

School Council Financial Audits Guidelines to Schools



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Introduction

The School Council Financial Audit (SCFA) Program is designed to provide assurance that the school council financial reports present fairly, in all material respects, the financial position and financial performance of government schools in accordance with the Department of Education and Early Childhood Development's (the Department) financial reporting requirements. The [Finance Manual for Victorian Government Schools and other guidelines/instructions](#)¹ embody the key financial reporting requirements for schools.

This document has been developed to assist schools to understand the SCFA Program and to prepare for a school council financial audit.

Background

The Department provides education and development services to children, young people and adults both directly through government schools and indirectly through the regulation and funding of early childhood services, non-government schools and training programs.

The Department allocates Commonwealth and Victorian government funding to schools through the Student Resource Package and other funding sources such as capital funding. The Department also provides technical and policy advice, professional development, guidance and benchmarking on financial management and procurement.

Under the *Education and Training Reform Act 2006*, school councils have the duty to ensure that all monies received by schools are expended for proper purposes. School councils are required to account for all monies under their control and to prepare appropriate financial reports in accordance with the Department's financial reporting requirements.

The Audit and Risk Branch (ARB) of the Governance and Executive Services Division conducts risk based financial audits of the Victorian government school councils in line with the requirements of the *Education and Training Reform Act 2006*.

¹ Other guidelines/instructions relevant to schools' financial reporting can be found on section - *Where can I find financial management resources?* on page 15.

Why do we audit?

The requirement to perform independent financial audits of school councils is underpinned by the following:

- *Financial Management Act 1994*
- *Audit Act 1994*
- *Public Administration Act 2004*
- *Education and Training Reform Act 2006*
- *Education and Training Reform Regulations 2007.*

The *Finance Manual for Victorian Government Schools* and other guidelines/instructions relevant to schools' financial reporting emphasises the Department's commitment to supporting and ensuring high levels of financial management so that public funds are used appropriately and the public can have confidence in the quality of financial management of the Victorian government school system.

The Department requires all Victorian government school councils to:

- undergo an independent financial audit at least once every four years
- follow departmental policies and procedures ensuring that financial systems and controls are in place to enable contracted auditors to perform all the required field work and issue an audit opinion.

The objectives of the SCFA Program are to provide reasonable assurance:

- over the financial activities, the financial governance and financial management of schools
- that the school financial reports present fairly, in all material respects, schools' financial positions and financial performance
- that the school financial report has been prepared in accordance with the Department's *Finance Manual for Victorian Government Schools* and other guidelines/instructions relevant to schools' financial reporting.

The SCFA Program is also intended to provide recommendations to improve the robustness of financial governance, financial management and accounting and internal control systems at individual schools and on a system-wide basis.

Who do we audit?

The Department's approach to the selection of schools to be audited is risk-based. A broad range of information is taken into account in selecting schools, including previous SCFA results and other financial and non-financial factors.

Each year, schools that meet one or more of the following criteria will be scheduled to undergo an audit:

- school's CASES21 operating revenue averaged over 3 years, is greater than \$3.5m per annum
- school has not been audited in the previous three years
- school has performed poorly in the previous year's SCFA Program
- school has changed operating status in the previous 12 months, i.e. opened, closed or merged
- an audit has been requested by the Regional Monitoring and Support Division or the Financial Services Division with the agreement of ARB.

Non-financial criteria such as the results of the *National Assessment Program – Literacy and Numeracy*, full time equivalent student enrolments, ratio of education support staff to teaching staff, student retention and change of key personnel are also considered in selecting schools for audit.

Schools that do not meet any of the above criteria will be scheduled for an audit in one of the following three years.

What do we audit?

The SCFA Program includes financial audits and topic audits.

Financial audits

Financial audits involve:

- verifying balances reported in the school financial statements
- assessing the control environment of the school
- assessing school compliance with the policies and procedures set out by the Department
- following up the implementation of recommendations made in the most recent management letter to the school.

Topic audits

Each year the Department will identify one or more audit themes or topics for review/testing by the auditors at a sample of schools to gain a better understanding of school processes and to identify improvement opportunities. These schools will be a subset of the schools allocated for financial audits in that year.

Some examples of previous topic audit subjects include:

- purchasing card controls in schools
- school recruitment practices
- enrolment of international students.

