



**Chief Internal Auditor
Jill Stacey**

Audit Committee
Tuesday 28 May 2019
Item No: 5.4

Auditor: James Polanski, Ext 5646

Final Internal Audit Report

to

**Chief Executive
Director Education, Communities and Economy
Director, Resources
Head of Education
Head of Finance and ISS
Schools Group Managers
Financial Services Manager**

on

Pupil Equity Fund

14 May 2019

1 Introduction

- 1.1 The purpose of this audit was to assess the arrangements in place to administer the Pupil Equity Fund (PEF) and ensure that it is being utilised in line with the National Operational Guidance issued by the Scottish Government which was presented to Cabinet in February 2017.

2 Audit Scope

- 2.1 The scope of the audit was to examine and evaluate the following areas:
- the adequacy of the budgetary and financial control of the Pupil Equity Fund;
 - the adequacy of the governance and planning processes for utilisation of the allocated funds; and
 - the adequacy of the management performance reporting including monitoring of outcomes and evaluation measures.

3 Management Summary

- 3.1 Pupil Equity Fund (PEF) has been allocated to local authorities by the Scottish Government with funding allocated directly to schools with the aim of closing the poverty related attainment gap. The amount allocated to each school has been calculated according to the number of children in P1 to S3 who are registered for free school meals. Midlothian Council's funding was: £2,272,800 for 2017/18, £2,273,160 for 2018/19, and an allocation of £2,253,240 for 2019/20. Amounts allocated to each school varied considerably from £8,400 to £144,000 (from 2018/19 allocation).
- 3.2 Head Teachers have discretion on the utilisation of funding although it should be focused on activities and interventions that will lead to improvements in literacy, numeracy, health and wellbeing as per the National Operational Guidance. Council policies and procedures, such as those relating to procurement, Information Communication Technology, and the Local Code of Corporate Governance should be adhered to for PEF.
- 3.3 There are examples of innovative work taking place around the use of PEF. For example, many schools have appointed home-school practitioners or youth workers to support children and young people. The Newbattle Cluster has shared their budgets and appointed a PEF Manager who ensures a joined up approach to supporting children, their families, and schools.
- 3.4 Our review identified that key financial and budgetary controls have been established for PEF. However, our audit identified that for two service contracts, the standard procurement process had not been adequately followed (*Recommendation 5.1*) and improvements are required to contract monitoring (*Recommendation 5.2*). The majority of schools have established appropriate PEF plans and put these into action. A small number of schools had a substantial projected PEF underspend, and these are being reviewed by Management to establish the reasons why (*Recommendation 5.3*).
- 3.5 Annual reporting by schools was reviewed, and it was noted that the plans focussed on strategies and plans in place with the aim of closing the poverty related attainment gap, and included a section on the stakeholder consultation undertaken in preparing the plan. From the sample of plans reviewed it was recognised that for some schools the PEF aspects of the plan should be made more clearly identifiable (*Recommendation 5.4*).

- 3.6 Annual reporting, including performance reporting, covering the Council as a whole was reviewed. The annual PEF report submitted to Cabinet in October 2018 shows there has been improvement in performance for learners in SIMD¹ 1 and 2 from 2016/17 to 2017/18 along with improvement for most other SIMD categories. Performance reporting for PEF could be enhanced by reporting on improvements made by children registered for free school meals, as the funding is allocated on the number of free school meal pupils, not by SIMD (*Recommendation 5.5*).
- 3.7 Internal Audit considers that the level of assurance we are able to give is **Substantial Assurance**.
- 3.8 The Internal Audit function conforms with the professional standards as set out in the Public Sector Internal Audit Standards (2017), including the production of this report to communicate the results of the review.
- 3.9 We would like to thank those officers who assisted us during our review.

¹ SIMD is the Scottish Government's official tool to identify areas of multiple deprivation in Scotland. It identifies small area concentrations of multiple deprivation across all of Scotland in a consistent way. SIMD ranks small areas (called data zones) from most deprived (ranked 1) to least deprived (ranked 6,976). The data zones can be categorised into groups, e.g. deciles. By splitting into ten groups, SIMD 1 and 2 represents the most deprived 20% of data zones. <https://www.gov.scot/publications/scottish-index-multiple-deprivation-2016/>

