

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	14th January 2013	Unrestricted		
REPORT OF:		Annual Internal Audit Report for Schools – 2011/12		
Corporate Director, Resources				
ORIGINATING OFFICER(S):		Ward(s) Affected:		
Head of Risk Management and Audit		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 2011/12.
- 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 that this assessment will be used by the Children's, Schools and Families school team to enhance the governance framework at schools.
- 1.3. During the financial year, audit visits were carried out to 23 schools including one at the specific request of senior management. Each audit visit with the exception of the one requested by management, involved compliance testing of system and procedures in 12 areas of control in accordance with a pre-agreed audit test programme.

2. RECOMMENDATION

- 2.1. The Audit Committee is asked to note the contents of this report and to take account of the matters raised by Audit in each of the 12 areas examined. The Audit Committee is further invited to seek assurance over the done by the Children's, Schools and Families School team in relation to matters raised by the work of Internal Audit in relation to the Schools.

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.

**ANNUAL REPORT
TO
CORPORATE DIRECTOR – CHILDREN, SCHOOLS AND FAMILIES
ON
STANDARDS OF INTERNAL CONTROL FOR SCHOOLS AUDITED
DURING 2011/12**

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REPORT ON STANDARD OF INTERNAL CONTROL FOR SCHOOLS AUDITED DURING 2011/12

1. Introduction

- 1.1. This report summarises key audit findings and conclusions made during the conduct of school probity audits during the financial year 2011/12.
- 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 2011/12 financial year, Internal Audit carried out probity audit visits to 20 primary schools, one junior school and two secondary schools (one of which was an announced audit). 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; and
 - Risk Management and Insurance.
- 1.5. As a result of the 23 probity audits undertaken in 2011/12, 15 schools were assigned a Substantial Assurance opinion, seven schools assigned a Limited Assurance opinion and one school assigned a No Assurance opinion.

- 1.6 Appendix A provides a breakdown of assurance opinions covering the period 2009/10 to 201/12 for comparison purposes, whilst appendix B provides an analysis of key issues identified. Full details of the issues are included in the respective areas of this report detailed below.

2. Most Common Findings

- 2.1. All schools visited during the year had Governing Bodies collectively responsible for the overall direction and strategic management. However, the effectiveness of school governance could be improved by ensuring that inconsistencies between the Code of Financial Practice and the Scheme of Delegation are addressed and that the amended document, tailored to the requirements of the school, is formally approved by the Governing Body. The most common weakness in the document was the lack of delegated financial limits specified for the authorisation of financial transactions. Furthermore financial delegation documents have not been reviewed and approved on an annual basis.
- 2.2. Governing Body and Committee meeting minutes were not always checked and signed by the respective Chair to ensure they provide an accurate account of decisions made, including the approval of key policies.
- 2.3. Schools have not maintained an up to date register of business interests for all Governors on the Governing Body and/or all staff with financial management responsibilities.
- 2.4. Terms of references have not been drawn up for all sub-committees. Where they have been drawn up, they have not been reviewed annually and approved by the Governing Body.
- 2.5. Budget monitoring reports had not been presented to budget holders on a regular basis to help ensure the effective monitoring of individual budgets.
- 2.6. A common weakness identified was the lack of evidence to show that the Schools' Development Plans had been formally approved by the full Governing Body.
- 2.7. In a number of instances schools did not retain an up-to-date bank mandate for its current, fund and special interest bearing bank accounts.
- 2.8. Formal tendering processes were not undertaken as required in a number of cases and there was no evidence of best value being achieved for some high value purchases.
- 2.9. 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.

- 2.10. In a number of instances, the financial limit for petty cash payments, as stipulated by the School's Financial Procedures Manual, was exceeded.
- 2.11. Governors have not always approved a Charging Policy. Where a policy was in place, it was not always up to date.
- 2.12. The Governing Body has not always approved a Pay Policy and where these were in place they were not always up to date. Adequate segregation of duties was not always in place between processing personnel and approving payroll transactions. Appropriate documentation is not always held on file.
- 2.13. Payroll reconciliations were not checked and signed off by an independent senior member of staff to evidence segregation of duties.
- 2.14. Documentary evidence for the costing of school trips and journeys was often not maintained and details of school journeys had not been presented to the Governing Body prior to the journey.
- 2.15. The Governing Body had not always approved objectives/mission statement for voluntary funds. School fund accounts were not always independently audited and presented to the Governing Body with a statement of income and expenditure.
- 2.16. 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 and valuable assets were not always visibly and indelibly security marked by the school. Furthermore equipment loan registers did not generally specify employees' liability/responsibility for equipment. Disposals of assets were not appropriately authorised by an individual within their delegated limits.

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. However, in a number of cases these were not up to date with evidence of regular review by the Governing Body. Inconsistencies in delegations were identified.
- 3.1.2 The full Governing Body and sub-committee meetings are generally held termly and the minutes have usually been prepared. In a number of instances, there was no evidence of meeting minutes being presented to and approved by the appropriate Chair.