When will schools be audited? (SCFA Calender)

The following schedule applies to the SCFA Program:

#	Timing	Activity	Action required by the schools
1	November each year	A DEECD circular is sent to all schools informing school selection	Review correspondence from the Department to determine whether the school is selected for the SCFA Program. If selected, the school should plan for the audit and assign an appropriate staff member (usually the business manager) to be responsible to support the audit process.
2	December each year	Schools selected for the audit receive communication to organise visits	Review correspondence from the auditors and agree on a suitable date(s) for the audit visit.
3	December each year	Complete pre-audit questionnaire	Accurately complete any pre-audit questionnaire and send back to the auditors within specified timelines.
4	December each year	Receive documents request (Refer Attachment 1 for a sample audit information request)	Collate all data and files required for the audit in a logical manner. Have the final signed financial statements, other documents and CASES21 reports requested by the auditors completed prior to the commencement of the audit. Ensure that all records/registers are up-to-date.
5	January to May each year	Auditors visit the schools to conduct the audits	Provide access to all information reasonably required by the auditors to express an opinion on the financial statements of the school. Principal and business manager must make themselves available on the day of the audit to answer questions and discuss the preliminary findings. School council president may also be required to be available (upon request).
6	January to May each year	Receive the draft management letter for management comments	Provide management comments within the specified timeframe to the auditors for completion of the management letter including: <ul style="list-style-type: none"> – acceptance or non-acceptance of each audit recommendation – action planned in response – responsible officer – planned completion date.
7	January to May each	Receive the final audit report and	Organise for the report to be tabled and formally minuted at a school council meeting.

#	Timing	Activity	Action required by the schools
	year	management letter	Implement the recommended actions in the management letter.
8	May/June each year	Complete the satisfaction survey	Respond to the satisfaction survey.
9	August/September each year	A DEECD circular is sent to all schools providing a summary of the findings of the SCFA program	All schools are required to review the summary of the SCFA program and apply any learnings to their schools.

Who will conduct the audit?

SCFAs will be undertaken by independent auditors appointed by the Department.

The audit firms are appointed on the basis of professional competence in terms of audit capability and experience, flexibility and responsiveness, value for money and quality systems.

Auditors will conduct audits in accordance with the Department's requirements and provide an audit opinion and a management letter that details the findings of the audit.

Auditors will discuss findings with schools and identify opportunities for improvement as well as highlighting good business practices to ensure that schools are well placed to meet their requirements.

Where will audits be undertaken?

Audits will be conducted at the school premises. If a school operates multiple sites, the audit may be conducted at the location where administrative processes and transactions typically occur. Alternatively, a multi-site audit may be required.

The school should advise the auditor of any multi-site considerations at the time of scheduling the audit. The auditor will then advise the school of the location(s) at which the audit will occur.

Regardless of the location of the audit, a school should permit auditor(s) to enter the school premises to conduct audits and participate in and assist, as required, with any audit requests. This includes making available to the auditor(s) records relevant to the audit.

It is the responsibility of each school to ensure that all relevant files and documents are accessible throughout the audit as requested by the auditors.

What can schools expect on the audit day(s)?

The auditor(s) will arrive on the scheduled date and time and conduct an initial entry meeting with the principal and the business manager or nominated delegate to confirm the scope and process of the audit.

Schools should permit auditor(s) to enter the premises to conduct audits, and should participate in and assist, as required, with audits, including making records available to the auditor(s).

During the audit process, the auditor(s) may need to discuss items with relevant staff to obtain clarification or further information.

The duration of the audit will be determined by a range of factors including the size of a school, the identified level of risk, availability of required records, and the complexity of issues that arise during the audit.

The audit will conclude with an exit meeting between the auditor(s) and principal and the business manager or nominated delegate to discuss the preliminary findings.

School responsibilities

The Department expects schools to:

- be familiar and comply with the requirements of *the [Finance Manual for Victorian Government Schools and other guidelines/instructions relevant to schools' financial reporting](#)*
- cooperate and provide the auditors with access to all information reasonably required for them to express an opinion on the financial statements of the schools
- ensure the principal's and business manager's availability on the day of the audit to answer questions and discuss the preliminary findings. The auditors may also request the attendance of the school council president
- be professional in their approach to audits and cooperate with auditors in the discussion of any identified issues and implementation of any rectification actions
- provide management comments within the specified timeframe to the auditors to be included in the management letter
- organise for the final audit report and the management letter to be tabled and formally minuted at a school council meeting
- respond to the electronic satisfaction survey conducted by the Department.

