



**Internal Audit Report**  
 Devolved School Management Scheme  
 Issued: May 2016

<b>Level of Assurance</b>	<b>Good</b>	The controls in place to allow budgets to be calculated and allocated in a consistent and equitable way;
	<b>Good</b>	The controls designed to monitor actual to budgeted spend at a school and Council level
	<b>Weak</b>	The processes and controls designed to allow the principles laid down in the 2012 Devolved School Management Scheme to be embedded in the Midlothian Council scheme

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## Executive Summary

### 1.0 Introduction

Devolved budgets were introduced by the Scottish Education Authority in April 1993 and required councils to devolve 80% of school budgets to head teachers. The aim of devolving budgets was to improve local decision making by schools and provide more flexibility to head teachers in responding to the needs of individual schools. In 2006 revised Scottish Executive guidance recommended devolving 90% of budgets.

Further guidance was published in 2012 and the updated guidance reflects the considerable change in the economic and financial climate for local government and the wider public sector in Scotland and which removed the percentage targets. The aims of the revised guidance were to empower head teachers to meet local needs and deliver the best possible outcomes for young learners, in line with the objectives of the Curriculum for Excellence, Getting it Right for Every Child and the Early Years Framework. They are also intended to ensure that the existing best practice in relation to the operational aspects of Devolved School Management Schemes will become standard practice across the county based on the core values of subsidiarity (the principle that decisions should be taken at a level closest to where they will have their effect), openness, transparency and local accountability.

In order to assist establishments implement the new guidance, a Devolved School Management Self-Evaluation toolkit was developed by the Scottish Government to allow councils to obtain assurance that their local schemes were compliant with the principles laid down in the new guidelines.

Midlothian Council, for the financial year 2015/16, devolved a total of approximately £50M which comprised £27M for primary and nursery schools and £23M for secondary and community schools.

For the financial year ending 2014/15, all Midlothian Schools under spent against their budget and were permitted, under the scheme rules, to carry forward £995K of the accumulated under spend into 2015/16. An additional £13K was also carried forward to allow for IT equipment that could not be installed in time for the year end.

Responsibility for the calculation of budgets and monitoring financial spend for the devolved budgets transferred from the Education Resources Section to Finance and Integrated Service Support in January 2015.

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## **2.0 Objectives of the Audit**

To provide assurance to Senior Management and the Audit Committee over the effectiveness of the processes and controls designed to allow the locally Devolved School Management Scheme to be consistent with the principles laid out in national guidelines.

A copy of the terms of reference for the review is attached at Appendix 2.

## **3.0 Conclusion**

It is audit's opinion that Midlothian Council has in place a mature process for the calculation and monitoring of devolved school budgets and that the schools themselves have a good record of managing their expenditure within the budgets set.

However we have identified the following:

- although the current scheme has been regularly updated, it has not been revised to take account of the latest Scottish Government guidelines on devolved School budgets published in 2012 or the changing financial climate and settlement conditions on teacher numbers;
- a number of requirements from the revised guidelines are not reflected in the current DSM scheme;
- risk registers do not currently reflect the fact that the current scheme is not compliant with the new guides and therefore does not accurately reflect the level of risk; and
- all budgeted amounts are not included in the current guidelines or where they are do not always reflect the way the budget is actually calculated.

We have on this occasion rated the individual controls objectives for the review rather than applying an overall assessment as follows:

- Good - the controls in place to allow budgets to be calculated and allocated in a consistent and equitable way;
- Good - the controls designed to monitor actual to budgeted spend at a school and Council level; and
- Weak - the processes and controls designed to allow the principles laid down in the 2012 Devolved School Management Scheme to be embedded in the Midlothian Council scheme.

We have rated the strength of the internal controls in accordance with the table in Appendix 1.

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## 4.0 Findings

### 4.1 Update of Devolved School Management Scheme (DSM) to reflect the latest Scottish Government Guidance

Although the current scheme has been regularly updated it has not been revised to take account of the latest Scottish Government guidelines on devolved school budgets published in 2012. Furthermore there has been no self assessment against the Devolved School Management Toolkit which was designed to allow local authorities to gain assurance that their DSM schemes follow all the principles laid down in the new guidelines.

Internal Audit undertook a sample check against the new guidelines and noted a number of areas where the existing scheme was not compliant or did not make specific reference to the area detailed within the new guidelines. Examples include:

- there is a requirement to involve Elected Members, in consultation with all appropriate stakeholders (including schools, parents and parent councils) in establishing the criteria to be used to create budget formula (including school role, deprivation factors, the number of young people at each stage in the school and rurality issues);
- the current scheme refers to three year budgeting based on the Scottish Government providing firm revenue grant allocations. The current scheme does not therefore highlight uncertainty over grant settlements and the impact this may have on devolved school budgets;
- the current scheme does not demonstrate a link between corporate and departmental plans to reflect national and local strategic priorities;
- there is no detail in the current scheme over how consultation should be conducted between the establishment and the local authority; and
- there is no reference to training, for Elected Members or Parent Councils, on the DSM scheme.

