity to stakeholders on how Pupil Equity Funding is being used and its expected impact.
- Headteachers must develop a clear rationale for use of the funding, based on a robust contextual analysis of relevant data which identifies the poverty-related attainment gap in their schools and learning communities and plans must be grounded in evidence of what is known to be effective at raising attainment for children affected by poverty.
- Schools must have plans in place at the outset to evaluate the impact of the funding. These plans should outline clear outcomes to be achieved and how progress towards these, and the impact on closing the poverty-related attainment gap, will be measured. If, as a result of this ongoing monitoring, the plans are not achieving the results intended, these plans should be amended. Plans for sustainability must be considered as part of this.

## 1.2 Rationale for the review

The objective of this audit is to provide assurance that schools are spending in accordance with their plans, and these are developed as required, to close the poverty related attainment gap.

Since the beginning of the funding in 2017/18 Aberdeen City Council have been awarded £18.6m in funding which has been provided directly to Head Teachers.

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This review has been included in the agreed 2023/24 Internal Audit plan to ensure the monies being provided by the Scottish Government are being appropriately applied in order to try and bridge the attainment gap.

This area was last subject to review in April 2019. Recommendations were made to enhance controls in relation to procurement Governance, Off Payroll Working (IR35), budget monitoring, and performance monitoring arrangements.

### **1.3 How to use this report**

This report has several sections and is designed for different stakeholders. The executive summary (section 2) is designed for senior staff and is cross referenced to the more detailed narrative in later sections (3 onwards) of the report should the reader require it. Section 3 contains the detailed narrative for risks and issues we identified in our work.

## 2 Executive Summary

### 2.1 Overall opinion

The full chart of net risk and assurance assessment definitions can be found in Appendix 1 – Assurance Scope and Terms. We have assessed the net risk (risk arising after controls and risk mitigation actions have been applied) as:

Net Risk Rating	Description	Assurance Assessment
<b>Moderate</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	<b>Reasonable</b>

The organisational risk level at which this risk assessment applies is:

Risk Level	Definition
<b>Function</b>	This issue/ risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function.

### 2.2 Assurance assessment

The level of net risk is assessed as **MODERATE**, with the control framework deemed to provide **REASONABLE** assurance over the Council's approach to the Pupil Equity Fund.

Pupil Equity Funding (PEF) is additional funding from the Scottish Government's £750m Scottish Attainment Challenge programme from 2017/18 up until 2025/26. The funding is allocated directly to schools and targeted at closing the poverty related attainment gap. This funding is to be spent at the discretion of head teachers working in partnership with each other and their local authority. In 2022/23 Aberdeen City schools received a total of £3.264m and the allocation for 2023/24 is £3.264m. The allocation per school was based on £1,225 per pupil, in primary 1 to secondary 3, estimated by the Scottish Government as being registered for free school meals (FSM).

All schools reviewed had processes in place for identifying pupils who could benefit from PEF and all schools reviewed had PEF plans in place.

PEF budget monitoring is facilitated by regular meetings between head teachers and Finance who also provide regular budget monitoring reports. In addition, in line with grant funding conditions, the Council reported on outcomes and plans relevant to PEF in its annual National Improvement Framework report to Education Operational Delivery Committee, in September 2022. Also, separately the Education and Children's Services Committee receive regular attainment performance updates.

However, the review identified some areas of weakness where the framework of control could be strengthened, specifically:

- **Intervention Planning** – All nine schools reviewed had PEF plans in place. However, the consistency and quality of the nine plans regarding analysis of need and impact measurement details directly linked to PEF varied, with three schools (33%) only briefly covering their PEF plans within their Standards and Quality Improvement Plan (SQIP) three (33%) providing reasonable detail, while three (33%) provided in depth analysis of the spend and outcomes. Where PEF needs and performance measures are not clearly planned and costed in a consistent manner, there is a greater risk desired PEF outcomes will not be achieved.
- **Accountability** – All relevant stakeholders were consulted on seven (78%) plans in place, although two (22%) had no documentary evidence of the process, while two (22%) had only consulted with the Parent Council. In terms of reporting, all schools reviewed had published their SQIP. However, it was noted that the quality of outcome reporting varied, with two (22%) providing a high level of detail, whilst the remaining seven (78%) provided less. In addition, only six (75%) of eight schools reviewed with a parent council had reported on outcomes to the

parent council during the academic year. Where relevant stakeholder engagement of PEF plans and outcomes does not take place, there is a greater risk desired PEF outcomes will not be achieved.

