

REPORT TO: Audit Committee	DATE 20 September 2011	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources		<i>Annual Internal Audit Report for Schools – 2010/11</i>		
ORIGINATING OFFICER(S): <i>Minesh Jani, Head of Risk Management and Audit</i>				
		<i>Ward(s) Affected: N/A</i>		

1. SUMMARY

- 1.1. This report (attached) summarises the work of Internal Audit in relation to the audit of schools for the financial year 2010/11.
- 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 and an update is submitted to the Audit Committee with this report.

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 areas examined by audit (Appendix A) and the action taken by the education service (Appendix B).

3. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 3.1. These are contained within the body of this report.

4. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)

- 4.1. There are no immediate legal implications arising from this report.

5. ONE TOWER HAMLETS

12.1 There are no specific one Tower Hamlets considerations.

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

6. RISK MANAGEMENT IMPLICATIONS

13.1 This report highlights risks identified from the work of the internal audit team from its planned audits of schools. The management of risks is an essential element of good governance and the purpose of this report is to set out the highlight broad issues so that risks identified in the report can be better managed by schools.

7. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

14.1 There are no specific SAGE implications.

Local Government Act, 1972 SECTION 100D (AS AMENDED)

List of "Background Papers" used in the preparation of this report

Brief description of "background papers"

Contact :

N/A

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**ANNUAL REPORT
TO
CORPORATE DIRECTOR – CHILDREN, SCHOOLS AND FAMILIES
ON
STANDARDS OF INTERNAL CONTROL FOR SCHOOLS AUDITED
DURING 2010/11**

REPORT ON STANDARD OF INTERNAL CONTROL FOR SCHOOLS AUDITED DURING 2010/11

1. Introduction

- 1.1. This report summarises key audit findings and conclusions made during the conduct of school probity audits during the financial year 2010/11.
- 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 2010/11 financial year, Internal Audit carried out probity audit visits to 24 primary schools, two junior schools, one secondary school (follow-up) and one nursery school. 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. 23 schools were assigned a Substantial assurance and five schools assigned a Limited assurance as a result of the 28 probity visits conducted during 2010/11.

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.
- 2.2. 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.
- 2.3. Committee meeting minutes were not always produced and signed by the respective Chair and, hence in some instances we were unable to confirm whether meetings have been quorate.
- 2.4. 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. In a number of instances we were unable to verify that schools had a timetable in place for tasks involved in the construction of the School Development Plan and Budget.
- 2.5. In a number of cases we noted that schools did not produce any cash flow forecast reports by profiling income across the year and comparing this to expenditure plans to monitor cash surpluses and deficits. There was often no audit trail available from the approved to the amended budget and budget virement reports were not always regularly presented to the Governors.
- 2.6. 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 out its independent review.
- 2.7. In a number of instances schools did not retain an up-to-date bank mandate for its current and special interest bearing bank accounts. In addition, not all schools have appropriate arrangements in place for high yield accounts.
- 2.8. 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. In a number of cases, approved procedures around the use of credit or store cards were not in place or were not consistently followed by staff.

- 2.9. In a number of instances, petty cash claims were not appropriately authorised or the financial limit, as stipulated by the School's Financial Procedures Manual, was exceeded. Accruals have not been raised at year-end to account for payments due for committed expenditure.
- 2.10. 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. Furthermore, in some instances 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.
- 2.11. The Governing Body has not always approved a pay policy and where these were in place they were often not maintained up to date. We found evidence of salary assessments not being carried out on a regular basis. There was often no evidence of the Governing Body or delegated Committee having been informed of performance management outcomes. Adequate segregation of duties was not always in place between processing personnel and approving payroll transactions. Pre-recruitment checks, such as CRB and medical, remained outstanding in a number of instances. Moreover, where an external payroll provider is used, they had not always provided schools with an annual assurance confirming the soundness and adequacy of their payroll system.
- 2.12. 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. Effective controls were not always in place to ensure that income due from school meals were identified, collected and properly accounted for.
- 2.13. Documentary evidence for the costing of school trips and journeys were often not maintained and details of school journeys had not been presented to the Governing Body prior to the journey. School fund accounts were not always independently audited and presented to the Governing Body with a statement of income and expenditure.
- 2.14. 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. Disposals of assets were not appropriately authorised by an individual with delegated responsibility.

- 2.15. Administration staff were not required to change their passwords on a periodical basis.

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, resulting in schools not being compliant with Financial Management Standards in Schools. In particular, inconsistencies were identified in respect to establishing financial limits for authorising expenditure, budget virements, writing off debts and disposal of assets.

- 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 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. In some instances, the attendees of the meetings were not recorded in the meeting minutes.

- 3.1.4 Where the Governing Body has set up sub committees the Terms of Reference often did not outline quorum requirements, frequency in which meetings were to occur and financial limits where appropriate.

- 3.1.5 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 produced comprehensive School Development Plans which include three 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 evidenced and schools did not have a timetable for tasks involved in constructing the School Development Plan and Budget.

