

REPORT TO: Audit Committee	DATE 14th December 2010	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources ORIGINATING OFFICER(S): Service Head Risk Management		Annual Internal Audit Report for Schools – 2009/10 Ward(s) Affected: N/A		

1. SUMMARY

- 1.1. This report (attached) summarises the work of Internal Audit in relation to the audit of schools for the financial year 2009/10.
- 1.2. The purpose of the report is to provide an overview of audit findings and facilitate a thematic assessment of the matters raised by audit. It is envisaged this assessment will be used by the Local Authority in enhancing the governance framework around schools.
- 1.3. During financial year 2009/10, audit visits were carried out to 32 schools. Each audit visit involved compliance testing of systems and procedures in 12 areas of control in accordance with a pre-agreed audit programme. This was then followed by an external assessment of each school's compliance with Financial Management Standards in Schools (FMSiS) required by the then Department for Children, Schools and Families (DCSF). With effect from December 2010, the government has abolished the requirement for each school to be externally assessed once every three years for compliance with the FMSiS.

2. RECOMMENDATION

- 2.1. The Audit Committee is asked to note the content of this report and to take account of the matters raised by audit in each of the 12 areas examined.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

Name and telephone number of holder
And address where open to inspection

Minesh Jani, 0207 364 0738

3. Comments of the Chief Financial Officer

- 3.1 Any financial implications arising from this report are contained within the body of the report.

4. Concurrent Report of the Assistant Chief Executive (Legal Services)

- 4.1. The Council is required by the Accounts and Audit Regulations 2003 to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control. Under the Council's Constitution, the Audit Committee is given the function of reviewing internal audit findings.

5. One Tower Hamlets

- 5.1 The issues raised in the Annual Report have been reported to the Corporate Director, Children, Schools and Families who has put necessary arrangements in place to ensure that the standard of financial management and control is improved and monitored across all the schools in the Council.

6. Anti-Poverty Considerations

- 6.1 There are no specific Anti-Poverty issues arising from this report.

7. Risk Management Implications

- 7.1. The risks involved in each of the control area reviewed by audit are incorporated within the body of the Annual Report.

8. Sustainable Action for a Greener Environment (SAGE)

- 8.1 There are no specific SAGE implications.

CONFIDENTIAL

**ANNUAL REPORT
TO
CORPORATE DIRECTOR – CHILDREN, SCHOOLS AND FAMILIES
ON
STANDARDS OF INTERNAL CONTROL FOR SCHOOLS AUDITED
DURING 2009/10**

DATE: OCTOBER 2010

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REPORT ON STANDARD OF INTERNAL CONTROL FOR SCHOOLS AUDITED DURING 2009/10

1. Introduction

- 1.1. This report summarises key audit findings and conclusions made during the conduct of school probity audits during the financial year 2009/10.
- 1.2. The objective of this report is to provide assurance to the Corporate Director as to whether the Head Teachers and Governing Bodies have implemented adequate and effective internal controls over the administration and financial monitoring of the Borough's schools.
- 1.3. During the 2009/10 financial year, Internal Audit carried out probity audit visits to 15 secondary schools and 17 primary schools. An audit programme which incorporates the guidance issued by the Audit Commission in 'Keeping your Balance' is followed in undertaking schools audits. A probity audit based methodology is used which involves assessing the school against the identified controls documented within the audit test programme devised for the London Borough of Tower Hamlets. The audit process involves audit testing, evaluating and reporting upon key financial and management controls.
- 1.4. The 12 control areas examined during the audit are:-
 - Operation of Governance Processes;
 - Financial Planning and Budgetary Control;
 - Control and Monitoring of Schools Bank Account;
 - Procurement, including large single purchases, tendering and Value for Money;
 - Accounting of Income and Expenditure;
 - Charging Policy, Income Collection and Banking;
 - Personnel and Payroll Management;
 - School Meals;
 - Voluntary Fund and School Journey;
 - Asset Controls and Security of Assets;
 - Security of the IT Infrastructure, Disaster Recovery and Data Protection;
 - Risk Management and Insurance.
- 1.5. Thirteen schools were assigned a Substantial assurance, seventeen schools assigned a Limited assurance and two schools assigned a No assurance as a result of the 32 probity visits conducted during 2009/10.

