


Non-Executive Report of the:  <b>Audit Committee</b>  8th December 2015	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Zena Cooke - Corporate Director - Resources	<b>Classification:</b> Unrestricted
<b>Annual Schools Report</b>	

<b>Originating Officer(s)</b>	Minesh Jani and Daniel Hellary (Mazars)
<b>Wards affected</b>	All wards

## 1. Summary

- 1.1. This report (attached) summarises the work of Internal Audit in relation to the audit of schools for the financial year 2014/15.
- 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 Local Authority to enhance the governance framework around schools.
- 1.3. During the financial year, 16 audit visits were carried out at 15 schools (one school was audited twice). 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. 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. Best Value Implications**

- 6.1. This report highlights areas where internal control, governance and risk management can be improved to meet the Best Value Duty of the Council.

### **7. Risk Management Implications**

- 7.1. This report highlights risks arising from weaknesses in controls that may lead to the exposure to unnecessary risk. The risks highlighted in this report require management responsible for the systems of control to take steps so that effective governance can be put in place to manage the authority's exposure to risk.

## **8. Sustainable Action for a Greener Environment (SAGE)**

- 8.1. There are no specific SAGE implications.

## **9. Crime and Disorder Reduction Implications**

- 9.1 By having sound systems of controls, the Council can safeguard against the risk of fraud and abuse of financial resources and assets.

**CONFIDENTIAL**

**ANNUAL REPORT  
TO  
CORPORATE DIRECTOR – CHILDREN’S SERVICES  
ON  
STANDARDS OF INTERNAL CONTROL FOR SCHOOLS AUDITED  
DURING 2014/15**

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## **REPORT ON STANDARD OF INTERNAL CONTROL FOR SCHOOLS AUDITED DURING 2014/15**

### **1. Introduction**

- 1.1. This report summarises key audit findings and conclusions made during the conduct of school probity audits during the financial year 2014/15.
- 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 2014/15 financial year, Internal Audit carried out probity audit visits to six primary schools, seven secondary schools (one visited twice), one nursery school and one special school (it should be noted five 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 16 probity audits undertaken in 2014/15, nine schools were assigned a Substantial Assurance opinion, five schools were assigned a Limited Assurance opinion and two schools were assigned a Nil Assurance opinion (including five audits at the draft report stage).

1.6 Appendix A provides a breakdown of assurance opinions covering the period 2010/11 to 2014/15 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 quorum requirements are met for the Governing Body and sub-committee meetings. The most common weakness identified was that policies and procedures were not subject to periodic review by the Governing Body, and evidenced as such in the relevant meeting minutes. This was raised in the 2013/14 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. This was raised in the 2012/13 CMT report and 2013/14 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 2012/13 CMT report and CMT 2013/14 report.
- 2.4. Terms of reference drawn up for all sub-committees have not been reviewed annually and approved by the Governing Body. This was raised in the 2012/13 CMT report and 2013/14 CMT report.
- 2.5. Budget monitoring reports had not been evidenced as reviewed by the Head Teacher. This was raised in the 2013/14 CMT report.
- 2.6. In some instances approval of the School Development Plan was not evidenced adequately in the Governing Body meeting minutes and financial commitments were not always outlined in the plan.
- 2.7. In a couple of instances schools did not retain an up-to-date bank mandate for its bank accounts that reflected the school's Scheme of Delegation. This was raised in the 2013/14 CMT report.
- 2.8. A common weakness was that official orders were not raised by I schools prior to purchases and where orders were raised, they were not appropriately authorised by the delegated officer. 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 and 2013/14 CMT report.

- 2.9. In several cases, the appropriate number of quotes were not always obtained as part of the procurement process and retained on file. This was raised in the 2013/14 CMT report. An adequate audit trail was not maintained for final supplier selection and in some cases, Governing Body approval was not obtained for higher value purchases.
- 2.10. The schools' financial procedures did not clearly stipulate the authorisation limits for delegated responsibility in most cases.
- 2.11. In a number of instances, petty cash vouchers were not authorised with sufficient segregation of duties and the vouchers were not numbered for reference. As well as this, the amount of cash held on site did not always match with the records in the school's accounting systems, reflecting inconsistent reconciliation.
- 2.12. Lettings agreements between the School and the persons/groups hiring the premises were not always signed and retained.
- 2.13. 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 and 2013/14 CMT report.
- 2.14. Adequate documentation within personnel files of starters and leavers was not always obtained and retained on site by some Schools.
- 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. This was raised in the 2012/13 CMT report and CMT 2013/14 CMT report.
- 2.16. In a number of instances the costing of income and expenditure of school journeys was not fully documented, and approved by an independent officer. This was raised in the 2012/13 CMT report and 2013/14 CMT report.
- 2.17. Annual inventory checks were not performed consistently across all schools, and where performed, the results of these inventory checks were 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. This was raised in the 2013/14 CMT report.
- 2.18. The asset register was not always up to date with details of the assets held on premises. The equipment loan forms were signed by the respective staff, however were not adequately authorised in some cases.



- 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. This was raised in the 2012/13 CMT report and 2013/14 CMT report.