- **Financial Planning** – A review of the financial plans for the academic year 2022/23 returned by the nine schools in the sample found that five (56%) had not budgeted to spend their total funds available without an explanation for the use of the balance (unallocated budget of between £14k and £42k). Failure to plan to fully spend funds available appropriately in the academic year to which they relate increases the risk of PEF funding being recovered by the Scottish Government.
- **Procurement** – A review of PEF expenditure over the current and previous three financial years found 19 suppliers with total PEF spend of £6.85m, where aggregate individual supplier expenditure exceeded £50k. However, the statutory requirement to include 12 (63%) of these contracts on the Council’s contracts register was not complied with and there was no evidence of adherence to the Council’s Scheme of Governance for procurement approval. This risks Best Value and challenge by alternative suppliers, which may lead to reputational damage for the Council and financial loss.
- **Staffing** – For the financial year 2022/23 43 schools had staff costs charged to PEF totalling £1.1m. As at 27 July 23 there were 39 staff in posts charged to 21 schools funded by PEF. Four (10%) non promoted staff have exceeded two years in their fixed term post and therefore are entitled to redundancy costs. Eight (21%) non promoted staff have gone beyond four years in post meaning they are entitled to be treated as a permanent member of staff. One (3%) secondment has lasted over three years and is for a teacher acting up into a Principal Teacher post. Due to the promoted nature of the secondment and the fact the secondment had lasted over 23 months the member of staff is now entitled to three years cash conservation when they return to their substantive post, an annual cost to the school’s staffing budget of £12k. Although PEF funding was extended after the last Scottish parliamentary election this cannot be guaranteed beyond 2025/26. In the absence of adequate planning for funding ceasing, associated staff costs may not be sustainable and schools may have insufficient funds to manage any potential severance costs.
- **IR35 Compliance** – Where it is assessed that an individual falls within the scope of the off-payroll working legislation, the Council must deduct tax and employee national insurance contributions (NICs) from payments made, and account for employer’s NIC. In the financial year 2022/23 Internal Audit identified 13 suppliers which should have been assessed under the IR35 requirements. 21 schools had incurred expenditure with these suppliers and five had been used by schools within the sample - none had an assessment carried out. It was noted that there are no central corporate monitoring arrangements to ensure IR35 compliance. Failure to correctly apply the IR35 rules can lead to unexpected tax and national insurance costs for the Council as well as possible financial penalties.

Recommendations have been made to address the above risks, including establishing systems of control to ensure: PEF plans are consulted on, established in line with national and Council guidance; that PEF plans are fully costed with appropriate contingency arrangements; that PEF procurement processes comply with the Council’s Scheme of Governance and IR35; that the budgeted saving for central support costs funded by PEF is verified for accuracy before being applied, and that performance reporting is established. In addition, it was recommended that consideration be given to PEF funds ceasing and the associated impact on staffing funded by PEF.

## 2.3 Severe or major issues / risks

Issues and risks identified are categorised according to their impact on the Council. The following are summaries of higher rated issues / risks that have been identified as part of this review:

Ref	Severe or Major Issues / Risks	Risk Agreed	Risk Rating	Page No.
1.6	<b>IR35 Compliance</b> – Off-Payroll Working legislation (IR35) requires public bodies to undertake an employment status assessment for all identified suppliers who provide	Yes	<b>Major</b>	13

Ref	Severe or Major Issues / Risks	Risk Agreed	Risk Rating	Page No.
	<p>services to them either as individuals or through their own limited companies or other third parties (often referred to as Personal Service Companies or PSCs).</p> <p>In each case, an IR35 self-assessment must be undertaken to determine whether the IR35 legislation applies to their engagement. Where it is assessed that an individual falls within the scope of the legislation, the public body must deduct tax and employee National Insurance contributions (NICs) from payments made, and account for employer's NIC.</p> <p>In the financial year 2022/23 IA identified 13 suppliers that should have been assessed under the IR35 requirements. 21 schools had incurred expenditure with these suppliers and five had been used by schools within the sample, none had an assessment carried out and the administrative staff at the schools indicated they were unaware of this requirement.</p> <p>It was noted that there are no central corporate monitoring arrangements to ensure IR35 compliance.</p> <p>Failure to correctly apply the IR35 rules can lead to unexpected tax and national insurance costs for the Council as well as possible financial penalties.</p>			