2. Most Common Findings

- 2.1. All schools visited during the year had governing bodies collectively responsible for the overall direction and strategic management. There is a general improvement in Governance as required by the Financial Management Standards in Schools, and this was observed during the probity audits this year.
- 2.2. However, the effectiveness of school governance could be improved to ensure that the Governing Body have properly set appropriate sub-committees and that clear Terms of References have been compiled for these sub-committees. Terms of References often did not clearly outline quorum requirements and the frequency of meetings.
- 2.3. An essential criteria of the Financial Management Standards in Schools is for Governing Bodies to approve financial procedures and delegation policies. Inconsistencies were regularly identified within such policies during the probity audits. Gaps and overlaps were identified in financial delegations to the Governing Body, Finance Committees, Head Teachers and finance staff.
- 2.4. Schools have not maintained an up to date register of business interests for all Governors on the Governing Body and all staff with financial management responsibilities.
- 2.5. Un-reconciled items older than six months had not been investigated in a prompt manner. Bank reconciliations were not always signed by both the individual performing and the individual carrying its independent review.
- 2.6. Formal tendering processes were not undertaken as required in some cases and there was no evidence of best value being achieved for some high value purchases. Official orders were not raised by all schools as required to support purchases and there was a lack of documentary evidence that the goods and services received are checked for accuracy and that delivery documentation was appropriately annotated as such.
- 2.7. Governors have not always approved a documented charging policy. Where in place, the policy was not always up to date. Records were not always maintained in relation to transfer of income between staff. There was an inadequate trail to confirm the person from whom income has been received, the date of receipt, the amount received and the date the income was banked.

- 2.8. The Governing Body has not always approved a pay policy and where these were in place they were often not maintained up to date.
- 2.9. Schools did not have adequate procedures in place to ensure free school meals were only administered to pupils who are entitled to them. Schools did not retain proof of entitlement for all appropriate pupils or have set procedures for obtaining eligibility confirmation from the Local Authority in a timely manner.
- 2.10. Inventory records were not consistently maintained and where such processes were in place the format and level of information recorded was often inadequate. Annual inventory checks are not performed consistently across all schools, and where performed, the results of these inventory checks are not always reported to the Governing Body. Portable, attractive and valuable assets were, in many cases, not visible and indelibly security marked by the school. Furthermore equipment loan registers did not generally specify employees' liability/responsibility for equipment.

3. Key Findings by Audit Area

3.1. Operation of Governance Processes

- 3.1.1 All schools had in place a Scheme of Delegation and Finance Procedures policy and this was generally up to date with evidence of regular review. Inconsistencies in delegations were identified, resulting in schools not being compliant with Financial Management Standards in Schools. The full Governing Body and sub-committee meetings are generally held termly and the minutes have usually been approved and signed off by the appropriate Chair.
- 3.1.2 Decisions made and papers laid in the full Governing Body meetings are clearly documented within the minutes and the minutes usually made reference to budget monitoring.
- 3.1.3 Where the Governing Body has set up sub committees the Terms of Reference have not been compiled for these sub-committees in all cases. Furthermore completed Terms of References did not outline quorum requirements, frequency in which meetings were to occur and financial limits where appropriate.
- 3.1.4 The Governing Body have put in place a Register of Business Interests of Governors. Instances were found where the Register was not up-to-date at the time of the audit with missing declarations, but schools were prompt to implement this recommendation in order to demonstrate compliance with the Financial Management Standards in Schools. The

opportunity to declare interests is a standing item on most agendas of the Governing Body meetings.

3.2. Financial Planning, Budget Setting, Monitoring and Forecasting

- 3.2.1 Schools have produced comprehensive School Development Plans which include 3 year targets. The plan is produced and reviewed each financial year to ensure resource implications are considered in the budget setting process. Governors are regularly updated on the progress against targets within the plan. However, in several instances approval of the plan was not minuted.
- 3.2.2 The Chair of Governors and the full Governing Body approved the budget plans in a timely manner and are kept informed of budget monitoring outcomes.
- 3.2.3 Income is profiled as part of budget planning and the results of budget monitoring are reported to the Finance sub-committee. Budget monitoring is usually undertaken monthly or as a minimum on a quarterly basis and generally material variances are investigated and corrective action identified.
- 3.2.4 Any virements are generally agreed and approved within the school's framework for delegated authority and are approved or reported to the Governing Body or delegated sub-committee. Approved virements are mostly updated on the school's financial accounting system and notified to the LEA.

3.3. Control and Monitoring over School Bank Accounts

- 3.3.1 Bank accounts were not always administered in accordance with the requirements of the approved bank account mandates as bank mandates have been found to be out of date in a significant number of cases. Several schools also did not retain on site, an up to date bank mandate for both disbursement and unofficial accounts.
- 3.3.2 Adequate arrangements have been established to support separation of duties over cheque production and cashing cheques. Safe security and printed cheque security procedures were adequate in most cases.
- 3.3.3 Bank reconciliations were generally complete and performed in a timely manner, and these reconciliations were mostly independently checked to confirm completeness and accuracy. In some cases schools had not investigated un-reconciled items in a timely manner. Furthermore in most instances bank reconciliations had not been signed by both the individual performing the reconciliation and the individual carrying out its independent review.

