

**ANNUAL REPORT
TO
CORPORATE DIRECTOR – CHILDRENS SERVICES
ON
STANDARDS OF INTERNAL CONTROL FOR SCHOOLS
AUDITED DURING 2008/09**

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REPORT ON STANDARD OF INTERNAL CONTROL FOR SCHOOLS AUDITED DURING 2008/09

1. Introduction

- 1.1. This report summarises key audit findings and conclusions made during the conduct of school probity audits during the financial year 2008/09.
- 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 affairs of the Borough's schools.
- 1.3. During the 2008/09 financial year, Internal Audit carried out probity audit visits to 22 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. Eight schools were assigned a Substantial assurance, and 14 schools assigned a Limited assurance after the 22 probity visits conducted during 2008/09. Two of the Limited assurance schools were followed up within three months and their assurance level improved to substantial assurance.

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.
- 2.3. Schools have not always produced and approved a School Improvement Plan which clearly documents the period to which the Plan relates. The update of the School Improvement Plan is not always timetabled to ensure that the Plan remains a live and current document.
- 2.4. 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 several cases.
- 2.5. 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 received are checked for accuracy and that delivery documentation was appropriately annotated as such.
- 2.6. 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.
- 2.7. The Governing Body has not always approved a pay policy and where these were in place they were often not maintained up to date.
- 2.8. Evidence of pre-recruitment checks were not always maintained, such as CRB checks, identity checks, references, medical checks, qualifications checks etc.
- 2.9. Inventory records were not consistently maintained and where such processes were in place the format and level of information recorded was often inadequate. Stock checks are not performed consistently across all schools, and where performed, the results of these stock checks are not always reported to the Governing Body. Equipment loan

registers were generally not maintained to track movement of school assets off the premises.

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 this was generally up to date with evidence of regular review. The full Governing Body meetings are generally termly and the minutes have usually been approved and signed off by the Chair of the Committee.
- 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.
- 3.1.4 Minutes are not always being produced to support all sub-committee meetings and the adequacy of the frequency of the meetings could not be evaluated due to the lack of Terms of Reference in some cases.
- 3.1.5 The Governing Body have put in place a Register of Business Interests of Governors. The control over this process has improved significantly since the inception of the Financial Management Standards in Schools process. The opportunity to declare interests is a standing item on most agendas of the Governing Body meetings. 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 when highlighted.

3.2. Financial Planning, Budget Setting, Monitoring and Forecasting

- 3.2.1 The Chair of Governors and the full Governing Body approved the budget plans and are kept informed of budget monitoring outcomes.
- 3.2.2 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 usually investigated and corrective action identified.
- 3.2.3 Any virements are generally agreed and approved within the schools framework for delegated authority and are approved or reported to the Governing Body. Approved virements are mostly updated on the

schools financial accounting system and notified to the LEA. Virements are not always recorded in a sequential manner however.

- 3.2.4 Schools have not always produced and approved a School Improvement Plan documenting the period to which it relates. This developing and updating of the School Improvement Plan is not always timetabled to ensure it remains a live document. Where produced, the School Improvement Plan did not always properly include estimated resource requirements where applicable (Staffing and Financial) and target and success criteria.

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.
- 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.

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 that the availability of budget was checked prior to purchasing. 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 the cash in hand each month not being regularly reconciled to the cash book and 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 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 are periodically reconciled to the cash-book within the schools 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.
- 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. Independent Assurance regarding payroll provision for external

providers was not obtained for two schools. Adequate remuneration authorisation evidence was not maintained in two schools.

- 3.7.4 Timesheet and supply claim forms were not always appropriately authorised and checked against corresponding invoices.

3.8. School Meals

- 3.8.1 Systems were in place for the majority of schools to ensure that only pupils entitled to free meals receive them, and to the appropriate value. 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 are not always maintained to document income and expenditure through the unofficial fund. The accounts for the school fund were not independently audited for six schools by a person who is not involved in the day to day administration of the account.
- 3.9.2 Schools do not always maintain adequate records of income due and collected, in a format which allows outstanding amounts to be identified for school trips. Not all schools produced certified summary accounts for each school journey.
- 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 finding 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 Stock checks are not always performed and the results of the stock check are not always reported to the Governing Body. An adequate equipment loan register is not maintained for a number of schools.

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, in general, met the minimum standard of financial control and management. Financial management standards have improved since the inception of the FMSiS assessments. 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 of the issues within the first two of these areas will minimise the number of issues flagged up within the FMSiS visits.