## Management response

*The Service welcomes this review of Pupil Equity Funding which has provided the Service with a clear set of priorities to help strengthen our arrangements. The Service has already progressed a number of agreed actions.*

*The PEF guidance will be updated to ensure the schools full budget is allocated in their plan. Costed school Pupil Equity Plans have already been linked to our Power BI tool, this approach will help support improved reporting of progress to stakeholders.*

*PEF guidance will be updated to clarify expectations around consultation and necessary steps to take in line with procurement regulations, consideration will be given to how best to gain assurance that these processes are followed across all city schools with remedial action already progressing where vulnerabilities have been identified by Internal Audit.*

*The risk of removal of Scottish Attainment Challenge funding has been added to the service risk register. Schools continue to consider the risks associated with utilising PEF funding to establish fixed term contracts and the service will now consider this risk more fully and ensure that information held in Core HR is accurate.*

## 3 Issues / Risks, Recommendations, and Management Response

### 3.1 Issues / Risks, recommendations, and management response

Ref	Description	Risk Rating	Moderate
1.1	<p><b>Planning</b> – The Scottish Government (SG) issues annual National Operational Guidance for various aspects of PEF. It includes:</p> <p><i>“Schools must have plans in place at the outset to evaluate the impact of the funding. These plans should outline clear outcomes to be achieved and how progress towards these, and the impact on closing the poverty-related attainment gap, will be measured. If, as a result of this ongoing monitoring, the plans are not achieving the results intended, these plans should be amended. “</i></p> <p>The Council’s internal guidance does not provide a standard PEF reporting template however it does provide a checklist to assist schools in their planning process which includes:</p> <ul style="list-style-type: none"> <li>• Planning has a strong rationale, clear outcomes and measures and approaches which are evidence based.</li> <li>• It takes account of the four-year allocation of PEF we ensure we consider longer-term approaches and make effective use of our full allocation.</li> <li>• Our plans and reports outlining the use and impact of PEF are publicly available so that our stakeholders have clarity on how funding is used and the impact it is having.</li> </ul> <p>A sample of nine schools was selected to review PEF planning arrangements, including processes for identifying children in need of PEF support, with planned spend eligible under PEF criteria.</p> <p>Whilst all schools had processes in place for identifying pupils in need, and plans identifying the interventions to be applied, the consistency and quality of the nine plans with regard to analysis of need and impact measurement details directly linked to PEF varied, with three schools (33%) only briefly covering their PEF plans within their SQIP while three (33%) provided in depth analysis of the spend and outcomes. The remaining three (33%) provided reasonable detail in this regard.</p> <p>Where PEF needs and performance measures are not clearly planned and costed in a consistent manner, there is a greater risk desired PEF outcomes will not be achieved.</p>		
<b>IA Recommended Mitigating Actions</b>			
A system of control should be established to ensure schools prepare PEF plans in accordance with national and Council PEF guidance, including analysis of need, and performance measures. This should include consideration of development of a pro-forma PEF plan for schools to complete, covering relevant PEF planning considerations.			
<b>Management Actions to Address Issues/Risks</b>			
<i>This action has already been partially addressed by linking a costed school Pupil Equity Plan to the Power BI tool in June 23 to support the on-going monitoring of the impact of interventions through common performance measures. This will enable analysis at individual school and Local Authority level.</i>			
<i>Action – The need for consistently robust analysis undertaken at school level will be built into PEF Guidance and quality assurance systems for the next cycle of Planning in June 2024.</i>			
<b>Risk Agreed</b>	<b>Person(s)</b>	<b>Due Date</b>	
Yes	Quality Improvement Manager	September 2024	

