

**ANNUAL REPORT
TO
AUDIT COMMITTEE
ON
STANDARDS OF INTERNAL CONTROL FOR SCHOOLS AUDITED
DURING 2012/13**

CONTENTS

	PAGE
INTRODUCTION	1-2
MOST COMMON FINDINGS	2-3
FINDINGS BY AUDIT AREA	3-8
CONCLUSIONS	8
APPENDIX A – BREAKDOWN OF ASSURANCE OPINIONS	
APPENDIX B – KEY ISSUES TRENDS	

REPORT ON STANDARD OF INTERNAL CONTROL FOR SCHOOLS AUDITED DURING 2012/13

1. Introduction

- 1.1. This report summarises key audit findings and conclusions made during the conduct of school probity audits during the financial year 2012/13.
- 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 2012/13 financial year, Internal Audit carried out probity audit visits to 16 primary schools, seven secondary schools, one infant school, three nursery schools and two special 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; and
 - Risk Management and Insurance.
- 1.5. As a result of the 29 probity audits undertaken in 2012/13, 18 schools were assigned a Substantial Assurance opinion and 11 schools were assigned a Limited Assurance opinion.
- 1.6. Appendix A provides a breakdown of assurance opinions covering the period 2010/11 to 2012/13 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 inconsistencies between the Code of Financial Procedures Manual 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 weaknesses in the document were the lack of delegated financial limits specified for the authorisation of financial transactions as well as inconsistencies between the document and bank mandates. Furthermore, financial delegation documents have not been reviewed and approved on an annual basis. This was raised in the 2011/12 CMT report.
- 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. This was raised in the 2011/12 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 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 CMT report.
- 2.5. A common weakness identified was the lack of evidence to show that the Schools Development Plans had been formally reviewed and approved by the full Governing Body.
- 2.6. Budget monitoring reports had not been presented to budget holders on a regular basis to help ensure the effective monitoring of individual budgets.
- 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 that reflected the school's Scheme of Delegation.

- 2.8. 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 before payment and that delivery documentation was appropriately annotated.
- 2.9. 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.
- 2.10. 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.
- 2.11. Bank and Payroll reconciliations were not checked and signed off by an independent senior member of staff to evidence segregation of duties.
- 2.12. Governors have not always approved a Charging Policy. Where a policy was in place, it was not always up to date.
- 2.13. The Governing Body has not always approved a Pay Policy and where these were in place they were not always up to date.
- 2.14. Starters and leavers documentation was not consistently authorised in a timely manner or retained on file.
- 2.15. 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.
- 2.16. In a number of instances the costing of school journeys were not fully documented, presented to the school's Financial Committee, and retained.
- 2.17. School fund accounts were not always independently audited and presented to the Governing Body with a statement of income and expenditure.
- 2.18. 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.
- 2.19. In a number of instances the amount of cash held on premises by the school was in excess of the school's insurance limit.

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 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 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 several instances approval of the plan was not evidenced adequately in minutes of meetings.
- 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 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.
- 3.4.2 Official orders were not raised in all 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 Robust procedures were found to be in place for procurements using debit cards.

3.4.5 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.

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.

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 majority of cases income was regularly and fully banked and 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 obtained / retained, 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 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.
- 3.7.4 Where schools had employed agency staff during the year evidence was not always retained of the hours worked by the employee. Agency timesheets were not always authorised in accordance with the Scheme of Delegation/financial procedures.
- 3.7.5 In one school, a DBS (Disclosure and Barring Service) formerly CRB check was not carried out for temporary hires.

3.8. School Meals

- 3.8.1 All schools had procedures in place to ensure free school meals were only provided to pupils who are entitled to them. Schools did not always 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 in all schools visited approved the objectives of the Voluntary Fund account. However, 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 Most 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.
- 3.11.3 It was identified that one school did not have controls in place to prevent members of staff from installing software onto the shared drive.

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.

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.