No	Recommendation	Priority	Manager	Target Date
1	A self assessment of the Devolved School Management Scheme should be undertaken against the Devolved School Management Self-Evaluation Toolkit.	High	Resources Manager	30/11/16
2	A group should be established comprising of: Elected Members, Director of Education Communities and Economy, Head of Education, heads of establishments (primary, secondary, nursery and special schools), parent representatives and other teaching staff to undertake this assessment.	High	Resources Manager	30/11/16

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No	Recommendation	Priority	Manager	Target Date
3	An action plan should be developed following the assessment where any deficiencies are identified and acted upon.	High	Resources Manager	30/11/16
4	Benchmarking should be undertaken with other councils in terms of the DSM with any improvements added to the action plan in 3 above.	High	Resources Manager	30/11/16
5	As part of developing an updated scheme, Elected Members, schools, parents and parent councils should be involved in approving the scheme criteria.	High	Resources Manager	30/11/16

### 4.2 Risk Registers

The risk register for Education does not specifically mention the national DSM scheme or compliance against it (although it does mention the legislation that the DSM scheme falls under- Standards in Scotland's Schools (2000)). This audit has identified that the published scheme is out of date, and there has not been an assessment against the Scottish Government Toolkit.

In addition, although there was a risk on budgetary control the following was identified:

- although budgetary control rests within Education there is a dependency on Financial Services in relation to reporting and any actions that may arise for overspends (for example enhanced training);
- the budgetary risk has not been updated since June 2015; and
- one action on providing training on petty cash to schools has gone past the action date.

No	Recommendation	Priority	Manager	Target Date
6	Risk Registers should be updated to reflect the requirements of the 2012 guidelines on DSM and actions recorded against the risk to allow the Council to become compliant.	Medium	Resources Manager	30/06/16
7	Risk registers should be reviewed on a regular basis with actions addressed in a timely manner.	Medium	Resources Manager	30/06/16
8	Officers within Education and Financial Services should review the current Education Risk Registers for any areas where Education require input from Financial Services to support the mitigation of financial risks.	Medium	Resources Manager	30/06/16

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No	Recommendation	Priority	Manager	Target Date
	<u>Management comment</u> This is currently being addressed by the Resources Manager, Education and Senior Accountant, Financial Services.		Senior Accountant	

### 4.3 Training and Communication on the DSM Scheme and other related policies

Although it has been reported to Internal Audit that all budget holders have received training on the operation of the DSM scheme, there is a lack of audit trail to evidence this. This could cause difficulty where there is a dispute as to whether the Council has provided the training or not, where, for example, a requirement has not been followed. There is also a lack of standardised training material available to budget holders.

In addition it was noted that although the DSM scheme has been published through the 'Staffroom.Net' site this publication did not provide detail of how individual budgets are calculated, was loaded in 2010 and has not been refreshed, and is not generally available on the Midlothian Council Website.

We also noted that currently Head Teachers do not have to provide signed evidence that they have received and reviewed key Council policies, including Financial Directives, Petty Cash and Subsistence for Internally Arranged Events. In addition, updates to policies and procedures are issued to schools using a "secondary-schools" email address rather than the individual email address of senior school staff and therefore it is not always clear that these individuals have received these updates.

No	Recommendation	Priority	Manager	Target Date
9	A standard training course and training pack over the operation of school budgets including the DSM allocations should be provided to head teachers and support staff when they take on budgetary responsibilities. A formal record of this training should be maintained.	Medium	Senior Accountant	30/09/16
10	The DSM scheme should, when updated, be placed on the Council's Web site so that teachers, parents and pupils have access to the scheme.	Medium	Resource Manager	30/06/16
11	Head Teachers should be required to sign a standard template to evidence that they have been provided with and will disseminate to relevant staff key Council policies and procedures (including the DSM).	High	Head of Education	30/06/16 (and on-going)
12	Important, new or updates to policies should be distributed to the individual email accounts	High	Head of	Implemented

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No	Recommendation	Priority	Manager	Target Date
	of head teachers within the school as well as using the shared email accounts.		Education	

### 4.4 Current Scheme

A small number of issues were identified with the current DSM scheme:

- there is an annual historic 1.5% savings target applied to the gross devolved budget, less additional support need costs. This is not currently referenced in the current scheme and a re-performance of the calculated reduction identified minor differences in the way this had been calculated between primary and secondary schools;
- the allowance provided within the scheme for repairs does not equate back to the figures calculated; and
- the scheme rules do not detail certain allowances or how these are calculated including: Newly Qualified Teaching Cover and Mentoring.