Ref	Description	Risk Rating	Moderate
1.2	<p><b>Accountability</b> – The SG Operational Guidance 2022 has two key principles relating to accountability as follows:</p> <ul style="list-style-type: none"> <li>Teachers, parents and carers, children and young people and other key stakeholders should be meaningfully involved throughout the processes of planning, implementing, and evaluating approaches.</li> <li>The operation of the Pupil Equity Funding should be included within existing planning e.g. through School Improvement Planning and Standards and Qualities reports or equivalent reports, which should be easily accessible to stakeholders, providing clarity on how Pupil Equity Funding is being used and the expected impact.</li> </ul> <p>In addition, Council PEF guidance requires the following:</p> <ul style="list-style-type: none"> <li>Closely monitor and track the impact of our work so that we can make changes where necessary to ensure positive outcomes for children and young people impacted by poverty.</li> <li>Within our SQIP reports we explicitly report on how PEF has improved outcomes for children and young people impacted by poverty.</li> </ul> <p>The same sample of nine plans described in 1.1 above were reviewed to determine levels of consultation with stakeholders (as explained above):</p> <ul style="list-style-type: none"> <li>Five schools reviewed (56%) had consulted fully in advance of finalising their plan while a further two (22%) consulted only with the parent council. However, two (22%) schools indicated they where they did consult informally, this was not documented.</li> <li>In terms of reporting, all schools sampled had published their SQIP. However, it was noted that the quality of outcome reporting varied, with two (22%) providing a high level of detail, whilst the remaining seven (78%) provided less on outcomes.</li> <li>Six (67%) schools reported to their parent council on outcomes during the 2022/23 academic year while two (22%) indicated they would be presenting the outcomes early in the 2023/24 academic year and one (11%) had no parent council in place during the academic year.</li> </ul> <p>Where relevant stakeholder engagement of PEF plans and outcomes does not take place, there is a greater risk desired PEF outcomes will not be achieved.</p>		
<b>IA Recommended Mitigating Actions</b>			
<p>Head teachers should ensure they evidence consultation undertaken with stakeholders in advance of the PEF plan being implemented. Head teachers should also ensure stakeholders are updated regularly on the progress of PEF plans and results being achieved via an appropriate forum and via the school Standards and Quality Report and Improvement Plan.</p>			
<b>Management Actions to Address Issues/Risks</b>			
<p><i>Head Teachers will be asked to routinely report PEF Plan progress via an appropriate Forum (Parent Council, school newsletter etc.) at least twice a year with outcome data reported through the end of year SQIP report. Head Teachers will be asked to include details of their consultation on proposed Plans with stakeholders, and the outcome of that consultation, in the SQIP.</i></p>			
<b>Risk Agreed</b>		<b>Person(s)</b>	<b>Due Date</b>
Yes		Quality Improvement Manager	June 2024

Ref	Description	Risk Rating	Moderate
1.3	<p><b>Financial Planning</b> – At the end of financial year 2021/22, 53 schools had unspent funds totalling approximately £1.26m carried forward into 2022/23. Such carry forwards are allowed under the national guidance that states:</p> <p><i>“Where schools are unable to spend their full allocation during the financial year, any unspent funds can be carried forward to the new financial year. The expectation is that other than in exceptional circumstances, it should be spent within that same academic year.”</i></p> <p>The Council’s own PEF planning guidance reiterates this point.</p> <p>As the schools spend plans are prepared based on an academic year, Internal Audit analysed the underspends at the end of July 23, being the end of the 22/23 academic year. This found 36 schools with an underspend totalling £483k.</p> <p>The Quality Improvement Manager indicated such underspends are followed up with Head Teachers in consultation with the Education Scotland Attainment Advisor to offer support and challenge to improve planning for best use of this funding.</p> <p>A review of the financial plans for 2022/23 returned by the nine schools in the sample found that three (33%) had budgeted to spend their total funds available (2022/23 allocation + 2021/22 carry forward). Five (56%) provided a costed plan but with unallocated budget of between £14k and £42k. The remaining school (11%), while having a plan, had not detailed the costs of the provision. In all instances the schools’ plans were based on the academic year.</p> <p>The Council’s grant award letter states:</p> <p><i>“In the event that the amount of the grant paid....is found to exceed the amount of the expenses reasonably and properly incurred by the Grantee in connection with the Programme, the Grantee shall repay to the Scottish Ministers the amount of such excess within 14 days on receiving a written demand for it from or on behalf of Scottish Ministers.”</i></p> <p>Whilst the national guidance permits carry forwards to the end of an academic year, underspends beyond this should only be in exceptional circumstances as explained above. Therefore, failure to plan to fully spend funds available at the beginning of a financial year increases the risk of a material level of PEF funding being recovered by the Scottish Government.</p>		
<b>IA Recommended Mitigating Actions</b>			
School PEF plans should be fully costed based on available budget.			
<b>Management Actions to Address Issues/Risks</b>			
For academic year 2023/24 schools are required to input their Plan data into a consolidated Equity planner/tracker detailing their costed interventions. The spreadsheet also holds the allocated financial budget for the current school year along with any carry forward from the previous. The data is linked to the PowerBi reporting tool which will allow comparison of school budgets against costed plans as well as on-going monitoring of the impact of interventions through common performance measures. This will enable analysis at individual school and Local Authority level.			
<b>Risk Agreed</b>	<b>Person(s)</b>	<b>Due Date</b>	
Yes	Quality Improvement Manager	March 2024	

