



Internal Audit Report

Themed School Audits – Nursery Financial Management

2023/24

Audience: All Maintained Schools

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INDEX

<u>Section</u>	<u>Page</u>
1. Executive Summary	3
Appendix A – Summary of Recommendations for Nurseries	8
Appendix B – Definitions of Assurance and Recommendation Priorities	12

1. EXECUTIVE SUMMARY

Introduction

- 1.1 The Shared Internal Audit Service (SIAS) provides internal audit services to Hertfordshire's maintained schools. Hertfordshire County Council's Schools Audit Strategy includes a requirement to annually establish the effectiveness of financial control, risk management and governance arrangements in a sample of schools. The Nursery Financial Management audit was included as one of the thematic audits for schools in the 2023/24 audit plan.
- 1.2 It is essential that nursery schools have robust financial planning arrangements to allow them to achieve their goals in stringent financial times. All schools in Hertfordshire are required to be responsible for the management of their bank accounts, this including the processing of payments (outside of those transacted centrally), cash flow management and bank reconciliations. The key assessment areas of Nursery Financial Management were:
- **Governance Arrangements** – Roles, responsibilities and accountabilities for financial management are clearly defined and a clear scheme of delegation exists. Governors have clear oversight and involvement in financial planning and effectively scrutinise financial performance.
 - **Knowledge, skills, and training** – Staff and Governors with financial accountabilities have adequate and up-to-date financial skills to facilitate effective budget management.
 - **Financial Planning** – the nursery has a realistic, sustainable, and flexible financial strategy in place for the next 3 years, based on realistic assumptions about future funding, pupil numbers and external pressures.
 - **Annual Budget** – the nursery has a structured approach to setting and approving the annual budget, taking internal and external factors into account that are likely to impact resources required.
 - **Financial Monitoring** - the governing body receive clear and concise monitoring reports of the nursery school's budget position and the nursery can act quickly to reforecast if projections are materially different from reality.
 - **Insurance** - appropriate insurance policies are in place to mitigate the associated financial risks; including where applicable nurseries where a school dog is onsite.
- 1.3 A sample of 5 nurseries were audited to assess whether they had robust processes in place to govern the use of their finances. Each nursery visited received an individual report which provides independent assurance regarding whether robust policies and internal control arrangements are in place. Learning obtained from all audits in the sample are condensed into a single, anonymised section of this report (Appendix A) and will be shared with all Hertfordshire schools via the Grid.

Audit Approach

- 1.4 This audit theme was completed through a combination of remote and in-person meetings with the 5 nurseries sampled. The scope of the audit included reviewing the appropriateness and completeness of the scheme of financial delegation, finance committee minutes and agendas, medium term financial plans, approved budget

reports, insurance policies and risk evaluations (registers) that support financial decision making. At each nursery a sample of invoiced income and write offs (if applicable) were tested for assurance that appropriate segregations of duty were taking place in practice.

- 1.5 Individual recommendations regarding the internal control environment at each of the nurseries were provided in individualised reports. These have been summarised below.

Summary of Recommendations – Nurseries

Overall Assurance Opinions

- 1.6 Nurseries were provided with appropriate recommendations where we determined that their internal controls could be improved. The assurance opinions given as part of this themed audit were based on the recommendations provided, and are no assurance, limited, reasonable and substantial.