How can schools prepare for audit?

Undertaking the following activities prior to the audit assists the efficient conduct of the audit and minimises potential disruptions:

- understand and adhere to the requirements of the *Finance Manual for Victorian Government Schools* and other guidelines/instructions relevant to schools' financial reporting
- make sure the school follows the *End of Year Procedures* – (including running all CASES21 reports at year-end – note some of these reports cannot be run once you are operating in the new year)
- review findings from previous SCFAs and ensure that all actions have been implemented
- review any correspondence from the Department or the auditors regarding the audit
- assign an appropriate staff member (usually the business manager) to be responsible to support the audit process
- collate all required data and files at the site of the audit for the auditors to access
- have the final signed financial statements and other documents requested by the auditors completed prior to commencement of the audit
- ensure that all records/registers are up-to-date
- complete any pre-audit questionnaire and compile the list of documents requested by the auditors before the visit date
- ask and clarify any questions with the auditors if unclear.

Audit process

This table provides an overview of the SCFA process:

Who	Description
Principal, business manager and school council president	<ul style="list-style-type: none"> • Make themselves available on the day of the audit to answer questions and discuss the preliminary findings (School council president upon request).
Contract auditors	<ul style="list-style-type: none"> • Conduct the audit in accordance with the Australian Auditing Standards under a special purpose framework (i.e. the Department's <i>Finance Manual for Victorian Government Schools</i> and other guidelines/instructions relevant to schools' financial reporting). • Finalise the audit report and management letter including the assignment of an overall audit rating based on the 'overall audit rating definitions'. • Provide the final audit report and management letter to the school council president, principal and the ARB. <ul style="list-style-type: none"> – Audit report - financial statements upon which the audit opinion is made will be attached to the audit report (the financial statements are prepared by schools) – Management letter outlining areas for improvement.
Principal	<ul style="list-style-type: none"> • Provide management comments within the specified timeframe to the auditor for completion of the management letter including: <ul style="list-style-type: none"> – acceptance or non-acceptance of the audit recommendation – action planned in response – responsible officer – planned completion date.
School council president and principal	<ul style="list-style-type: none"> • Organise for the final audit report and management letter to be tabled and formally minuted at a school council meeting.
Schools	<ul style="list-style-type: none"> • Complete the electronic satisfaction survey issued by ARB.
ARB	<ul style="list-style-type: none"> • Compile a state-wide summary of findings and report to the Department's Executive Board and the Portfolio Audit and Risk Committee. • Circulate a summary of audit findings to regions and all schools.

Overall audit rating definitions

Auditors will assign overall audit ratings to schools based on their overall audit results. The following table provides definitions of these overall audit ratings.

Audit Rating	Definition
Unsatisfactory	<p>Design - Design of controls is ineffective in addressing the key risks (i.e. does not address key risks)</p> <p>Documentation and communication - Non-existent documentation and/or communication of controls/policies/procedures</p> <p>Operation/implementation - Controls are not in operation or have not yet been implemented</p> <p>Compliance - Significant breaches of legislative requirements and/or departmental policies and guidelines</p> <p>Risk management - Risks are not being managed</p> <p>Efficiency, economy and effectiveness - School runs significantly over budget and does not achieve any of the expected outcomes and/or school programs are not run in a cost effective manner and/or school finances are not effectively managed</p> <p>Findings/deficiencies - Most findings were rated as critical and/or high and urgent corrective actions are necessary</p>
Needs improvement	<p>Design - Design of controls only partially addresses the key risks</p> <p>Documentation and communication - Documentation and/or communication of controls/policies/procedures is incomplete, unclear, inconsistent or out-dated</p> <p>Operation/implementation - Controls are not operating consistently and/or effectively or have not been implemented in full</p> <p>Compliance - Breaches of legislative requirements and/or departmental policies and guidelines have occurred</p> <p>Risk management - Risks are not being effectively managed which could result in failure to ensure school objectives are met</p> <p>Efficiency, economy and effectiveness - School runs over budget and achieves minimal expected outcomes and/or school programs are not run in a cost effective manner and/or school finances are not effectively managed</p> <p>Findings/deficiencies - Some high-rated and/or medium-rated findings were identified</p>
Acceptable	<p>Design - Design of controls is largely adequate and effective in addressing the key risks</p> <p>Documentation and communication - Controls/policies/procedures have been formally documented and are up-to-date but are not proactively communicated to relevant stakeholders</p> <p>Operation/implementation - Controls are largely operating in a satisfactory manner and are providing some level of assurance</p> <p>Compliance - No known breaches of legislative requirements and/or departmental policies and guidelines have occurred</p> <p>Risk management - Risks are largely being effectively managed</p> <p>Efficiency, economy and effectiveness - School runs within budget and achieves key expected outcomes and/or school programs are run in a cost effective manner and/or school finances are effectively managed</p> <p>Findings/deficiencies - No critical or high-rated findings identified</p>
Good	<p>Design - Design of controls is adequate and effective in addressing the key risks</p> <p>Documentation and communication - Controls/policies/procedures have been formally documented and are up-to-date and proactively communicated to relevant stakeholders</p> <p>Operation/implementation - Controls are operating effectively</p> <p>Compliance - No known breaches of legislative requirements and/or departmental policies and guidelines have occurred. A comprehensive compliance framework is in place</p> <p>Risk management - Good risk management practices are in place</p> <p>Efficiency, economy and effectiveness - School runs within budget and achieves all expected outcomes and/or school programs are run in a cost effective manner and/or school finances are effectively managed</p> <p>Findings/deficiencies - Any findings are minor - no critical, high or medium-rated findings identified</p>

