

Report for: Corporate Committee – 20 September 2018

Item number:

Title: Annual Schools Report – 2017/18

Report authorised by : Assistant Director of Corporate Governance

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Ward(s) affected: N/A

**Report for Key/
Non Key Decision: Information**

- 1. Describe the issue under consideration**
 - 1.1 This report advise the Corporate Committee of the outcomes of the 2017/18 schools audit programme and of the follow up audits carried out in 2017/18 by Mazars.
- 2. Cabinet member introduction**
 - 2.1 Not applicable.
- 3. Recommendations**
 - 3.1 The Corporate Committee is recommended to note the report.
- 4. Reasons for decision**
 - 4.1 The Corporate Committee is responsible for monitoring the adequacy and effectiveness of internal controls. The Committee receives regular reports highlighting findings from audits, this report provides an overview of findings arising from the audit of schools in 2017/18 by Mazars and provides the Committee with an opportunity to identify thematic issues that may impact on the governance at schools.
- 5. Alternative options considered**
 - 5.1 Not applicable.
- 6. Background information**
 - 6.1 The information in this report has been compiled from information held within Audit & Risk Management service.

7. Contribution to strategic outcomes

7.1 The work of the internal audit team provides independent assurance over the effectiveness of the control environment at schools. The primary responsibility for governance of schools rests with the Governing Body with oversight from the local authority over maintained schools. The work of the internal audit team is an important element of how the local authority can demonstrate it has discharged its statutory responsibility.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

8.1 Finance and Procurement

There are no direct financial implications arising from this report. The work completed by the Internal Audit team is funded from within the Audit and Risk Management revenue budget.

8.2 Legal

The Council's Assistant Director of Corporate Governance has been consulted in the preparation of this report, and has no comments.

8.3 Equality

The Council has a public sector equality duty under the Equality Act (2010) to have due regard to:

- tackle discrimination and victimisation of persons that share the characteristics protected under S4 of the Act. These include the characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex (formerly gender) and sexual orientation;
- advance equality of opportunity between people who share those protected characteristics and people who do not;
- foster good relations between people who share those characteristics and people who do not.

9. Use of Appendices

None

10. Local Government (Access to Information) Act 1985

Not applicable.

11. Background

11.1 Internal Audit undertakes a programme of school audit reviews to ensure that schools are complying with the requirements of the Schools Finance Manual, issued in 2007; and to confirm the risks associated with the key financial and non-financial processes are appropriately managed.

11.2 Internal audit are not required to audit the School Financial Value Standard (SFVS), but the audit programme does check that the SFVS has been completed and whether it aligns with the audit findings. The programme of routine audit work should assist schools in providing assurance to Governing Bodies for the SFVS.

12. Feedback on 2017/18 audit work

12.1 This report:

- Summarises the overall outcomes and assurance levels provided to individual schools from 2014/15 to 2017/18;
- Provides information on the results of the formal follow up programme;
- Provides a summary of assurance and recommendations made; and
- Highlights some of the common issues relating to non-compliance with the Schools Finance Manual and good control where recommendations were made.

12.2 Table 1 below summarises the overall outcomes and assurance ratings for the previous four financial years of all internal audits completed.

Table 1 – Summary of assurance ratings provided 2014/15 to 2017/18

	Number of audits planned	Substantial assurance rating	Limited assurance rating	Nil assurance rating
2014/15				
Primary Schools (incl. nursery/special)	12	4	8	0
Secondary Schools	1	1	0	0
Sub-total	13	5	8	0
2015/16				
Primary Schools (incl. nursery/special)	12	8	4	0
Secondary Schools	1	1	0	0
Sub-total	13	9	4	0
2016/17				
Primary Schools (incl. nursery/special)	21	6	12	3
Secondary Schools	3	2	1	0
Sub-total	24	8	13	3
2017/18				
Primary Schools (incl. nursery/special)	19	10	7	2
Secondary Schools	1	1	0	0
Sub-total	20	11	7	2
Total	70	33	32	5

12.4 The table above shows 45% of schools audited in 2017/18 returned limited or nil assurance ratings. This is of concern to the Council and the issue has been included in the statutory Annual Governance Statement, which was reported to the Corporate Committee on 24 July 2018 as part of the Council's annual accounts.

12.3 School audits showed significant weaknesses across all schools in 2016/17. While 2017/18 has seen a fall in the number of primary and secondary schools assigned limited or nil assurance ratings, the internal control environment is still not at a level where we can see performance as satisfactory and risks are being robustly managed across all schools. Some schools in the 2017/18 audit programme were included as a result of previous poor audit assurance ratings and while some of these schools are

on an improvement arc this improvement is slow and other schools remain a cause for concern.