Ref	Description	Risk Rating	Minor
1.4	<p><b>Sustainability</b> – The Scottish Government Pupil Equity Funding National Operational Guidance 2022 requires sustainability to be covered by PEF plans. Head Teachers for the sample of nine schools reviewed provided a mixed response as to whether ongoing interventions would be sustainable especially where extra staff or third-party provision was being funded. All schools indicated they were endeavouring to build capacity through staff training and upskilling and purchase of resources which will endure. Currently there is no corporate planning for how the attainment challenge will be addressed should funding cease as expected in 2026. Failure to plan for this eventuality risks associated support for relevant pupils ending, potentially affecting the attainment prospects of relevant pupils.</p>		
<b>IA Recommended Mitigating Actions</b>			
Removal of Scottish Attainment Challenge funding should be risk assessed by the Education Service.			
<b>Management Actions to Address Issues/Risks</b>			
<i>The risk of removal of Scottish Attainment Challenge funding has been added to the service risk register and will be reported to ECS Committee in November.</i>			
<b>Risk Agreed</b>		<b>Person(s)</b>	<b>Due Date</b>
Yes		Interim Chief Education Officer	Implemented

Ref	Description	Risk Rating	Moderate
1.5	<p><b>Procurement</b> – Whilst the PEF budget is delegated by the Scottish Government to Head teachers to spend, National Guidance requires the budget holders to comply with local procurement governance requirements.</p> <p>As part of the audit, head teachers were asked if they had undertaken training on Council financial regulations and procurement and if they were aware of the governance issues relating to procurement where £10k and £50k expenditure thresholds were exceeded. All indicated they were.</p> <p>In the financial year 2022/23 schools processed 1,863 invoices totalling £1.81m relating to PEF supplies and services.</p> <p>The Council's Procurement Regulation 7.1 states:  <i>"No supplies, services or works shall be ordered or instructed except on an official order form, which shall be in an approved format. Where, by reason of urgency or necessity, a verbal order is issued, it must be confirmed within 3 working days with the issue of an official order form from the ordering system. The supplier shall be requested to quote order numbers on all invoices. The budget holder risks disciplinary action for noncompliance".</i></p> <p>Testing found 44 invoices (2%) from 27 Suppliers for 28 schools totalling £195k(10.76%), appeared not to have a PO raised.</p> <p>The Scheme of Governance also requires any individual spend exceeding £10k to have a business case approved and details recorded on the Councils contracts register along with the supporting documentation. In the financial year 2022/23, 33 orders (£660k) had been raised to 13 suppliers for &gt; £10k. Testing found:</p> <ul style="list-style-type: none"> <li>Seven suppliers had no entry on the contracts register £386k (21.3% of total PEF spend)</li> </ul>		

Ref	Description	Risk Rating	Moderate
	<ul style="list-style-type: none"> <li>One had an entry in the contract register but spend had exceeded the contract value and there was no supporting documentation on the register - £14k (1% of total PEF spend).</li> <li>One had a direct award with a quote exemption signed by a Chief Officer but not approved by the Head of Commercial and Procurement - £12k (1% of total PEF spend).</li> <li>A set of business cases covering three PEF contracts (13%) was approved by the Strategic Commissioning Committee on 16 June 2021, however all of these had approval to September 2022 and no business cases to extend have been submitted.</li> </ul> <p>The Council's Procurement Regulation 3.6 states:</p> <p><i>"When determining the Contract Value for the purchase of goods or services, or for the execution of works, the Delegated Procurer must take into account the aggregate value of the particular requirement for supplies, services or works across the whole Council and any contract extension option."</i></p> <p>Further testing of expenditure over the current and previous three financial years found 19 suppliers with which aggregate PEF spend exceeded £50k. Testing of these spends found:</p> <ul style="list-style-type: none"> <li>Five suppliers £574k (8% of total PEF spend in the last 4 years) did not appear on the contracts register .</li> <li>Two suppliers £2.04m (30% of total PEF spend last 4 years) had an entry but no documentation or confirmation the contract had been agreed/awarded.</li> <li>Two suppliers £127k (2% of total PEF spend last 4 years) where contract agreed term had ended but spend was still being incurred without subsequent approval.</li> <li>One Supplier £86k (1%) where approved contract value had been exceeded.</li> </ul> <p>Failure to comply with the Council's Procurement Regulations risks Best Value and challenge by alternative suppliers, which may lead to reputational damage for the Council and financial loss.</p> <p>Internal Audit report AC2019 Procurement Compliance included twelve recommendations covering the compliance with Financial and Procurement Regulations, all of which have been marked complete based on assurances over enhancements to procurement controls. However, there still appears to be issues with PEF expenditure where it exceeds relevant Scheme of Governance expenditure thresholds, risking breaches of the Council's Financial Regulations and Procurement Regulations.</p>		
<b>IA Recommended Mitigating Actions</b>			
Education should review the current PEF procurement process and ensure it is in line with Children's & Family Services procurement processes and the Council's Scheme of Governance.			
<b>Management Actions to Address Issues/Risks</b>			
<i>PEF guidance will be updated to provide greater clarity around procurement processes and the Council's Scheme of Governance including IR35 guidance.</i>			
<b>Risk Agreed</b>	<b>Person(s)</b>	<b>Due Date</b>	
Yes	Quality Improvement Manager	October 2023	

