

| DEPARTMENT       | AUDIT REVIEW        | AUDIT REF |
|------------------|---------------------|-----------|
| Chief Executives | Property Management | 3118004   |

## BACKGROUND

Carmarthenshire County Council has a number of properties for which the Authority has arranged with organisations the provision and development of a range of services within the County, or are let to tenants to generate income to supplement the Council's budgets.

## SCOPE

The review covered the controls and procedures in operation, assessing the extent to which:

- Recommendations in the previous Internal Audit report have been addressed;
- There is a robust system in place for the recording and monitoring of information held on properties with agreements / leases; and
- The Authority's policies and procedures for the allocation of agreements/leases are fully complied with.

## SUMMARY OF RESULTS

The previous Internal Audit report identified significant concerns relating to the management and administration of the Authority's leased properties; it is disappointing to report that a number of these issues remain outstanding.

Work has been undertaken to develop an up to date 'Acquisition & Disposal Policy' and to identify all leased properties/properties with agreements, in order to facilitate effective management of properties. However, actions to resolve the specific issues previously identified are yet to be completed. It is acknowledged, however, that a commitment has been made to address all actions identified.

Audit testing was undertaken on a sample of newly leased properties, following the introduction of the new policy; it is concerning to note that testing identified instances where this policy and related procedures were not being fully complied with and many expected key controls relating to the leasing of the Authority's properties are still not operating to an acceptable standard.

Two fundamental weaknesses were identified during the current review; these are detailed in the attached action plan, along with the actions agreed to be implemented by management.

The remainder of the issues identified were three '*Priority 2*' issues; summarised details are as follows:

- Whilst an 'Acquisition and Disposal of Property Policy' has been formulated, there are areas within the policy which lack clarity such as the procedures for the acceptance of late bids.
- An exercise has been undertaken to produce a comprehensive record, in the form of a tenancy schedule, of all commercial properties that are subject to lease or agreement.

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A review of the tenancy schedule identified that it was not fully accurate and did not include all relevant properties.

- The information held on the paper and digital files was often incomplete, not up to date, with relevant information often not being held in the files or unable to be provided at the time of the Audit review. This issue was also identified during the previous review.

| <b>NUMBER OF RECOMMENDATIONS</b>          |          | <b>OVERALL ASSURANCE</b> |
|---|----------|--------------------------|
| Priority 1 - Fundamental Weaknesses       | <b>2</b> | <b>Low</b>               |
| Priority 2 – Strengthen Existing Controls | <b>3</b> |                          |
| Priority 3 – Minor Issues                 | <b>0</b> |                          |

**Internal Audit review of Property Management 2018/19**

**Action Plan relating to 3\* Issues identified**

| Ref | Summary of Issue Identified  | Recommendation  | Planned Action  | Responsible officer<br>Target Date for completion of actions |
|-----|--|---|---|--|
| 1   | <p>Testing of a sample of 4 properties that have been newly leased since the last Internal Audit review, continues to identify concerns in the management and administration of the Authority's assets.</p> <p>Of particular concern was:</p> <ul style="list-style-type: none"> <li>- The newly formulated procedures were not always being fully complied with;</li> <li>- Evidence that documentation was received by the specified deadlines was not always available;</li> <li>- Evidence of the decision-making process including an evaluation of Expressions of Interest / Tenders was not always available to demonstrate that the best terms had been obtained, and there had been impartiality;</li> <li>- Where early possession of a property had been requested, testing identified that appropriate authorisation had not always been sought;</li> <li>- Testing identified that completed agreements were not always available to support leased properties.</li> </ul> <p>Detailed testing of existing leased properties was not undertaken as Internal Audit had been advised that recommendations previously made, following the 2017/18 audit review, were yet to be actioned.</p> | <p>It is imperative that processes for the management and administration of the Authority's leased properties are reviewed and significantly improved in order to ensure good control over the Authority's assets is achieved.</p> <p>In addition, formal procedures should be established for the monitoring of properties with leases / agreements to ensure the terms and conditions are being fully complied with, and rent reviews and renewals are undertaken promptly.</p> | <p>Procedures do not require review. Officers will be reminded to consistently follow the newly formulated procedures.</p> <p>The tenancy schedule will be reviewed and updated, where appropriate, to ensure that it is accurate and up to date. All relevant staff will be reminded of the procedures for updating the Asset Manager system.</p> <p>Reconciliation of the tenancy schedule and Asset Manager records will be implemented and completed.</p> <p>Completion of these actions will ensure that records, including lease terms and conditions, are accurate. Appropriate action to ensure that lease terms are being adhered to, and rent reviews and renewals actioned promptly, will be undertaken.</p> | <p>Valuations Manager</p> <p>31/03/2020</p>                  |