4 Findings

Risk	Expected Control	Results	Effectiveness of Actual Control	Rec. Ref No
<p>4.1 Inadequate administration of Pupil Equity Funding leading to schools not achieving best value or not delivering educational improvement outcomes</p>	<p>Adequate budgetary and financial controls over the Pupil Equity Fund</p>	<p>Financial Administration The majority of PEF has been spent on staffing, play therapy support, education resources, and training. Separate cost centres have been established and each school's PEF budget had been appropriately allocated to the relevant cost centre. Monthly financial reporting to each school on PEF is in place, which includes a review of PEF commitments. Finance staff meet head teachers periodically to provide support on the PEF budget as required.</p> <p>Information Technology A small amount of IT purchases have been made in the year using PEF. From the sample of hardware purchases reviewed, the Council's appropriate supplier framework contracts were used, and the purchases followed the standard route through Digital Services. From discussion with Digital Services managers, no issues were noted with Information Technology purchases made using PEF.</p> <p>Human Resources The largest percentage of PEF has been spent on staffing. New posts were created for schools to recruit and the standard HR processes were followed for this. The necessary HR processes did result in there being a lead time until the postholder started in post. Additionally, due to the annual nature of the funding and the resultant need for these posts to be fixed term, some schools have experienced difficulty recruiting. However, no issues have been noted in terms of HR compliance.</p> <p>Training It was noted that training on The Council's Financial Regulations and PEF guidance was delivered before PEF commenced. Copies of training materials were reviewed and no issues were noted.</p>	<p>Good</p> <p>Good</p> <p>Good</p> <p>Good</p>	<p>-</p> <p>-</p> <p>-</p> <p>-</p>

Risk	Expected Control	Results	Effectiveness of Actual Control	Rec. Ref No
4.1 Inadequate administration of Pupil Equity Funding leading to schools not achieving best value or not delivering educational improvement outcomes (Cont'd)	Adequate budgetary and financial controls over the Pupil Equity Fund (Cont'd)	<p>Procurement Compliance</p> <p>The contract for the Newbattle Empowering Families Project, a project encompassing Newbattle High School and the surrounding cluster of primary schools, was reviewed (contract value £140k in 2017/18 and £235k in 2018/19). The contract was not developed with the assistance of the Council's Procurement team, and the non-competitive action form (NCA) has not been prepared for this purchase (necessary as the contract was not competitively tendered). At the time of the audit, the contract did not appear to be signed by all parties, but had been subject to verbal agreement by all parties. The contract was built upon the already established Lawfield Community Project which was supported by the Empowering Families Project's suppliers. The contract has since been signed by all parties.</p> <p>The annual performance report provided details on the services provided to pupils at the schools and some of the overall impact.</p> <p>It was noted during the review that schools had separately purchased Play Therapy services from the same supplier for 2017/18 and 2018/19 (as at February 2019, £94k and £60k respectively). An NCA was submitted to the Council's Procurement team, but not until August 2018 at the request of the Lead Procurement and Contracts Officer. At the time of the audit, the NCA had not been signed, did not cover the full value of payments made to the provider (£110k NCA compared to £154k payments), and had an end date of 30 June 2019. Once this was identified a revised NCA was provided to the Council's Procurement Team and this has now been processed.</p>	Unsatisfactory for two service contracts – standard Council procurement processes had not been followed but when Management were made aware of the issues steps were taken to address these thus making the practices Satisfactory.	Rec 5.1 and Rec 5.2
4.2 - Slow progress in administering the funds, resulting in current pupils missing opportunities / funds are diverted elsewhere	Adequate governance and planning processes in place for utilisation of the allocated funds	All schools have established plans to make use of their PEF allocation. However, from a review of the school PEF cost centres, and details of the planned commitments and projected costs for each school it was identified that some schools are projecting an underspend on their PEF budget. The most significant of these was a secondary school with approximately £62k unallocated, and 4 primary schools with between £20k and £35k unallocated. An exercise was undertaken by management to establish the reasoning behind this variance. As noted earlier in the report, there was a lead time to recruiting staff, and some vacancies have been difficult to fill. This will require plans to be revisited for potential different uses of the funding.	Satisfactory – Management are aware of the issue, and a review is underway.	Rec 5.3