- 3.2.2 The Chair of Governors and the full Governing Body approved the budget plans in a timely manner. However, in a number of instances cash flow forecast reports were not regularly prepared and there was a delay in providing budget monitoring reports to the Governors. 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 were investigated and corrective action identified. However, in a number of instances cash flow forecast reports were not regularly prepared and there was a delay in providing budget monitoring reports to the Governors.
- 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. In some instances, there was no audit trail from the approved to the amended budget and a lack of evidence to show that virements had been presented to the Governing Body or delegated 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 significant number of cases. Several schools also did not retain a copy on site.
- 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 Schools are required to ensure that surplus funds are identified and adequate arrangements made to maximise returns on the account balances. Whilst this requirement has generally been satisfactory, we noted a few instances where no arrangements were in place for high yield accounts.
- 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 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.
- 3.4.4 Robust procedures were not always in place for procurements using debit cards. In some instances, the Code of Practice did not include approved procedures with authorised users or financial limits for the use of store, debit or credit cards and documented authorisation of card usage could not be evidenced.

3.5. Accounting of Income and Expenditure

- 3.5.1 In the majority of cases, direct credits and debits were posted in a timely manner and journal entries on the financial accounting system were reasonable. However, in some instances accruals had not been raised at the year-end to account for payments due for committed expenditure.
- 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 being supported by valid receipts. In addition, petty cash reclaims were not always authorised or authorisation limits exceeded the threshold laid out in the 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 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, 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 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 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 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 is not always maintained, such as CRB checks, identity checks, references, medical checks, and qualifications checks.
- 3.7.3 We noted that in a number of instances starter and leaver 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 and authorised for most schools. Adequate remuneration authorisation evidence was not maintained in a number of schools. There was often a lack of evidence 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 Some 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. Apart from a few exceptions,

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. Adequate records were not always maintained to document income and expenditure through the unofficial fund. 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 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 All schools, except for one, 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.

3.11.2 A common weakness across all schools has been the lack of requirement to enforce 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 was 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; accounting for income and expenditure; procurement; personnel and payroll management; and asset control including security of assets.

Appendix B

Response to the Internal Audit Annual Report on Schools for 2010/11

1. The Children, Schools and Families Directorate have put the following systems and processes in place:-
 - Internal audit reports on schools are now a regular item on the DMT agenda for discussion.
 - Internal audit reports are used by Childrens, Schools and Families Services Finance to feed into systems to determine schools requiring priority support;
 - Internal Audit assurance rating is used to target specific support to schools.
2. The intervention put in place by CSF Finance to assist and support schools in improving governance, financial management and control is detailed at paragraph 3 below. As a result of this intervention, we have seen a marked improvement in the control environment within schools over a period of time which is shown in Table 1 below:. During 2010/11 Internal Audit visited 28 schools (see Appendix 1) and these probity visits show a vastly improved picture emerging.

Table 1 – Improvement in Control Environment

Audit Assurance	2009 -10	2010 -11	Difference
Substantial	13	23	10 more than in 2009-10
Limited	17	5	12 less than in 2009-10
No Assurance	2	0	2 less than in 2009-10
Total	32	28	

3. Specific intervention has been undertaken by CSF Finance section in the following areas:-

Governance

- Model Financial Code of Practice has been circulated and reiteration of the compulsory nature of the Scheme;

- Reminders are issued to all schools ref: expected standard of full governing body and committee meetings;
- Circulation of a 'Declaration of Pecuniary Interest' every September. In addition, many governing bodies have this declaration as an agenda item at each full meeting;
- Minimum standards are required from a clerking service;
- Training workshops and inductions have been held, for governors highlighting key areas of the role and their responsibilities.

Resource management / Budgetary control

- Changes to Schools' Finance procedures include standardised formats for schools budgets and monitoring; including cash flow statements.
- Pre-Audit Checks, is available as an additional support:
- Introduction of more robust monitoring of submissions;
- The schools finance newsletter highlights areas for compliance
- The Schools' Finance Manual has been updated;
- Standard documentation is provided for Finance Scheme for schools, Model Scheme of Delegation, Model Best Value Statement and Model Whistle blowing policy.
- LBTH benchmarking data for all schools in Tower Hamlets is carried out based on schools consistent financial reporting year end returns.
- Financial Management Standard in Schools (FMSiS) – The DCSf introduced the Standard to improve Financial Management in Schools. This is because effective financial management and benchmarking is essential for schools in order that they can (a) exercise proper control and stewardship over the significant amounts of public money entrusted to them and (b) allocate and deploy resources effectively to meet school priorities for development and improvement.
- From 18 July 2011 the Department of Education (DfE) has launched the SFVS which replaces the Financial Management Standard in Schools (FMSiS), which was withdrawn by the Secretary of State with effect from November 2010. The standard is a requirement for local authority maintained schools, **Governing bodies** have formal responsibility for the financial management of their schools, and so the standard is primarily aimed at governors.

The standard consists of 23 questions which governing bodies should formally discuss annually with the head teacher and senior staff.