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| Ref | Summary of Issue Identified   | Recommendation   | Planned Action  | Responsible officer<br>Target Date for completion of actions |
|-----|---|--|---|--|
|     | Internal Audit have been given an assurance that these will be addressed.   |  |   |  |
| 2   | Testing identified that adequate monitoring of properties with agreements/leases is not always undertaken. In particular, the finance element of leased properties is not being managed appropriately which could result in a loss of income for the Authority. | <p>Procedures should be established to ensure the financial elements of contracts are actioned appropriately and all income due is collected promptly.</p> <p>Adequate records to support such actions should be maintained and these should be reviewed by an appropriate senior member of staff.</p> <p>Procedures for income collection should fully comply with the requirements of the Authority's Financial Procedure Rules.</p> | <p>TIC review of debtors processes will result in improved procedures being established.</p> <p>Procedures will be established and implemented to ensure where income needs to be verified with tenants that figures submitted by tenants are not accepted without challenge. Supporting evidence will be requested to support income figures and records retained in full to evidence this.</p> <p>Procedures will be established and implemented to ensure that additional charges specified in agreements are being collected.</p> <p>Point 12 in our checklist includes a requirement to liaise with finance on any debt and to undertake the necessary references.</p> | <p>Valuations Manager</p> <p>31/03/2020</p>                  |

| DEPARTMENT  | AUDIT REVIEW                          | AUDIT REF      |
|---|---------------------------------------|----------------|
| <b>Education &amp; Children’s Services / Corporate Services</b> | <b>Schools Deficits and Surpluses</b> | <b>4118006</b> |

**BACKGROUND**

The Authority distributes funding to maintained Schools according to a formula which corresponds with regulations prescribed by the Welsh Government. The budget is then delegated to the Governing Body of each School; the budget must be controlled in line with the Scheme for the Financing of Schools & financial procedure rules for schools which sets out the broad responsibilities of the School and the Authority.

All Schools within the Authority are responsible for managing their annual budget and controlling expenditure.

**SCOPE**

The review considered the procedures relating to the treatment of deficits and surpluses of School budgets. To ensure budgets are submitted and reported in a timely manner, and in accordance with both the School Funding (Wales) Regulations 2010 and the Scheme for the Financing of Schools.

**SUMMARY OF RESULTS**

The function of financing School budgets is the responsibility of the Department of Education and Children, with support from the Corporate Services Department. Schools are responsible for setting their own budgets, with assistance and challenge from the Authority’s Accountancy section; regular updates on this process are provided to the Education Department’s DMT. Concern was, however, noted as there is a lack of clarity of the actions required and/or taken to ensure effective management of the schools’ budgets.

Testing focussed on a random sample of 15 Schools, consisting of 10 Primary Schools, 4 Secondary Schools, and 1 Special School. With ten of the Schools requiring a deficit licence as at the beginning of the year (April 2018), and the remainder of the sample showing a surplus balance.

Testing identified a lack of documentation to support the working budgets and spending plans submitted, with no evidence of a review available. Although additional documentation has now been provided there remains a concern over the lack of documented procedures and adherence to deadlines.

During 2018/2019 an amended process was introduced where the third reminder regarding budget submission was issued as a letter from the Head of Financial Services rather than an email from the Local Management in Schools (LMS) team. Ten letters were developed reflecting the range of stages schools were at, varying from letter No 1 - working budget received on time and loaded onto Agresso, to letter No 10 - working budget not received and no contact made with LMS.

Additionally, the Director of Corporate Services has recently issued letters to a total of 30 schools which hold an increasing deficit, in order to address the critical financial position of

the School and to inform the School of the urgent action required to address their financial situation.