Risk	Expected Control	Results	Effectiveness of Actual Control	Rec. Ref No
4.3 - Key stakeholders are not involved in the planning process for the utilisation of funding	Adequate governance and planning processes in place for utilisation of the allocated funds	<p>Stakeholder Consultation The school annual improvement plans reviewed had a separate section outlining the stakeholder consultation undertaken by the school. The plans generally did not distinguish between consultation undertaken for the plan as a whole or for the PEF allocation, and how the PEF activity is separately reported to stakeholders.</p>	Satisfactory – subject to consultation undertaken for PEF being separately reported	Rec 5.4
4.4 The use of funding is ineffective at contributing to raising attainment for children affected by poverty	Adequate management performance reporting including monitoring of outcomes and evaluation measures	<p>Annual Reporting and PEF Performance Indicators The PEF guidance outlines that Head Teachers can use their professional judgement to bring additional children in to the targeted interventions and approaches, and it is recognised that Midlothian along with many other Scottish Local Authorities have used SIMD as a basis for demonstrating improvement in closing the poverty related attainment gap. As PEF is allocated on the basis of free school meals, and not SIMD, performance reporting for PEF could be enhanced to report specifically for this target group along with SIMD. However, it is noted that P1 to P3 pupils are given free school meals and some parents choose not to register their children, so the data may not be reliable for P1. Data reviewed during the audit noted that between 2016/17 and 2017/18 there has been an improvement in performance in free school meal learners, but the overall performance of this group is mostly lower than for SIMD 1 and 2 learners.</p> <p>Annual Schools Quality Improvement Programmes and PEF Plans One of the key requirements from the operational guidance is that schools must have plans in place to evaluate the impact of their funding. A sample of 10 annual reports and the associated PEF plans were reviewed and it was noted that 4 schools had separately identified the PEF aspects of their planned work and identified evaluation measures for PEF within their annual plans. However, for 6 schools, although PEF activities were being reported on as part of their annual planning, it was unclear what related specifically to PEF i.e. what the PEF activities were and how they were achieved during the year. This finding was discussed with the School Group Manager with responsibility for coordinating PEF, and it was noted the manager had already agreed that the more clearly defined format of reporting will be used for all schools in the 2019/20 school year. Adopting this format for all schools will make it easier to report on PEF annually as part of the PEF annual reporting to the Scottish Government.</p>	<p>Satisfactory – performance reporting for PEF could be enhanced to demonstrate closing the poverty-related attainment gap</p> <p>Satisfactory – action plan is underway to enhance reporting of PEF plans</p>	<p>Rec 5.5</p> <p>-</p>

5 Recommendations

Rec. Ref No	Recommendation	Rating	Management Response	Responsibility and Timescale
5.1	The Council's Procurement process should be followed when engaging suppliers for Pupil Equity Funding. This should include adequate contract documentation and contract management arrangements.	High	<p>A new contract will be prepared for the Newbattle Empowering Families Project for the final year of the project.</p> <p>An NCA for the Play Therapy services has been resubmitted to Procurement for approval and now covers the full value of the Service Provision.</p> <p>Lessons learned have been applied to future service contracts.</p>	<p>Schools Group Manager with assistance from Procurement Team</p> <p>30/06/2019</p>
5.2	Appropriate arrangements need to be established to ensure adequate monitoring information is received for any service contracts used, and that this is reviewed by Management to ensure that the contract is operating effectively.	Medium	Agreed.	<p>Schools Group Manager</p> <p>30/09/2019</p>
5.3	For 2019/20 there needs to be more frequent discussion between Financial Services and the Schools Group Manager with responsibility for PEF to ensure that all schools make effective use of their PEF, and that all relevant costs have been appropriately allocated during the financial year.	Medium	Agreed.	<p>Schools Group Manager with regular support from Financial Services</p> <p>31/12/2019</p>
5.4	In the schools' and Midlothian Council's Standards and Quality Reporting, specific stakeholder consultation undertaken for PEF should be reported.	Low	Agreed.	<p>Schools Group Manager and Head Teachers</p> <p>31/12/2019</p>
5.5	Annual reporting could be enhanced to include performance indicators for free school meal learners, as well as SIMD 1 and 2, as the funding is allocated on the basis of free school meals.	Medium	Agreed. However, it is noted that P1 to P3 pupils are given free school meals and some parents choose not to register their children, so the data may not be reliable for P1.	<p>Schools Group Manager</p> <p>31/12/2019</p>

Overall Audit Opinion level and definition

Comprehensive Assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas might be required.
Substantial Assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited Assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No Assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

Recommendation Ratings

Recommendations in Internal Audit Reports are suggested changes to existing procedures or processes, to improve the controls or to introduce controls where none exist. The rating of each recommendation reflects our risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact. The ratings are:

High	Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. The risk should be added by Management to the relevant Risk Register for control and monitoring purposes and included in the relevant Head of Service Annual Assurance Statement.
Medium	Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.
Low	Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of Senior Management.
Other	Minor administrative weaknesses posing little risk of error, fraud, financial loss or reputational damage.

The Action Plans in Internal Audit Reports address only Recommendations rated High, Medium or Low. Outwith the Internal Audit Report, we inform Service Management about Other Minor matters to improve internal control and governance.

The recommendations have been input to Pentana performance system to assist with Management tracking of implementation. If responsible owners are unable to achieve the standard timescales for actions please notify the Chief Internal Auditor with the reason for the delay in implementation and the revised timescales to assist with the implementation and follow-up of these recommendations to improve internal control and governance.

Jill Stacey
Chief Internal Auditor