

REPORT TO: Audit Committee	DATE 4th February 2015	CLASSIFICATION Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources		Annual Internal Audit Report for Schools- 2013/14		
ORIGINATING OFFICER(S): Head of Risk Management and Audit		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 2013/14.
- 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 service to enhance the governance framework around schools.
- 1.3. During the financial year 2013-14, audit visits were carried out at 27 schools. Each audit visit 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.

3.1 Comments of the Chief Financial Officer

- 3.1 There are no financial implications as a result of recommendations within this report.
- 3.2 However, the lack of financial control identified in some schools through the annual audit process could have significant adverse implications for those school budgets should they not be addressed. Furthermore, there is also the risk that value for money is not being secured.

4. Legal Comments

- 4.1. The Audit Commission's Guidance, 'Keeping Your Balance' sets out that the accounts of schools with delegated budgets are subject to regular internal audit and are available for inspection as necessary by the Council's external auditor. Internal auditors review the management of the school's finances on behalf of the Council. Local authority external auditors are appointed by the Audit Commission to assess the legality and regularity of financial affairs and to ensure that the Council has made proper arrangements to secure value for money.
- 4.2. The Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required to maintain an effective system of internal audit of its system of internal control in accordance with proper practices by applying the Public Sector Internal Audit Standard which came into force on 1 April 2013. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

5. One Tower Hamlets

- 5.1. There are no specific One Tower Hamlets considerations.
- 5.2. There are no specific Anti-Poverty issues arising from this report.

6. Risk Management Implications

- 6.1. This report highlights weaknesses in financial control and management in 14 out of the 27 schools visited by Internal Audit during 2013/14. The audit work during the current financial year shows that this trend is continuing. Weaknesses in financial control and management in schools can present reputational, value for money and fraud risk to the Local Authority. Internal Audit has had discussions with the Corporate Director - Education, Social Care and Wellbeing to take the necessary steps and a joined-up approach is currently being developed.

7. Sustainable Action for a Greener Environment (SAGE)

- 7.1. There are no specific SAGE implications.

**ANNUAL REPORT
TO
CORPORATE DIRECTOR – EDUCATION, SOCIAL CARE AND
WELLBEING
ON
STANDARDS OF INTERNAL CONTROL FOR SCHOOLS AUDITED
DURING 2013/14**

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REPORT ON STANDARD OF INTERNAL CONTROL FOR SCHOOLS AUDITED DURING 2013/14

1. Introduction

- 1.1. This report summarises key audit findings and conclusions made during the conduct of school probity audits during the financial year 2013/14.
- 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 2013/14 financial year, Internal Audit carried out probity audit visits to 18 primary schools, two secondary schools, one junior school, two infant schools, two nursery schools and two special schools (it should be noted eight reports are still at draft stage at the time of writing this report). 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 27 probity audits undertaken in 2013/14, 13 schools were assigned a Substantial Assurance opinion and 14 schools were assigned a Limited Assurance opinion (including eight at the draft report stage).
- 1.6. Appendix A provides a breakdown of assurance opinions covering the period 2010/11 to 2013/14 for comparison purposes, whilst appendix B provides an analysis of key issues identified for the same period. 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 key decisions are accurately minuted as ratified/agreed by the Governing Body. The most common weakness identified was that policies and procedures were not subject to periodic review by the Governing Body, and recorded as such in the relevant meeting minutes.
- 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. This was raised in the 2011/12 and 2012/13 CMT report.
- 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. This was raised in the 2011/12 and 2012/13 CMT report.
- 2.4. Terms of reference 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. Furthermore, inconsistencies were found between required meeting frequencies and the actual meeting frequencies that took place. This was raised in the 2011/12 and 2012/13 CMT report.
- 2.5. Budget monitoring reports had not been evidenced as reviewed by the Head Teacher.
- 2.6. 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 that reflected the school's Scheme of Delegation. This was raised in the 2012/13 CMT report.
- 2.7. A common weakness was that official orders were not raised by all schools to support purchases and there was a lack of documentary evidence that the goods and services received are checked for

accuracy before payment and that delivery documentation was appropriately annotated. This was raised in the 2012/13 CMT report.