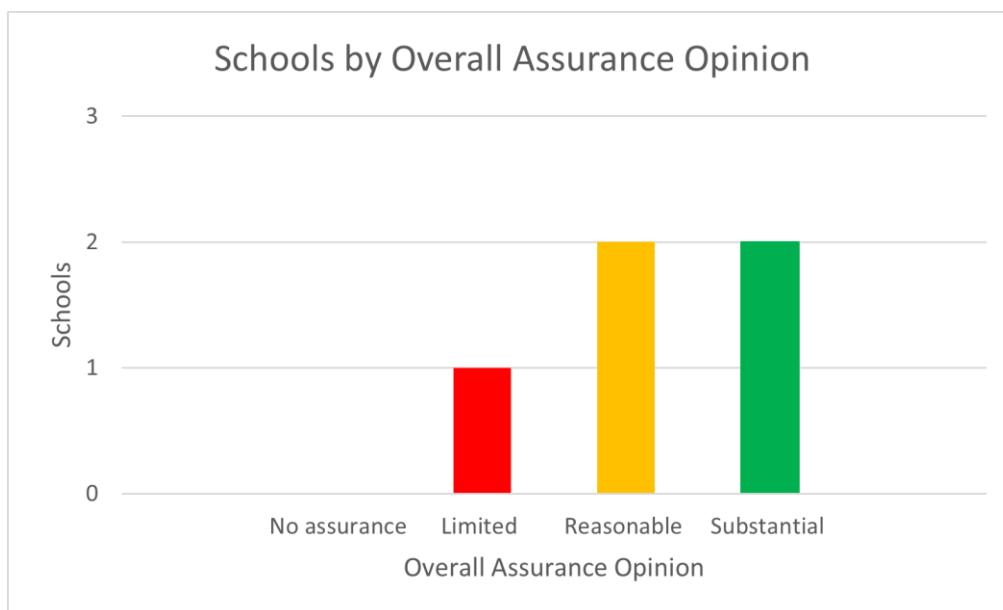


Figure 1 - Assurance opinions provided to the 5 Nurseries audited

- 1.7 Figure one shows the assurance opinions provided to the Nurseries. Of the 5 Nurseries audited: Two received substantial assurance, two received reasonable assurance and one received limited assurance. Please refer to Appendix B for definitions of our assurance opinion levels.

Recommendations

- 1.8 For the 5 nurseries visited, recommendations were issued on an individual School level where appropriate. 12 advisories and 14 recommendations were given in total, and they are split below in figure two into their topics and priority levels. Please refer to Appendix B for definitions of our recommendation levels.