It was noted that the current scheme allows 2.5% of the final approved budget to be carried forward to the following year where there is an under spend on the budget for the previous year. As at the end of 2014/15, there was a cumulative under spend of £1.008m (£995K of the accumulated under spend from 2014/15 and an additional £13K carried forward to allow for IT equipment that could not be installed in time for the year end) which establishments could carry forward into 2015/16. The Devolved School Management Self Evaluation toolkit details that Education service plans should be linked to national and local strategies and priorities. Whilst there is a balance to be achieved by allowing schools to determine how this surplus is spent, given the financial climate and settlement conditions on teacher numbers, the revision to the existing scheme should review the level of carry forward and provide guidance within the scheme to require that any material spend is directly related to help achievement of the Council's objectives and priorities.

No	Recommendation	Priority	Manager	Target Date
13	The updated scheme should cover all budgeted amounts with checks introduced to ensure that these are consistently applied.	Medium	Resources Manager	30/11/16
14	As part of the review of the current scheme, Education should include a review of financing including the level of carried forwards given the financial climate and settlement conditions on teacher numbers and consider building into the current scheme rules that under spends may only be used where the expenditure can be directly linked to assisting	High	Resources Manager	30/11/16

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No	Recommendation	Priority	Manager	Target Date
	<p>the Council meet its objectives and priorities.</p> <p><b>Management Comment</b></p> <p>Review of the current scheme to be completed by November 2016 and applied to 2017/18 budget setting process.</p>			



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## APPENDIX 1

### Definitions of Ratings

#### Audit Opinion

Level of Control	Reason for the level of Assurance given
<b>Excellent</b>	The control framework is of a high standard with no unacceptable risks identified.
<b>Good</b>	The control framework is of a good standard with only minor elements of risk identified which are either accepted or being dealt with by management.
<b>Average</b>	The overall control framework is of an average standard. Some weaknesses have been identified in the controls and improvements are possible.
<b>Weak</b>	The control framework is weak and requires improvement as significant issues exist with the adequacy and effectiveness of the Internal Control arrangements. These control deficiencies could result in delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council.
<b>Poor</b>	The control framework is inadequate or ineffective and the issues identified require immediate attention to prevent the delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council.

#### Recommendation Rating

Priority	Risk Definition
<b>High</b>	Legal / regulatory issues would normally be regarded as high risks.  Strategic risks would normally be regarded as high risks.  Financial impact - £50K plus and / or national press interest
<b>Medium</b>	£5K - £49K and / or local press interest
<b>Low</b>	Under £5K and / or no press interest.

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## **Distribution**

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- Other members of the Corporate Management Team
- Grace Vickers, Head of Education, Communities & Economy
- Sandra Banks, Resource Manager, Education Communities & Economy
- David Gladwin, Financial Services Manager, Finance and Integrated Service Support: Financial Services
- Callum Alsmeyer, Senior Accountant, Finance and Integrated Service Support: Financial Services
- Grant Thornton, External Audit

## **Audit Team**

Author: J G Herbert  
Reviewer: H Mohieddeen

### TERMS OF REFERENCE

#### **Audit Objective and Scope**

##### Audit Objective

To provide assurance to Senior Management and the Audit Committee over the effectiveness of the processes and controls designed to allow the locally Devolved School Management Scheme to be consistent with the principles laid out in national guidelines.

##### Scope of Audit

The audit will focus on:

- the processes and controls designed to allow the principles laid down in the 2012 Devolved School Management Scheme to be embedded in the Midlothian Council scheme;
- the controls in place to allow budgets to be calculated and allocated in a consistent and equitable way; and
- the controls designed to monitor actual to budgeted spend at a school and Council level.

#### **Potential Risks**

During the planning stage of the review Internal Audit consider what the theoretical risks that could exist if controls are absent (for example the lack of a DSM scheme which Midlothian is known to have):

- Midlothian young people disadvantaged through not following national guides;
- financial loss through mismanagement of Council funds; and
- failing to provide best value.

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### **Audit Approach**

The audit approach consists of:

- fact finding interviews with key employees;
- review of appropriate documentation which includes any risk reviews that have been conducted and risk registers that are in place;
- interrogation of any relevant systems and sample testing as required;
- closure meeting with local management to discuss the findings and any recommendations from the review;
- draft and final reporting; and
- presentation of the final report to the Audit Committee.

### **Timescales & Reporting**

The audit will commence in August 2015 and is expected to be complete and reported to the Audit Committee in December 2015.

Any issues arising will be communicated directly to local management as they are identified. A formal audit report will be produced summarising the findings and any recommendations identified during the review.

### **Information Requirements**

Access to all relevant systems, documentation and employees.

### **Audit Resource**

Audit team: Graham Herbert