- 2.8. The appropriate number of quotes were not always obtained as part of the procurement process and retained on file. Where it was not practical to obtain the required number of quotes, waivers were not always completed in line with the Schools Financial Regulations. This was raised in the 2012/13 CMT report.
- 2.9. In a number of instances, petty cash payments were made before the completion of a petty cash form. As well as this, the financial limit for petty cash, as stipulated in the Schools Financial Regulations, was exceeded. This was raised in the 2012/13 CMT report.
- 2.10. Bank and Payroll reconciliations were not checked and signed off by an independent senior member of staff to evidence segregation of duties. This was raised in the 2012/13 CMT report.
- 2.11. Governors have not always approved a Charging Policy. Where a policy was in place, it was not always up to date. This was raised in the 2012/13 CMT report.
- 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. This was raised in the 2012/13 CMT report.
- 2.13. Starters and leavers documentation was not consistently authorised in a timely manner or retained on file. This was raised in the 2012/13 CMT report.
- 2.14. Regular verification and liaison with the local authority to identify only those pupils who are entitled to free school meals are receiving them did not always occur. Where this check did occur, evidence supporting the pupils' entitlement was not always retained by the school. This was raised in the 2012/13 CMT report.
- 2.15. In a number of instances the costing of school journeys were not fully documented, presented to the school's Financial Committee, and retained. This was raised in the 2012/13 CMT report.
- 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. This was raised in the 2012/13 CMT report.

- 2.17. In a number of instances the amount of cash held on premises by the school was in excess of the school's insurance limit. This was raised in the 2012/13 CMT report.

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 Financial Procedures Manual. 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 between the two documents.
- 3.1.2 The full Governing Body and sub-committee meetings are generally held termly and the minutes have usually been prepared. In several 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 several instances, key policies and procedures had not been evidenced as reviewed on a periodic basis. Evidence of approval should be documented in the relevant meeting minutes.
- 3.1.5 In most schools, the Register of Business Interests 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 some instances approval of the plan was not evidenced adequately in minutes of meetings, and financial commitments were not always clearly outlined in the plan.
- 3.2.2 For the majority of 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 large number of cases, budget monitoring reports had not been evidenced as reviewed by the Head Teacher.

- 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 some cases. In most cases a copy of the bank mandate was 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 have ensured that surplus funds are identified and adequate arrangements made to maximise returns on the account balances.
- 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. In several instances, appropriate number of quotes were not always obtained as part of the procurement process and retained on file. Where it was not practical to obtain the required number of quotes, waivers were not always completed in line with the Schools Financial Regulations.
- 3.4.2 Official orders were not raised in several instances to support purchases and 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 although in some cases it was not documented that the invoice had been certified for payment. Segregation of duties for procurement was generally evidenced.

3.4.4 Procedures were found to be in place for most procurements using a debit card.

3.5. *Accounting of Income and Expenditure*

3.5.1 Direct credits and debits were posted in a timely manner in most cases, and journal entries on the financial accounting system appeared reasonable.

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 not always signed between the school and persons / groups hiring the premises. Charges were made in compliance with an approved rate.

3.6.4 In the most cases income was regularly and fully banked and periodically reconciled to the cash-book within the school's financial accounting system. In some instances, banking was not completed in a timely manner.

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 obtained / retained, such as identity checks, references, right to work checks, medical checks, and qualifications checks. Letters of resignation / termination were not always held on file in respect of leavers.
- 3.7.3 It was identified in two schools that DBS/CRB information was not held for a member of staff (both currently at the draft report stage).
- 3.7.4 Payroll reconciliations are undertaken in all schools. However, in many cases there was no evidence of a senior member of staff having performed an independent review of the reconciliation.

3.8. School Meals

- 3.8.1 In several cases, schools did not retain proof of entitlement for all appropriate pupils and in some cases an appropriate system was not in place to ensure that their free school meals list was up to date.
- 3.8.2 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 in all schools visited approved the objectives of the Voluntary Fund account. In most instances the Voluntary Fund account had been independently audited within the last 12 months.
- 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 Schools had evidence of registration under the Data Protection Act. Anti-virus software had been installed on financial and administration systems with adequate computer back up procedures.
- 3.11.2 Most schools had adequate password settings in place with the need for alpha numeric characters and the need to change passwords on a periodic basis.
- 3.11.3 In just one instance it was identified that a former member of staff's account had yet to be removed on the financial administration system.

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. Schools generally have adequate arrangements for insurance in place.
- 3.12.2 In one instance a specific risk management strategy was not in place relating to the disaggregation of a sixth form college.

4 Conclusions

- 4.1. Over half of the schools audited fell below the minimum standard of financial control and management and were assigned a limited assurance audit opinion. Improvements are required in all 12 areas of operation which were examined.