12.5 For the school audits completed in 2017/18, **a total of 211 recommendations** were raised. Table 2 below summarises the recommendations made and groups them into the areas, which are contained within the individual audit reports issued to schools.

Table 2 – Overall assessment of control and recommendations raised

Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
			Priority 1	Priority 2	Priority 3
Management organisation	Green	Amber	3	26	4
School improvement plan & OFSTED inspections	Green	Amber	1	9	3
Budget setting, monitoring & control	Green	Amber	5	14	3
Staffing	Green	Amber	0	17	13
Expenditure & accounting records	Green	Amber	13	26	8
Asset Management & Inventory Records	Green	Amber	4	21	14
School unofficial fund	Green	Amber	0	2	0
Income & Lettings	Green	Amber	1	12	5
School meals	Green	Amber	1	4	2
Total			28	131	52

12.6 The areas reported as 'Green' under '**Adequacy of Controls**' indicate that, overall, schools have identified appropriate controls which, if put into practice, would be adequate to manage the risks for that area.

12.6 The column headed '**Effectiveness of Controls**' is an assessment of whether the controls that have been put in place are working as intended. There were no areas where controls were reported to be working effectively in 2017/18.

12.7 Overall, the proportion of schools receiving 'limited' and 'nil' assurance has decreased, which is reflected in the fewer numbers of recommendations raised. The number of Priority 1 recommendations – those which we identify as fundamental control weaknesses, have decreased slightly from 2016/17 but is still high due to a handful of schools where we raised a number of recommendations. A summary of the outcomes and the details of Priority 1, 2 and 3 recommendations raised is shown in Appendix A.

12.8 Appendix A also shows that significant areas of non-compliance with the Schools Finance Manual found in 2017/18 were within the key financial areas reviewed by audit: **management organisation; budget setting, monitoring and control; staffing; expenditure and accounting records; and asset management**. These are the same areas as last year.

12.9 Serious weaknesses identified in these key financial processes and areas indicate that basic financial controls were weak or non-existent, which puts the school at a greater risk of fraud and poor long term financial stability. Key findings in 2017/18 included the following:

Non-compliance with financial regulations:

- No or insufficient numbers of written quotations or tenders obtained or retained for high value expenditure; high value expenditure not approved by Governing Body; purchase orders not raised for high value/routine expenditure; no valid invoice or receipts to support payments; bank mandate out of date; bank reconciliations not completed; debt recovery processes not taking place; budget monitoring not undertaken; VAT returns not submitted regularly.

Items missing or non-existent:

- Asset/inventory register (regular checks not completed); Policies not in place e.g. lettings; Register of Business Interests in that not all Governors and staff with financial responsibility completed an entry; No Statement of Acceptance (Contract) for new staff; overtime claim forms do not state reason for hours worked. Recruitment checks not undertaken in a timely fashion.

Non-ratification/minuting:

- Budget not approved by Governors: use of Pupil Premium not signed off by Governing Body; no sign off of Governing Body and Committee minutes; SFVS self assessment not approved; results of inventory and asset management reviews not approved.

13. Follow up programme for 2016/17 audits

13.1 Internal Audit completed formal follow up audits of all school audits, which were undertaken in 2016/17 that received limited assurance or better. School receiving No assurance to subject to a revisit and full audit. Appendix B sets out the overall results of the follow up work completed. The follow up visits were all arranged in advance with the individual schools and took account of the deadlines confirmed by schools for the implementation of recommendations.

13.2 The Committee will note that of the 172 original recommendations, only 111 (58%) had been fully implemented at the time of the follow up visit. This is a similar level as we reported last year (57%). This includes 80 significant issues, which were raised as priority 2 recommendations, which have not been fully addressed. This will lead to increased risk at these schools of fraud, error or inappropriate practice going uncorrected.

14. Training for Schools and Governors

14.1 In addition to circulating the school audit test programme, workshop sessions have been provided for school staff (finance staff, bursars, and head teachers) over the last four financial years to further assist schools in identifying key risk areas and control processes.

14.2 A workshop session was again offered to all schools with audits planned during 2018/19 as well as where key staff have changed in the last twelve months; the session was held on 19 April 2018 and some schools due to be audited in 2018/19 attended the session although attendance was lower than in previous years.