Where can I find financial management resources?

Resources to assist schools to manage and plan their schools' finances, budget and accounting requirements, funding sources, insurance and purchasing can be found on the Department's website.

1. Finance resources for principals and administrators

<http://www.education.vic.gov.au/school/principals/finance/Pages/default.aspx>

This site contains important resources and information on:

- *CASES21 Finance (school accounting software)*
- school financial management:
 - *Finance Manual for Victorian Government Schools*
 - *Internal Control for Schools*
 - *Guide to Budget Management in Victorian Government Schools*
 - *School Level Payroll Requirements*
 - *Asset Management Policy*
 - *School Cash Reserve Benchmark Policy and Guidelines*
 - *Schools Electronic Funds Management Guidelines*
 - *Schools Investment Policy and Guidelines*
 - *Program Coordinator School Governance Framework*
 - *Management of School Trading Operations Guidelines*
 - *School Purchasing Card: DEECD Guidelines and Procedures.*

2. Finance resources on School Policy and Advisory Guide

<http://www.education.vic.gov.au/school/principals/spag/finance/Pages/finance.aspx>

This site contains important resources and information on:

- *budget and accounting requirements*
- *financial recording and auditable controls*
- *accounting for different funding sources*
- *insurance requirements*
- *accounting for supplies.*

Schools are required to be familiar and comply with the requirements set out in these policies and guidelines.

Audit feedback and reporting

At the completion of each audit, the auditor(s) will issue an audit report expressing their professional opinion as to whether the school's financial reports present fairly, in all material respects, the school's financial position and financial performance in accordance with the Department's financial reporting requirements.

In addition to the audit report the auditors will also prepare a management letter that details the findings of the audit, including opportunities for improvement and recommended actions to address the findings, where relevant.

Auditors will seek the principal's management comments that will describe specific actions to be undertaken by the school to address the audit findings and include the name of the individual or team responsible for the action and the agreed date for implementation.

The auditor(s) will review any management comments provided for adequacy and appropriateness. All management comments submitted by the school will be included in the final management letter submitted to the school (principal), school council president and the Department.

The auditors will follow-up implementation of the recommendations made in the management letter in the following audit of the school.

What happens if the school performs poorly in the audit?

A school is considered to have performed poorly in the audit in the following situations:

- school is assigned an 'Unsatisfactory' or 'Needs improvement' [overall audit rating](#) by the auditors
- school is issued with ten or more management letter points by the auditors
- school is issued with a qualified audit report as a result of the auditors identifying major issues
- school is recommended by the auditors for a follow-up audit

ARB will refer the schools that have performed poorly in the SCFA program to the School Resources Allocation Branch (SRAB) of the Financial Services Division for further follow-up.

The School Finance Liaison Officers (SFLOs) of SRAB will work closely with these schools to improve processes and procedures within the school. An agreed management action plan will be developed to address the issues identified during the audit. The SFLOs will follow-up schools' implementation of the actions agreed in the management action plan.