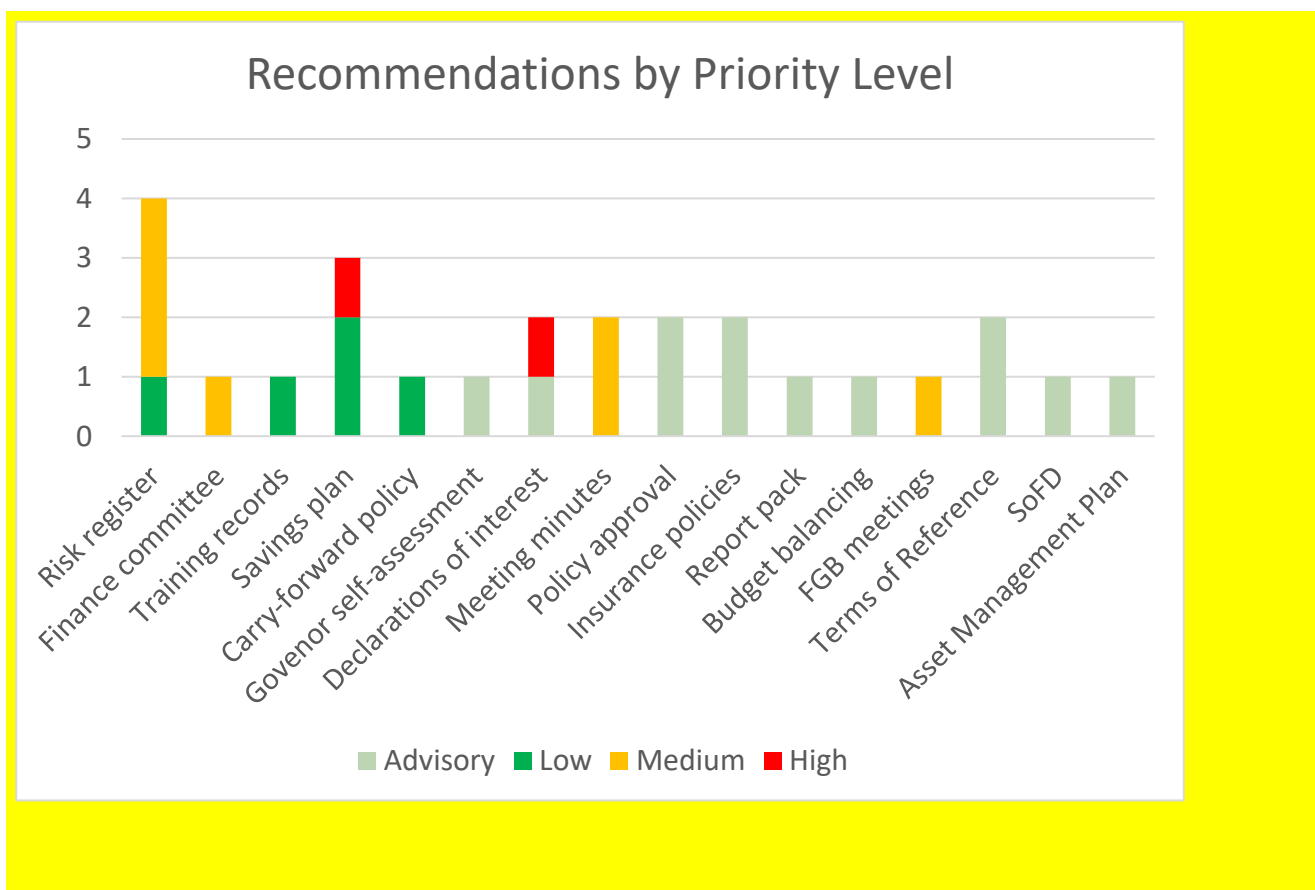


Figure 2 - Summary of findings provided to the 5 Nurseries audited

- 1.9 One school was given limited assurance overall due to receiving multiple recommendations including 2 high priorities. One of the high priority recommendations was in relation to a lack of formalised savings/recovery plan whilst projecting significant potential cumulative deficits. We advised this school to continue to investigate avenues of potential financial benefit and formalise their planning with a documented savings/recovery plan. We recommend that nurseries facing cumulative deficits pro-actively engage with the local authority to access the professional support services available to assist the review of financial recovery strategies and potential actions required.
- 1.10 The most common recommendation made was in relation to the nurseries' Risk Register. In 4 nurseries, the recommendation was made in relation to their risk registers not being entirely comprehensive, lacking risk owners, and lacking risks specific to the individual nursery. Nurseries should also regularly review their risk registers to combat wider risk management and the document should be updated after each review. It is noted that there is an active risk register template on Hertfordshire Grid for Learning with a supporting matrix and criteria which guides usage of the template and as such nurseries have been advised to refer to this template.