The questions which form the standard are in sections A to D

A: The Governing Body and School Staff

B: Setting the Budget

C: Value for Money

D: Protecting Public Money

Each question requires an answer of Yes, In Part, or No.

In Section E, governors should summarise remedial actions and the timetable for reporting back. Governors should ensure that each action has a specified deadline and an agreed owner. The governing body may delegate the consideration of the questions to finance or other relevant committee, but a detailed report should be provided to the full governing body and the chair of governors must sign the completed form. The school must send a copy of the signed standard to local authority finance department

Control and Monitoring over school Bank Accounts

- Reminders to the revised Financial Regulations for Schools provide a detailed description of various requirements outlined in the Scheme for Financing Schools. Headteacher are responsible for regular, detailed control of the school budget issued.
- The schools finance team have introduced an annual (September 2011) checking process to ensure schools review their list of authorised signatures, for their Bank Accounts.

Procurement

- Governing Bodies are responsible for securing best value for money in relation to their activities, and for achieving performance targets.
- Consistent Financial Reporting (CFR) has been introduced as a framework of income, expenditure and balance sheet headings. One of the main aims of CFR is to allow schools to benchmark expenditure and income at a national level. By comparing spending and consumption patterns of services, all schools will have the tools to promote self-management and value for money.
- Schools requesting a procurement card (debit cards) are reminded of the Tower Hamlets Procedures for the issue and use of purchase cards are contained in section 19 of the Finance Manual. Schools governors are responsible to ensure that a control environment is maintained for its use
- Schools procurement officer stated in September 2010, to support schools on “value for money” by enabling schools to join the LA’s and government’s framework contracts including supporting schools on compliance testing with standard procurement

procedures and adhere to the schools finance manual procedures.

- All schools are to receive revised procurement guidance and workshops Organised for schools governors in the autumn term including standing agenda item at the schools bursars meetings

Accounting of Income and Expenditure

- Governing Bodies are responsible for operating adequate and effective systems for ongoing monitoring and feedback of information about the school's activities, and initiating any necessary action to maintain financial standards and objectives required
- Schools newsletter to Heads and Finance bursars reminding Management of the school's bank and any petty cash accounts including ensuring that all payments are made according to the schools finance procedure Manual

Charging Policy and Income Collection and Banking

- Reminder has been sent that a model policy has been updated in 2010
- Head teachers and finance bursars are reminded of the frequency of banking monies including procedures for collection and banking.

Personnel

- Reminder has been sent to ensure that the Governing Body shall establish procedures for the management and administration of personnel and payroll matters
- Rolling programme of updating personnel procedures has been put in place;
- Termly meetings are held with Personnel providers;
- Schools sickness management procedure has been reviewed and training has been provided.
- HR Workforce advisors provide advice and guidance to all schools including annual reminder of processing and advisory service regarding CRB checks for staff, An article will be placed in HT Bulletin, reminding Head teachers and school governors of their responsibility around this

- HR Team provide reminders to schools on the Teachers Pay and conditions Document including referring to the performance management of teachers.

School Meals

- It is the responsibility of Governing Bodies and school management to ensure that internal controls are adequate and effective, and to take all necessary action to secure this on an ongoing basis.

Voluntary Fund and School Journey

- A reminder has been sent of the useful guide in the “schools finance procedure Manual” for the recording of private funds and reporting to governing bodies.

Asset Controls and Security of Assets

- Reminder has been issued to all schools to ensure that they undertake physical check on an annual basis, to confirm the existence of all assets recorded on the inventory. Any discrepancies identified should be formally reported to the governors.

Conclusions

A number of initiatives are taken to improve the overall assurance in schools via access to a range of key documents on finance and governance procedures and policies, monthly newsletters on best practices, events, training courses and update on current developments, workshops for governors including heads and bursars, termly meetings via bursars to discuss financial management including systems and procedures and direct email reminders on an ad hoc basis for compliance.

Appendix 1

Names of Schools Visited by Internal Audit during 2010/11

School	Internal Audit Assurance Rating
Osmani Primary	Substantial
Alice Model Nursery	Substantial
Bangabandhu Primary School	Substantial
Bigland Green Primary School	Substantial
Blue Gate Fields Junior School	Substantial
Bonner Primary School	Substantial
Bygrove Primary School	Substantial
Canon Barnett Primary School	Substantial
Chisenhale Primary School	Substantial
Christchurch CofE School	Substantial
Clara Grant Primary School	Substantial
Columbia Primary School	Substantial
Cubitt Town Junior School	Substantial
Cyril Jackson Primary School	Limited
Hague Primary School	Substantial
Halley Primary School	Substantial
Harbinger Primary School	Substantial
Hermitage Primary School	Substantial
Manorfield Primary School	Substantial
Marion Richardson Primary School	Limited
Marner Primary School	Limited
Mayflower Primary School	Substantial
Mowlem Primary School	Substantial
Old Ford Primary School	Substantial
Smithy Street School	Substantial
St Anne Roman Catholic Primary School	Limited
Stebon Primary School	Limited
Langdon Park Secondary	Substantial (follow up)