Schools that perform poorly in the SCFA Program and/or have not implemented previous audit recommendations will also be subject to more frequent audits.

Audit satisfaction survey

The Department is committed to ensuring that the SCFA program is efficient, effective, remains current and provides value to schools.

Schools will be given the opportunity to complete an audit satisfaction survey upon the completion of the audit and are encouraged to provide open and honest feedback on the performance of the SCFA program.

The audit satisfaction survey, which is administered by the Department independently of its auditors, allows schools to give formal feedback on all elements of the audit including audit planning, audit execution and audit closing.

In the event that a school wishes to raise a matter relating to the SCFA process which cannot be addressed through the audit satisfaction survey or via contact with the auditor(s), the school may contact the following Departmental contact:

Senior Project Officer - Audit and Risk Branch
Governance and Executive Services Division
Department of Education and Early Childhood Development
GPO Box 4367
MELBOURNE, Victoria 3001
E: scfa@edumail.vic.gov.au

Attachment 1 - Sample audit information request

The list set out below is an example of the reports auditors will request as part of the audit. This list is comprehensive but should not be regarded as exhaustive.

Refer to *Section 8: End of Period of the CASES21 Finance Business Process Guide* for a comprehensive list of management reports that should be printed for audit.

CASES21 Report Code	Report Name
GL21150	Operating Statement - Detail
GL21160	Balance Sheet
GL21103	General Ledger Trial Balance
	Summary of Financial Commitments
AR21107	Assets – Stocktake List By Location
AR21122	Assets – YTD Additions Accounting
AR21131	Assets – YTD Disposals Accounting
AR21125	Assets – Balance Sheet - Assets Comparison
CR21101	Creditors – Trial Balance
CR21111	Creditors – Transaction History
CR21104	Creditors – Outstanding Purchase Orders
CR21118	Creditors – Invoices Awaiting Payment - Detailed
CR21902	Creditors – Balance Integrity Report
DF21102	Families – Trial Balance
DF21110	Families – Transaction History
DF21112	Families – Matching Transaction Report
DF21113	Families – Charges by charge type
DF21902	Families – Balance Integrity Report
DR21101	Sundry Debtors – Trial Balance
DR21113	Sundry Debtors – Transaction History
DR21902	Sundry Debtors – Balance Integrity Report
GL21001	Chart of Accounts
GL21002	Cash Receipts Report
GL21003	Cash Payments Report
GL21004	Cancelled Receipts
GL21005	Cancelled Payments
GL21006	Journal Report
GL21007	Cash Payments Greater or Equal to \$1000 Report
GL21110	Transaction History All Periods
GL21115	Sub Program Account Transaction Report
GL21152	Bank Accounts Movements

GL21155	Bank Account Movements Summary
GL21168S	Annual Revenue Budget Report
GL21169	Annual Expenditure Budget Summary
GL21902	Balance Integrity Report
KGLPROG21003	Annual Program Budget Variance
KGLSUB21003	Annual Sub Program Budget Variance
QB21001	Batch Status Report (All Batches)

Auditors will also require access to the following documents:

Documents / Reports
All bank reconciliations in respect to the audit year for all bank accounts
All bank statements received in respect of the audit year
The approved financial budget for the year and any approved revisions
Details of any major sponsorship or donations
Reports back to the State or Commonwealth (if applicable) for any specific purpose funds
Canteen records and profit and loss statements
Other trading operations records
All signed Business Activity Statements (BAS) for the audit year together with supporting work papers
Supporting documentation for all investments on hand at year end (e.g. bank statements, roll over notices, term deposit notices)
Investment policy
All school council and finance committee minutes for the audit year Schools are requested to flag the minutes of key financial and administrative events including: <ul style="list-style-type: none"> • the tabling of financial statements and audit reports • the approval of the detailed budget • endorsement of a formally documented investment policy
Accountable documents register and accountable documents in use
Local payroll records
Fortnightly pay advice reports
Invoices for all payments (including electronic payments) together with purchase orders, payments vouchers and quotes where applicable
Purchasing card reconciliations and statements for the year
Grant advices
Equipment/Loans register
Motor vehicle registration insurance certificates and log books
Personnel files
Details of student numbers and student fees – by year level
Audit certificates for Welfare Club Accounts not operated through the official account, and Co-operatives
Where applicable, documentation relating to Capital Works Grants

Notes