- 1.11 We gave two medium priority recommendations in regards to a lack of or inadequate meeting minutes from Full Governing Body and Finance Committee meetings. Nurseries should ensure that minutes for each meeting are fully maintained and documented where they are accessible remotely for key members of SLT and governors. Meeting minutes should also clearly highlight questions raised, responses provided, evidence of actions agreed and evidence of decisions where approval was required. We further provided 1 medium priority recommendation regarding the circulation of documents needing review prior to Full Governing Body meetings. Nurseries should be completing and following meeting agendas with documents circulated in advance to give those attending time to prepare and formulate opinions.
- 1.12 In reviewing declarations of interest, we confirmed that all nurseries had sufficient systems in place for governors to provide declarations of interest. However, we did give one high priority recommendation to a nursery where only two out of nine governors had completed declaration of interest forms for 2023/24. We further identified an instance where a nursery had not updated their website from 2022/23 to reflect the 2023/24 governor declaration of interests. We recommend that nurseries ensure all governors have completed a declaration of interest forms, reminders are set for the beginning of each school year to ensure this process is completed and that the school website is updated to reflect the current years declarations.
- 1.13 We reviewed the budget reports at the sampled nurseries and found that, for two of the nurseries there are forecasted deficit positions which they are actively trying to manage and reduce. We recommended that for best practice, a templated savings plan is implemented to review effectiveness and document ongoing progress of their processes in place. This will help to ensure opportunities are not missed and the most effective savings can be made to help improve their financial position.
- 1.14 In our review of the nurseries governance, over their financial policies, it was found that two of the nurseries had policies that were overdue for review. We further found one nursery had other key financial documents such as the Finance Committee Terms of Reference and the Scheme of Financial Delegation that were overdue for review. We advise that nurseries ensure that key policies and documents are reviewed annually and updated to reflect the date of last review as well as any amendments approved at the appropriate committee.
- 1.15 We also noted that in some nurseries where animals are kept, there are not active insurance policies taken out on the animals. Guidance for nurseries is available on the Hertfordshire Grid for Learning and this guidance should be followed in all instances. The nursery websites should actively reflect which animals are currently kept in the school and if specific insurances are required these should be obtained and stored. Even if the animals kept do not require insurance, we advised internal policies should be created that detail information around animal costs such as where would payments come from if they fall ill or cause damage in any way.
- 1.16 Lastly, some of the documentation we asked nurseries to provide for this audit included their staff training records for those with financial responsibilities. For one nursery, it was found that there was an instance where a member of staff had not completed relevant training. It was determined that through their experience, they

had the relevant skills and experience for the role, however we recommended official training should be undertaken to support this (such as from HfL) for accountability.

- 1.17 Collectively the audits have identified common themes in which the robustness of operated controls can be improved. Appendix A summarises these recurring themes, along with the associated potential risk and recommendations to achieve best practice to help mitigate the risk.

This section summarises the findings from the 5 nurseries audited. A copy of this summary will be placed on the Schools Grid as a reminder of good practice, which is accessible by all maintained schools.





Ref	Finding	Recommendation
1.	<p>Savings Plan</p> <p>During the audit we reviewed the nurseries annual budget report. We found that two nurseries forecasted a deficit position which they were actively working on reducing. These nurseries did not have a savings plan in place which would allow them to review effectiveness and document ongoing progress compared to savings targets. We identified another nursery projecting significant potential cumulative deficits with a lack of formalised plan on how to reduce the deficit and an acceptance that the financial position could not be mitigated.</p> <p><u>Associated Risk</u></p> <p>In the absence of a savings plan the Nursery risks being unable to foresee potential threats to their financial position, in addition to potential failure to mitigate the impact of current draws upon their budget and ultimately prevent the Nursery’s identification of potential and implementable savings.</p>	<p>We recommend that nurseries implement a templated savings plan to help improve their financial position.</p> <p>Where nurseries are struggling to manage or consider potential ways to reduce the deficit, we recommend that the nursery is pro-active in engaging with the Local Authority to access the professional support services (such as HfL).</p> <p>Any revisions to existing plans, or approaches, should be reported to the Governing Body in line with current practice.</p>
2.	<p>Declaration of Interest Forms</p> <p>From the five sample nurseries, we confirmed that all have systems in place to record governor’s declarations of interest. However, we found in one nursery only two out of nine governors had completed these forms. We further identified that this nursery along with another had not updated their school website to display a register of governor declarations for the year 2023/24.</p> <p><u>Associated Risk</u></p> <p>In the absence of current declarations of interest, the nursery loses the ability to maintain key records that show the Governing Body are transparent and open, in line with statutory requirement. Failure to do so may risk reputational damage to the nursery.</p>	<p>We recommended that reminders are set to complete governor declaration forms at the start of the school year and a complete register of all governor declarations is uploaded onto the nursery website for the current year.</p>