14.3 A training session on audit and risk management, covering governor roles and responsibilities in relation to audit and risk management, as well as providing advice and guidance on key risk/control areas, was provided on 23 March 2017 as part of the annual governor training package. The training session is offered every academic year and has been scheduled for this financial year on 25 September 2018 and 28 February 2019.

15. Internal Audit schools audit and follow up programme 2017/18

15.1 Internal Audit has started the 2018/19 programme of school audit visits; and all schools have been contacted and agreed dates for their respective audit visits.

15.2 Internal Audit will also arrange to follow up the 2017/18 audit work and recommendations. Both schools will be visited during 2018/19; where 'nil' assurance reports were issued and a full audit will be undertaken at these schools. Any schools where high priority recommendations (Priority 1) remain outstanding may be included in the 2019/20 school audit programme for further review.

Appendix A

Outcomes and recommendations raised for 2017/18 school audits

School	Type	Assurance	Recommendations Raised			Total
			Priority 1	Priority 2	Priority 3	
Alexandra	Primary	Substantial	0	4	4	8
Bounds Green	Primary	Substantial	0	0	4	4
Bruce Grove	Primary	Limited	3	9	5	17
Chestnuts	Primary	None	10	10	1	21
Coldfall	Primary	Substantial	0	4	0	4
Crowland	Primary	Limited	3	14	1	18
Ferry Lane	Primary	Limited	1	6	4	11
Lancasterian	Primary	Limited	0	9	5	14
Mulberry	Primary	Substantial	0	4	0	4
Rhodes Avenue	Primary	Substantial	0	4	2	6
St Martin of Porres Catholic	Primary	Substantial	0	6	2	8
St Mary's CofE	Primary	Substantial	0	6	1	7
St Paul's Catholic	Primary	Substantial	0	5	2	7
Stamford Hill	Primary	None	6	13	2	21
Stroud Green	Primary	Limited	4	7	4	15
Tiverton	Primary	Substantial	0	7	2	9
Welbourne	Primary	Substantial	0	6	7	13
Rokesly	Infants	Substantial	0	5	5	10
St Peter in Chains	Infants	Limited	0	9	1	10
Primary & Special Sub-total			27	128	52	207
Hornsey School for Girls	Secondary	Substantial	1	3	0	4
Secondary Sub-total			1	3	0	4
Total			28	131	52	211

The results of internal audit's follow-up work on the 2017/18 school audits

Follow up of 2016/17 audits	Type	Assurance	Recommendations raised				Recommendations Implemented				Partly Impl.	N/A	Not Impl.	Priority 1 O/S
			Priority 1	Priority 2	Priority 3	Total	Priority 1	Priority 2	Priority 3	Total				
Seven Sisters Primary	Primary		2	12	2	16	2	7	1	10	6	0	0	0
St Aidens Primary	Primary		0	7	3	10	0	5	1	6	2	0	2	0
Weston Park Primary	Primary		0	12	1	13	0	4	0	4	4	0	4	0
St John Vainney Primary	Primary		0	10	6	16	0	8	6	14	2	0	0	0
Tetherdown Primary	Primary		0	6	1	7	0	3	0	3	1	0	3	0
Lordship Lane	Primary		0	8	1	9	0	2	0	2	5	0	2	0
North Harringay	Primary		0	5	2	7	0	5	2	7	0	0	0	0
Our Lady of Muswell Hill	Primary		0	7	0	7	0	6	0	6	1	0	0	0
West Green	Primary		0	6	1	7	0	4	0	4	3	0	0	0
Belmont Junior	Junior		0	6	3	9	0	1	0	1	6	0	2	0
Rokesley Juniors	Junior		0	3	9	12	0	1	8	9	2	0	1	0
Pembury	Nursery		0	12	2	14	0	6	1	7	5	0	2	0
Woodlands Park	Nursery		0	5	1	6	0	4	1	5	1	0	0	0
Riverside Special School	Special		0	6	2	8	0	3	2	5	2	0	1	0
Vale Special School	Special		1	8	1	10	1	7	0	8	1	0	1	0
The Brook on Broadwater	Special		1	6	3	10	1	5	1	7	3	0	0	0
Blanche Nevile	Special		0	10	1	11	0	7	1	8	3	0	0	0
Primary/Special Total			4	129	39	172	4	78	24	106	47	0	18	0
Highgate Wood Secondary	Secondary		1	13	2	16	0	1	0	1	11	1	0	0
Fortismere Secondary	Secondary		0	1	3	4	0	1	3	4	0	0	0	0
Secondary Total			1	14	5	20	0	2	3	5	11	1	0	0
Overall Total			5	143	44	192	4	80	27	111	58	1	18	0