3.1.3 Where the Governing Body has set up sub-committees, terms of reference had not been approved and reviewed annually in a number of instances.

3.1.4 In most schools, the Register of Business Interest was not up-to-date with missing declarations for Governors on the Governing Body and staff with financial management responsibilities. However, 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 generally produced comprehensive School Development Plans which include three year targets. The plan is produced and reviewed each financial year to help ensure resource implications are considered during 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 evidenced adequately in minutes of meetings.

3.2.2 For all schools the Chair of Governors and the full Governing Body had approved the budget plans in a timely manner. 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 either monthly or as a minimum on a quarterly basis. However in a number of instances, budget monitoring reports had not been presented to budget holders in a timely manner.

3.2.3 Material variances were investigated and corrective action identified. Virements are generally presented to the appropriate committee.

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 number of cases. In several instances, copies of the bank mandate were not retained by the school.

3.3.2 Adequate arrangements have been established to support separation of duties over cheque production. Safe security and printed cheque security procedures were adequate.

3.3.3 Schools in most instances have ensured that surplus funds are identified and adequate arrangements made to maximise returns on the account balances. In a small number of cases, schools do not make use of a high interest bank facility.

3.3.4 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 instances bank reconciliations had not been signed by both the individual performing the reconciliation and the individual carrying out its independent review.

3.3.5 Most schools had banked income received at the school in a timely manner and as a result ensured excessive amounts of cash were not held on site. However in some instances schools were found to be holding amounts of cash in excess of the maximum insured amount.

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 in all instances 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 their delegated limits. There was a lack of documentary evidence in some instances that the goods received are checked for accuracy and that delivery documentation was appropriately annotated.

3.4.3 Invoices sampled were arithmetically correct and in most cases had been certified as approved for payment by an officer within their delegated limits. Segregation of duties for procurement was generally evidenced.

3.4.4 Robust procedures were found to be in place for procurements using debit cards.

3.4.5 Incidents were identified where schools have not complied with the Council's guidance when entering into lease agreements. The majority of the leases have been in place for a number of years and the Head Teachers have confirmed that guidance will be sought in future.

3.5. *Accounting of Income and Expenditure*

3.5.1 Direct credits and debits were posted in a timely manner and journal entries on the financial accounting system appeared reasonable. Although there were a limited amount of journal postings at the year end, management were aware of the processes required.

- 3.5.2 There were several instances where a weakness in the petty cash process was identified. These related to vouchers not being completed fully or authorisation of payments which exceed limits laid out in the school's Financial Code of Practice.

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 being kept up to date.
- 3.6.2 Official receipts were used where appropriate and where receipts were not issued compensatory records were generally adequate and reliable.
- 3.6.3 Most schools had a documented Lettings Policy in place where appropriate which included 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 were made in compliance with an approved rate.
- 3.6.4 In the majority of cases income was regularly and fully banked and amounts 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 had 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 in several of the schools not kept up-to-date. In some instances, where they were reviewed annually by a delegated committee, they were not consequently approved by the Governing Body.
- 3.7.2 Evidence of pre-recruitment checks is not always maintained, such as identity checks, references, medical checks, and qualifications checks. Letters of resignation / termination were not always held on file in respect of leavers.
- 3.7.3 We noted that in a number of instances starter, leaver and overtime forms had been processed electronically by the same individual who receives and monitors payroll reports, resulting in a lack of segregation of duties.

- 3.7.4 Payroll reconciliations are undertaken in all schools, however in some there was no evidence of a senior member of staff having performed an independent review of the reconciliation. There was lack of evidence in several schools to demonstrate the Governing Body complying 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 All schools had adequate procedures in place to ensure free school meals were only administered to pupils who are entitled to them. Schools 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 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. The accounts for the school fund were not independently audited for some schools by a person who is not involved in the day to day administration of the account.
- 3.9.3 Schools did not always maintain evidence of how school journeys were costed and certified summary accounts for each school journey were not produced.
- 3.9.4 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 up to date with new assets being added and disposed assets recorded in a timely manner.
- 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 All schools had evidence of registration under the Data Protection Act. However some schools did not have procedures for dealing with requests made under the Freedom of Information Act. Anti-virus software had been installed on financial and administration systems and most schools had adequate computer back up procedures.
- 3.11.2 Improvements have been made in enforcing periodical password changes for administrative user accounts.

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 were considered appropriate. School's generally have adequate arrangements for insurance in place.

4 Conclusions

- 4.1. In general, schools met the minimum standard of financial control and management. However, improvements were required in the areas of operation of governance processes; financial planning; control and monitoring of bank accounts, accounting for income and expenditure; procurement; personnel and payroll management; voluntary fund; school journey; asset control including security of assets and data protection.