Two fundamental weaknesses were identified during the current review; these are detailed in the attached action plan, along with the actions agreed to be implemented by management.

The remainder of the issues identified were two ‘*Priority 2*’ issues and one ‘*Priority 3*’ issue; summarised details are as follows:

- Review of arrangements identified a lack of documented procedures relating to the Financing of Schools function and the roles & responsibilities of each section.
- Where Schools are carrying a surplus in excess of the surplus threshold for a number of years, testing identified no evidence was available to support the submission or the approval of spending plans, or evidence of the Authority issuing a ‘directions to spend’ or ‘clawing back’ any of the excess surplus being carried.
- The Scheme for the Financing of Schools document has not been reviewed for over six years, having last been revised in May 2013.

| NUMBER OF RECOMMENDATIONS                 |          | OVERALL ASSURANCE |
|---|----------|-------------------|
| Priority 1 - Fundamental Weaknesses       | <b>2</b> | <b>Low</b>        |
| Priority 2 – Strengthen Existing Controls | <b>2</b> |                   |
| Priority 3 – Minor Issues                 | <b>1</b> |                   |

**Internal Audit review of Schools’ Deficits and Surpluses 2018/19**

**Action Plan relating to 3\* Issues identified**

| Ref | Summary of Issue Identified   | Recommendation  | Planned Action  | Responsible officer<br>Target Date for completion of actions         |
|-----|---|---|---|--|
| 1   | <p>Evidence provided to support decisions made in regard to the approval of deficit licences and spending plans was very limited, inadequate, and lacking in consistency with no standardised approach in the reviewing of the budgets and plans submitted.</p> <p>The review identified no policies or procedures have been developed for the monitoring, reviewing and controlling of School budgets.</p>   | <p>A standard approach for the approval of deficit licences and spending plans within the function should be adopted, to ensure consistency and clarity.</p> <p>Policies and procedures should be developed, documenting the process for monitoring, reviewing, and controlling of School budgets.</p>  | <p>Agreed.</p> <p>Head of Education and Group Accountant to develop, document and implement process in line with regulations and guidance.</p>  | <p>Head of Education &amp; Inclusion Services.</p> <p>April 2020</p> |
| 2   | <p>For a sample of ten Schools holding a deficit balance, testing identified six Schools where the deficit budget was continually being rejected, with five of these Schools running with an unapproved deficit for a number of years, with no evidence of a cut-off point where the Authority would intervene.</p> <p>The continual rejection of deficit licence budgets highlights the requirement for Schools to be provided with support in the development of their budget.</p> <p>Furthermore, where a deficit licence had been approved for four of the sample Schools, within a few months, the Schools had breached the terms of</p> | <p>It is imperative that key controls are implemented to prevent Schools running continuously with an increasing unapproved deficit budget.</p> <p>Collaboration between Education, Corporate Services, and Head Teachers should be undertaken to prevent the continual rejection of the deficit licence budget.</p> <p>Existing training should be made compulsory for key representatives in preparing the budget, to assist with the</p> | <p>Accepted.</p> <p>Engagement will be required with Schools, who are responsible for setting their own budgets.</p> <p>A number of processes have already commenced – head teacher meetings, individual school meetings, challenge advisor briefings, Finance as part of Challenge advisor case management, Corporate Advisory and Improvement Board (CAIB), school budgets being a standing agenda item on DMT.</p> | <p>Head of Education &amp; Inclusion Services.</p> <p>Ongoing</p>    |

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| Ref | Summary of Issue Identified   | Recommendation                              | Planned Action   | Responsible officer<br>Target Date for completion of actions |
|-----|---|---|--|--|
|     | the approval with ever increasing deficits noted on the termly submissions. | compiling of licensed deficit applications. | <p>Action plans to be developed and monitored.</p> <p>Funding levels and staffing structures being reviewed by Education and Corporate Services. Small school challenges being discussed at CMT and Exec Board.</p> <p>Training programme to be further developed within improved monitoring and reporting of those who are not adhering to processes following delivery of training. Training to be provided by finance with monitoring and challenge from education.</p> |  |