Ref	Description	Risk Rating	Major
1.6	<p><b>IR35 Compliance</b> – Off-Payroll Working legislation (IR35) requires public bodies to undertake an employment status assessment for all identified suppliers who provide services to them either as individuals or through their own limited companies or other third parties (often referred to as Personal Service Companies or PSCs).</p> <p>In each case, an IR35 self-assessment must be undertaken to determine whether the IR35 legislation applies to their engagement. Where it is assessed that an individual falls within the scope of the legislation, the public body must deduct tax and employee National Insurance contributions (NICs) from payments made, and account for employer's NIC.</p> <p>In the financial year 2022/23 IA identified 13 suppliers that should have been assessed under the IR35 requirements. 21 schools had incurred expenditure with these suppliers and five had been used by schools within the sample, none had an assessment carried out and the administrative staff at the schools indicated they were unaware of this requirement.</p> <p>It was noted that there are no central corporate monitoring arrangements to ensure IR35 compliance.</p> <p>Failure to correctly apply the IR35 rules can lead to unexpected tax and national insurance costs for the Council as well as possible financial penalties.</p>		
<b>IA Recommended Mitigating Actions</b>			
IR35 assessments should be undertaken for the suppliers identified by Internal Audit.			
<b>Management Actions to Address Issues/Risks</b>			
As indicated in para 1.5 PEF guidance will be updated to inform those undertaking the administrative function relating to IR35.			
IR35 assessments will be undertaken by the schools using the suppliers for the suppliers identified by Internal Audit			
<b>Risk Agreed</b>		<b>Person(s)</b>	<b>Due Date</b>
Yes		Quality Improvement Manager	December 2023

Ref	Description	Risk Rating	Moderate
1.7	<p><b>Staffing</b> – Since PEF funding is not part of the Council's General Revenue Grant and is not guaranteed to continue between parliamentary terms, any additional staffing funded by PEF requires to be sourced on a fixed term contract basis.</p> <p>For the financial year 2022/23 43 schools had staff costs charged to PEF totalling £1.1m. As at 27 July 2023 there were 39 staff in posts recorded on CoreHR, charged to 21 schools, funded by PEF. Testing was undertaken on these staff to ensure:</p> <ul style="list-style-type: none"> <li>• Staff had been employed on a fixed term contract.</li> <li>• Staff had not gone beyond their fixed term end date.</li> <li>• Where staff had a contract which was expected to go beyond two years entitling that employee to statutory redundancy pay, schools budgeted for any possible exit costs.</li> <li>• Where the two year threshold of employment was to be exceeded it had been approved in line with the Councils PEF guidance.</li> </ul> <p>The testing of the 39 staff found the following:</p>		