### **3. Key Findings by Audit Area**

#### **3.1. Operation of Governance Processes**

- 3.1.1 All schools had in place key strategic documents, including Scheme of Delegation, Terms of Reference 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 amongst the three documents.
- 3.1.2 The full Governing Body and sub-committee meetings are generally held termly and the minutes have usually been prepared. In many instances, there was no evidence of meeting minutes being approved by the appropriate Chair. In a few instances the meetings did not meet the quorum requirements consistently over a year.
- 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 a number of schools, the Register of Business Interests was not up-to-date with missing declarations or incomplete 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.
- 3.1.6 In a couple of instances, there were Governing Body vacancies which were not filled. Governing body vacancies should be filled with a plan and recruitment timetable

#### **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. Budget monitoring is usually undertaken either monthly or as a minimum on a quarterly basis. However, in most of the cases, budget monitoring reports had not been evidenced as reviewed by the Head Teacher.

3.2.3 In a large number of cases, official purchase orders were not raised prior to invoicing/purchasing and in some cases orders were not appropriately authorised by the delegated officer. 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.

### **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 few cases. In most cases a copy of the bank mandate was retained by the school.

3.3.2 There were adequate controls over accounting for income and banking.

3.3.3 By large, most schools had adequate and effective controls in place to monitor their bank accounts. In some cases, however, it was identified that the bank signatory list was not available or approved by Chair of Governors.

3.3.4 In majority of the cases, bank reconciliations were complete and performed in a timely manner, and these reconciliations were mostly independently checked to confirm completeness and accuracy. However in some instances bank reconciliations had not been signed by both the individual performing the reconciliation and the individual carrying out its independent review. In a couple of instances there was no evidence of monthly reconciliations performed at all.

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, the appropriate number of quotes were not always obtained as part of the procurement process and retained on file in line with the School's Financial Procedures. In a number of instances adequate audit trail was not maintained for final supplier selection. In

some cases, Governing Body approval was not obtained for higher value purchases.

- 3.4.2. In a couple of instances, the EU tendering process was not followed, in so far as the EU procurement thresholds were exceeded and the tender process was not followed by the schools.
- 3.4.3 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.
- 3.4.4 In some cases of Invoices sampled, it was not evidenced that the invoice had been certified for payment. Segregation of duties for procurement was generally evidenced.
- 3.4.5 In many instances, the schools' financial procedures did not clearly stipulate the authorisation limits for delegated responsibility.

### **3.5. *Accounting of Income and Expenditure***

- 3.5.1 In most cases, there were adequate controls in place to account for the income and expenditure.
- 3.5.2 There were several instances where weaknesses in the petty cash process were identified. These related to vouchers not being authorised with sufficient segregation of duties or petty cash vouchers did not have reference numbers attached. In some cases the total amount of cash held on site did not match with records in the schools' accounting systems. In a couple of instances there was no evidence of VAT reclaims for petty cash transactions being completed.
- 3.5.3 In several cases, there was no evidence of income and expenditure of school journeys being costed and approved by an independent officer and in some cases they were incomplete. In many cases, 'End of Journey Statements' income and expenditure reports were not produced and appropriately reviewed.

### **3.6. *Charging Policy and Income Collection and Banking***

- 3.6.1 Most schools had effective controls in place to ensure that income due was identified, collected, and properly accounted for.
- 3.6.2 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. In some cases, the Lettings Policy was not approved by the full Governing Body. Charges were documented in most cases.

3.6.3 In most cases income was regularly and fully banked and periodically reconciled to the cash-book within the school's financial accounting system.

3.6.4 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. Records were not signed for by both parties involved in the transfer.

### **3.7. *Personnel and Payroll Management***

3.7.1 Evidence of pre-recruitment checks was 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.

3.7.2 Payroll reconciliations were undertaken in all schools. However, in many cases there was no evidence of a 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 regular reconciliations were 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. In a few instances there was no evidence of presenting interim financial statements of the fund (income and expenditure) to the Governing Body/Finance Committee regularly.

3.9.2 Schools did not always maintain approved evidence of how school journeys were costed and certified summary accounts for each school journey were not produced.

### **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/asset register are not always maintained up to date with new assets being added and disposed assets recorded in a timely manner. Assets were not security marked for easy identification and retrieval.
- 3.10.2 Inventory checks are not always performed to confirm the accuracy and completeness of inventory records and disposals, and the results of the inventory check are not always reported to the Governing Body.
- 3.10.3 An adequate equipment loan register was not maintained for a number of schools and signed loan agreements did not highlight the employee's liability/responsibility for equipment. The loan forms were not adequately authorised and did not stipulate the anticipated date of return.

### **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. In some instances password controls were inadequate in so far as passwords were not changed periodically due to system constraints.
- 3.11.3 In a number of instances it was identified that ICO certificate was not renewed and received from the Information Commissioner.

### **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 Journeys, and Health and Safety were considered appropriate. Schools generally have adequate arrangements for insurance in place. This includes the arrangements for the security of its data.
- 3.12.2 Regular risk management reviews were evidenced, within both the Senior Leadership Team (SLT) and Health & Safety meetings.

## **4 Conclusions**

- 4.1. Over half of the schools audited were above the minimum standard of financial control and management and were assigned a substantial assurance audit opinion. However, two schools audited were assigned with nil assurance, where controls were weak and there were significant non-compliance with basic controls leaving the system open to error or abuse (both the reports are at draft stage.) It is noted that improvements are required in all 12 areas of operation which were examined.