3.4. Procurement (including large single purchases, tendering & VFM)

- 3.4.1. Schools in general have procedures for obtaining competitive prices and quotations for the purchase of goods and services. Pre-defined limits are identified above which prior approval from the Governing Body is required. In practice however, formal tendering processes were not undertaken as required in some cases. There was no evidence of best value being achieved for some high value purchases.
- 3.4.2 Official orders were not raised by all schools as required to support purchases therefore it was unclear whether the availability of budget was checked prior to purchasing or that purchases were authorised by appropriate individuals in accordance with approved financial delegations. There was a lack of documentary evidence that the goods received are checked for accuracy and that delivery documentation was appropriately annotated as such.
- 3.4.3 In the majority of cases, invoices sampled were arithmetically correct and had been certified as approved for payment by an officer with delegated financial authority. The level of segregation of duties for procurement was generally adequate.

3.5. Accounting of Income and Expenditure

- 3.5.1 In the majority of cases, direct credits and debits are posted in a timely manner and journal entries on the financial accounting system were reasonable.
- 3.5.2 There were several instances where weaknesses in the petty cash process were identified. These related to vouchers not being completed fully or being supported by valid receipts.

3.6. Charging Policy and Income Collection and Banking

- 3.6.1 Governors have not always approved a documented charging policy. Where one was in place, the policy was not always up to date.
- 3.6.2 Official receipts were used where appropriate and where receipts were not being issued, compensatory records were generally adequate and reliable.
- 3.6.3 Most schools had a documented lettings policy, which includes the terms and conditions for hiring the premises. Agreements were signed between the school and persons / groups hiring the use of the premises and lettings were authorised by the Head Teacher; charges are made in compliance with an approved rate.

- 3.6.4 In the majority of cases income was regularly and fully banked and bankings were periodically reconciled to the cash-book within the school's financial accounting system.
- 3.6.5 Records were not always maintained in relation to transfer of income between staff. There was an inadequate trail to confirm the person from whom income has been received, the date of receipt, the amount received and the date the income was banked.

3.7. Personnel and Payroll Management

- 3.7.1 Where the Governing Body has approved a pay policy, these were not maintained up-to-date in several schools. Where they had been reviewed annually by a delegated committee, they were not consequently approved by the Governing Body.
- 3.7.2 Evidence of pre-recruitment checks are not always maintained, such as CRB checks, identity checks, references, medical checks, and qualifications checks.
- 3.7.3 Payroll reconciliations are undertaken and authorised for most schools. Adequate remuneration authorisation evidence was not maintained in two schools. There was often a lack of evidence to demonstrate the Governing Body compliance with the Teachers Pay and Conditions Document 2000, by annually approving the remuneration of the Head Teacher, Deputy Head Teacher and Assistant Head Teacher(s) following their performance management reviews.

3.8. School Meals

- 3.8.1 A third of schools did not have adequate procedures in place to ensure free school meals were only administered to pupils who are entitled to them. Schools did not retain proof of entitlement for all appropriate pupils or have set procedures for obtaining eligibility confirmation from the Local Authority in a timely manner. Income due from pupils for school meals is generally properly recorded and accounted for and records identify arrears and credits.

3.9. Voluntary Fund and School Journey

- 3.9.1 The Governing Body has not always approved the Objectives of the Voluntary Fund account. Adequate records were always maintained to document income and expenditure through the unofficial fund. The accounts for the school fund were not independently audited for eight schools by a person who is not involved in the day to day administration of the account.

3.9.2 Schools did not always maintain evidence of how school journeys were costed and certified summary accounts for each school journey were not produced.

3.9.3 The Governors have approved a documented Grants Policy in the majority of cases and these usually defined the criteria under which subsidies may be approved.

3.10. Asset Controls and Security of Assets

3.10.1 This area remains an area of weakness and represents one of the most consistent findings in audit reports. Inventory records are not always maintained and where in place the format and level of information recorded was inadequate in several cases.

3.10.2 Inventory checks are not always performed and the results of the Inventory check are not always reported to the Governing Body. An adequate equipment loan register is not maintained for a number of schools and signed loan agreements did not highlight the employee's liability/responsibility for equipment.

3.11. Security of the IT Infrastructure, Disaster Recovery, Data Protection

3.11.1 Most schools had proper registration under the Data Protection Act. Anti-virus software had been installed on financial and administration systems and most schools had adequate computer back up procedures.

3.12. Risk Management and Insurance

3.12.1 The Governing Body's approach to risk management in the development of the School Improvement Plan (where in place), School Journey, and Health and Safety was appropriate. School's generally have adequate arrangements for insurance in place.

4 Conclusions

4.1. Most schools audited during the financial year underwent their second round of the Financial Management Standards in Schools Assessment. In general, schools met the minimum standard of financial control and management, with notable improvements from their previous audits in 2006/07 for several schools. However, improvements were required in the areas of operation of governance processes; financial planning; accounting for income and expenditure; procurement; personnel and payroll management; and asset control including security of assets. Addressing the issues within the first two of these areas will minimise the number of issues flagged up within the FMSIS visits.