Ref	Description	Risk Rating	Moderate
	<p>20 (51%) were permanent of which nine (23%) were in permanent posts but with either additional hours or seconded for PEF purposes. Of these</p> <ul style="list-style-type: none"> <li>• Four (10%) had no targeted end date and all had been in receipt of four additional hours (currently recharged to PEF) per week for eight years.</li> <li>• Two (5%) showed on CoreHR as permanent while their contracts indicated fixed term.</li> <li>• One (3%) secondment has lasted over three years. This secondment is for a teacher acting up into a Principal Teacher post. Due to the promoted nature of the secondment and the fact the secondment had lasted over 23 months the member of staff is now entitled to three years cash conservation based on the difference between their promoted pay and the substantive posts pay when they return to their substantive post. At current pay rates this would result in an annual cost to the school's staffing budget of £12k.</li> </ul> <p>19 (49%) of the staff were recorded as being in temporary posts on CoreHR of which:</p> <ul style="list-style-type: none"> <li>• Four (10%) non promoted staff have exceeded the two years in post threshold and therefore are entitled to redundancy costs and some entitlements of permanent staff such as redeployment.</li> <li>• Eight (21%) non promoted staff have gone beyond four years in post meaning they are entitled to be treated as permanent with all the entitlements this provides.</li> </ul> <p>All the temporary staff who had exceeded two years had been approved by the QIM as had the secondment. The four additional hours posts showed no such approval, but these hours had been instigated in 2015, prior to PEF funding.</p> <p>Currently plans do not include possible exit costs should PEF funding cease. Although the funding was extended after the last Scottish parliamentary election this cannot be guaranteed beyond 2025/26. In the absence of adequate planning for funding ceasing, associated staff costs may not be sustainable., and schools may have insufficient funds to manage any potential severance costs.</p>		
<b>IA Recommended Mitigating Actions</b>			
<p>a) Schools should plan for exit costs for staff expected to go beyond two years continuous fixed term service and conserved salary costs / ongoing additional hours costs to ensure sufficient funds are available.</p> <p>b) The two fixed term contracts should be reviewed which show as permanent on CoreHR.</p>			
<b>Management Actions to Address Issues/Risks</b>			
<p>a) <i>Planning at individual school level is already in place, the Education Service will collate all of this information at Local Authority Level and consider this as part of their assessment of risk.</i></p> <p>b) <i>The Education Service will work with People and Organisation to ensure that the information held in CoreHR on the two fixed term contracts identified by Internal Audit is accurate.</i></p>			
<b>Risk Agreed</b>		<b>Person(s)</b>	<b>Due Date</b>
Yes		Quality Improvement Manager	December 2023

## 4 Appendix 1 – Assurance Terms and Rating Scales

### 4.1 Overall report level and net risk rating definitions

The following levels and ratings will be used to assess the risk in this report:

Risk level	Definition
<b>Corporate</b>	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.
<b>Function</b>	This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function.
<b>Cluster</b>	This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.
<b>Programme and Project</b>	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net Risk Rating	Description	Assurance Assessment
<b>Minor</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	<b>Substantial</b>
<b>Moderate</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	<b>Reasonable</b>
<b>Major</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	<b>Limited</b>
<b>Severe</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	<b>Minimal</b>

Individual Issue / Risk Rating	Definitions
<b>Minor</b>	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
<b>Moderate</b>	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
<b>Major</b>	The absence of, or failure to comply with, an appropriate internal control, which could result in, for example, a material financial loss. Action should be taken within three months.
<b>Severe</b>	This is an issue / risk that could significantly affect the achievement of one or many of the Council's objectives or could impact the effectiveness or efficiency of the Council's activities or processes. Action is considered imperative to ensure that the Council is not exposed to severe risks and should be taken immediately.

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## 5 Appendix 2 – Assurance review scoping document

### 5.1 Area subject to review

Pupil Equity Funding (PEF) is Scottish Government funding to deliver the Scottish Government's Scottish Attainment Challenge policy. The funding is allocated directly to schools and targeted at closing the poverty related attainment gap. This funding is to be spent at the discretion of Head Teachers (HTs) working in partnership with each other and their local authority. In 2022/23 Aberdeen City schools received a total of £3.264m with the allocation fixed through to financial year 2025/26. The allocation per school was based on £1,225 per pupil, in primary 1 to secondary 3, estimated by the Scottish Government as being registered for free school meals (FSM).

The key principles of the funding as set out in the Pupil Equity Fund national guidance 2022 are:

- Headteachers will have access to their school's full allocated amount of Pupil Equity Funding and should work in partnership with each other, and their local authority, to agree the use of the funding.
- Pupil Equity Funding must enable schools to deliver activities, approaches or resources which are clearly additional to universal local improvement plans.
- Teachers, parents and carers, children and young people and other key stakeholders should be meaningfully involved throughout the processes of planning, implementing and evaluating approaches.
- Funding must provide targeted support for children and young people (and their families if appropriate) affected by poverty to achieve their full potential, focusing on targeted improvement activity in literacy, numeracy and health and wellbeing.
- Although the Pupil Equity Funding is allocated on the basis of free school meal registration, headteachers can use their professional judgement to identify children in their school who may benefit from the targeted interventions and approaches, with the aim of closing the poverty-related attainment gap.
- Schools must take account of the statutory responsibilities of the authority to deliver educational improvement, secure Best Value, and the authority's role as employer. Local Guidance will set out more detail on how this will operate. The contributions of wider services supporting children and young people and their families are vital to supporting pupils' readiness to learn. Collaboration across services is crucial in tackling the poverty related attainment gap.
- The operation of the Pupil Equity Funding should be included within existing planning procedures e.g. through School Improvement Plans and Standards and Quality reports, or equivalent report if appropriate, each of which should be easily accessible to stakeholders. This must provide clarity to stakeholders on how Pupil Equity Funding is being used and its expected impact.
- Headteachers must develop a clear rationale for use of the funding, based on a robust contextual analysis of relevant data which identifies the poverty-related attainment gap in their schools and learning communities and plans must be grounded in evidence of what is known to be effective at raising attainment for children affected by poverty.
- Schools must have plans in place at the outset to evaluate the impact of the funding. These plans should outline clear outcomes to be achieved and how progress towards these, and the impact on closing the poverty-related attainment gap, will be measured. If, as a result of this ongoing monitoring, the plans are not achieving the results intended, these plans should be amended. Plans for sustainability must be considered as part of this.

### 5.2 Rationale for review

The objective of this audit is to provide assurance that schools are spending in accordance with their plans, and these are developed as required, to close the poverty related attainment gap.

Since the beginning of the funding in 2017/18 Aberdeen City Council have been awarded £18.6million in funding which has been provided directly to Head Teachers.

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This review has been included in the agreed 2023/24 Internal Audit plan to ensure the monies being provided by the Scottish Government are being appropriately applied in order to try and bridge the attainment gap.

This area was last subject to review in April 2019. Recommendations were made to enhance controls in relation to procurement Governance, Off Payroll Working (IR35), budget monitoring, and performance monitoring arrangements.

### 5.3 Scope and risk level of review

This review will offer the following judgements:

- An overall **net risk** rating at the Function level.
- Individual **net risk** ratings for findings.

Please see Appendix 1 – Assurance Terms and Rating Scales on page 19 for details of our risk level and net risk rating definitions.

#### 5.3.1 Detailed scope areas

**As a risk-based review this scope is not limited by the specific areas of activity listed below. Where related and other issues / risks are identified in the undertaking of this review these will be reported, as considered appropriate by IA, within the resulting report.**

The specific areas to be covered during the visits are:

- Written Procedures
- PEF spending plans, including formation and consultation
- Expenditure
- Budget monitoring
- Performance monitoring (school attainment)

### 5.4 Methodology

To support our work, we will review relevant legislation, codes of practice, policies, procedures and guidance.

This review will be undertaken through reviewing the actual expenditure undertaken in a sample of schools against their plan, testing spend on supplies and services against the procurement scheme of governance, spend on staffing against HR policies and guidelines, reviewing underspends / overspends to ensure there are acceptable reasons and a plan in place to address them and to establish how the spend undertaken is being measured against the attainment being achieved for the cohort of pupils the spend is being applied to.

### 5.5 IA outputs

The IA outputs from this review will be:

- School level memos detailing the findings of the visit and any areas for improvement.
- A risk-based report with the results of the review, to be shared with the following:
  - Council Key Contacts (see 1.7 below)
  - Audit Committee (final only)
  - External Audit (final only)

### 5.6 IA staff

The IA staff assigned to this review are:

- Graeme Flood, Auditor (**audit lead**)
- Andrew Johnston, Audit Team Manager
- Jamie Dale, Chief Internal Auditor (**oversight only**)

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## 5.7 Council key contacts

The key contacts for this review across the Council are:

- Eleanor Sheppard, Interim Director Children's & Family Services
- Shona Milne, Chief Education Officer
- Caroline Johnstone, Quality Improvement Manager (**process owner**)

## 5.8 Delivery plan and milestones

The key delivery plan and milestones are:

Milestone	Planned date
Scope issued	16/05/23
Scope agreed	23/05/23
Fieldwork commences	29/05/23
Fieldwork completed	14/07/23 <sup>1</sup>
Draft report issued	28/07/23
Process owner response	18/08/23
Director response	25/08/23
Final report issued	01/09/23

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<sup>1</sup> Extended to accommodate leave. Will be discussed with Process Owner during the review.