Ref	Finding	Recommendation
3.	<p>Risk Register</p> <p>In order to have effective risk management, schools are expected to have a robust and complete risk register in place which is regularly reviewed, discussed and updated when required. We identified four out of the five nurseries sampled either had no risk register in place, areas that were incomplete or areas where the register could be improved. Nurseries should consider both risks that could affect any nursery as well as risks that affect them individually. We identified two instances where the nurseries could strengthen their overall risk management by identifying risks specific to them.</p> <p><u>Associated Risk</u></p> <p>If the Nursery has not assessed its risks adequately, they may potentially miss new risks, or alternatively old or redundant risks would remain on the register. Similarly, without a responsible lead for risks, there may be missed opportunities to monitor and negate any risks to the nursery promptly. As a result, significant financial losses may occur.</p>	<p>We recommend that nurseries ensure that they have a risk register in place. Where a nursery does not have a risk register in place or a nursery wants to check that their risk register encompasses all fields required, we recommend looking at the template provided on Hertfordshire Grid for Learning.</p> <p>The risk register should be regularly reviewed, and key risks brought before relevant committees for discussion. Where a risk's threat level changes or a new risk emerges, this should be reflected on the risk register.</p> <p>We do encourage nurseries to look at other nursery risk registers for ideas regarding what risks may affect them, however we do also encourage internal scrutiny regarding what risks may affect your nursery individually.</p>
4.	<p>Meeting Minutes</p> <p>Through our review of Finance Committee minutes, we identified one nursery where we found no Finance Committee meeting minutes dated more recent than September 2022. We further found through our review of Full Governing Body (FGB) meeting minutes that whilst there were notes summarising discussion, there was lack of in-depth discussion concerning the nursery's budget. Additionally, we also identified through a review of the minutes that key financial documents and finance committee minutes were not always</p>	<p>We recommend that nurseries ensure that fully documented minutes are maintained for all Full Governing Body and Finance Committee meetings, which are accessible remotely and are available for key SLT and governors on their shared portal.</p>

Ref	Finding	Recommendation
	<p>circulated prior to FGB meetings.</p> <p><u>Associated Risk</u></p> <p>In the absence of minuted meeting notes aligning to the agenda, there is risk that the school will not have sufficient information to create an audit trail showing that key governance processes have been followed.</p>	<p>We also recommend that FGB and Committee meeting minutes are circulated within a week of the meeting being held to ensure that accurate and reliable records are maintained for key meetings held across the academic year.</p> <p>To ensure that meeting minutes meet best practice they should include:</p> <ul style="list-style-type: none"> • Questions raised by Governors. • Responses provided by the SLT. • Evidence of any actions agreed in response to governor requests. • Clear evidence of decisions where an item requires approval. <p>Documents for review at Finance and FGB meetings should be uploaded to Governors’ Hub and/or circulated in advance of meetings to allow for an appropriate length of time for review in advance of the FGB meeting, and to ensure opportunity for governors to formulate opinions and prepare for FGB meetings fully, prior to the day of the meeting.</p>
5.	<p>Policy Review</p> <p>Through review of policies, we found that there was no visible date of last/next review on</p>	<p>We recommended that consideration be given to formally accepting the amendments made to policies as part of</p>

Ref	Finding	Recommendation
	<p>select documents across two nurseries, including a carry-forward policy at one. We also identified an instance where the Finance Committee Terms of Reference showed as last reviewed in 2019 and Scheme of Financial Delegation showing as last reviewed in 2022.</p> <p><u>Associated Risk</u></p> <p>Without a date of review there is not clear audit trails to show that policies have been recently reviewed and updated, thereby preventing transparency that proper scrutiny has been made of documentation, processes, and procedures.</p>	<p>the review process within a FGB meeting, in order to ensure best practice, along with detailing review dates on the policy to ensure they do not become outdated. Key documents should be reviewed annually.</p>

Assurance Level	Definition
Substantial Assurance	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.
Reasonable Assurance	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.
Limited Assurance	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.
No Assurance	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.

Priority Level			Definition
Corporate	Critical		Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
Service	High		Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
	Medium		Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low / Advisory		Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.