

Report for: Corporate Committee – 9 September 2019

Title: Annual Schools Report – 2018/19

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 advises the Corporate Committee of the outcomes of the 2018/19 schools audit programme and of the follow up audits carried out in 2018/19 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 2018/19 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

The findings contained in this report, notwithstanding an improvement in the percentage of schools audited in 18/19 returning a “Substantial” assurance and associated decrease in the number of Level 1 recommendations, continue to provide cause for concern.

Four schools returned an inadequate assurance outcome (as noted in the Annual Governance Statement). In addition, basic financial controls over budget setting and monitoring, expenditure and accounting records were often found to be weak or non-existent. This puts our schools at greater risk of overspending, fraud, error and financial loss. In the current financial climate, with sustained pressure on school budgets, the need to achieve value for money and demonstrate strong financial management are paramount to ensure the financial sustainability of our schools.

A new schools finance adviser on a fixed term contract is being proposed, subject to final funding confirmation from Schools Forum. This post would form part of the School Finance team to support schools in financial difficulty. The schools finance adviser would provide strategic finance support to the school’s senior leadership team and identify any weakness earlier on before a school goes into a deficit position or help deficit schools with a robust business plan to turn the position around within a specific time period. The impact of this new resource would be monitored via the quarterly finance reports as well as through future audits. This additional focus on Schools finances, along with the programme of training workshops, should help address the issues raised above.

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 is 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 2018/19 audit work

12.1 This report:

- Summarises the overall outcomes and assurance levels provided to individual schools from 2015/16 to 2018/19;
- 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 2015/16 to 2018/19

	Number of audits planned	Substantial Rating assurance	Limited Assurance rating	Nil Assurance rating
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
2018/19				
Primary Schools (incl. nursery/special)	11	7	4	0
Secondary Schools	1	1	0	0
Sub-total	12	8	4	0
Total	69	36	28	5

12.4 The table above shows 67% of schools audited in 2018/19 returned substantial assurance ratings. While this is an improvement on previous year where 55% of the schools audited were assigned “Substantial” assurance, there remains a concern around level of unsatisfactory level of assurance. The issue has been included in the statutory Annual Governance Statement, which was reported to the Corporate Committee on 25 July 2019 as part of the Council’s annual accounts.

12.3 School audits originally showed significant weaknesses across all schools in 2016/17. While 2017/18 and 2018/19 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.

12.5 For the school audits completed in 2018/19, **a total of 135 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	0	20	20
School improvement plan & OFSTED inspections	Green	Amber	0	4	0
Budget setting, monitoring & control	Green	Amber	1	10	2
Staffing	Green	Amber	0	2	4
Expenditure & accounting records	Green	Red	4	17	3
Asset Management & Inventory Records	Green	Amber	0	12	20
School unofficial fund	Green	Green	0	1	2
Income & Lettings	Green	Amber	0	5	4
School meals	Green	Green	0	1	0
Data Protection	Green	Green	0	1	2
Total			5	73	57

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. We found that controls over expenditure were not working well at many schools, so we have rated this as red. Other areas showed some weakness in control while controls over unofficial funds, school meals and data protection were generally working well.

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 significantly from 2017/18 which is a pleasing development. 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 2018/19 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; incomplete; 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 no approved.

13. Follow up programme for 2017/18 audits

13.1 Internal Audit completed formal follow up audits of all school audits, which were undertaken in 2017/18 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 169 original recommendations, only 122 (72%) had been fully implemented at the time of the follow up visit. This is an improvement on what we reported last year (58%). This does, however, include 28 significant issues which were raised as priority 2 recommendations which have not been fully addressed. This will lead to increased risk at our 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 2019/20 as well as where key staff have changed in the last twelve months; the session was held on 7 March 2019 and some schools due to be audited in 2019/20 attended the session. In addition, four further training sessions were provided to bursars and school business managers, head teachers, governors and other members of staff.

14.3 Training sessions 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 were provided as part of the annual governor training package. These training sessions are offered every academic year.

15. Internal Audit schools audit and follow up programme 2019/20

15.1 Internal Audit has started the 2019/20 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 2018/19 audit work and recommendations. Any schools where high priority recommendations (Priority 1) remain outstanding may be included in the 2020/21 school audit programme for further review.

Appendix A

Outcomes and recommendations raised for 2018/19 school audits

School	Type	Assurance	Recommendations Raised			Total
			Priority 1	Priority 2	Priority 3	
Chestnuts	Primary	Limited	0	9	6	15
Devonshire Hill	Primary	Substantial	0	1	2	3
Earlham	Primary	Substantial	0	3	0	3
Earlsmead	Primary	Substantial	0	3	2	5
Highgate	Primary	Substantial	0	4	8	12
Risley Avenue	Primary	Limited	1	15	5	21
Rowland Hill	Nursery	Substantial	0	1	5	6
South Harringay	Infant	Substantial	0	6	4	10
St Francis de Sales	Infant & Junior	Substantial	0	3	5	8
St Ignatius	Primary	Limited	3	9	3	15
St James C of E	Primary	Limited	1	12	4	17
The Willow	Primary	Substantial	0	2	6	8
Primary & Special Sub-total			5	68	50	123
Park View	Secondary	Substantial	0	5	7	12
Secondary Sub-total			0	5	7	12
Total			5	73	57	135

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

Follow up of 2017/18 audits	Type	Assurance	Recommendations raised				Recommendations Implemented				Partly Impl.	N/Accep- ted	Not Impl.	N/A	Priority 1 O/S	Unable to Verify
			Priority 1	Priority 2	Priority 3	Total	Priority 1	Priority 2	Priority 3	Total						
School										Total	Total	Total	Total	Total	Total	Total
Alexandra	Primary	Substantial	0	4	4	8	0	3	3	6	1	1	0	0	0	0
Coldfall	Primary	Substantial	0	4	0	4	0	3	0	3	0	1	0	0	0	0
Bruce Grove	Primary	Limited	3	9	5	17	3	9	3	15	2	0	0	0	0	0
Crowland	Primary	Limited	3	14	1	18	1	9	1	11	6	0	0	1	0	0
St Marys CE	Primary	Substantial	0	6	1	7	0	5	0	5	0	1	0	0	0	1
Bounds Green	Junior	Substantial	0	0	4	4	0	0	3	3	1	0	0	0	0	0
Tiverton	Primary	Substantial	0	7	2	9	0	7	2	9	0	0	0	0	0	0
Lancasterian	Primary	Limited	0	10	4	14	0	8	4	12	1	0	1	0	0	0
Rhodes Avenue	Primary	Substantial	0	4	2	6	0	4	2	6	0	0	0	0	0	0
Rokesly Infants	Infants	Substantial	0	5	5	10	0	4	2	6	3	0	0	0	0	1
St. Martin of Porres Catholic	Primary	Substantial	0	6	2	8	0	2	1	3	4	0	0	0	0	1
The Mulberry	Primary	Substantial	0	4	0	4	0	4	0	4	0	0	0	0	0	0
Welbourne	Primary	Substantial	0	6	7	13	0	4	6	10	2	0	1	0	0	0
Ferry Lane	Primary	Limited	1	6	4	11	1	5	4	10	0	0	1	0	0	0
St Peter in Chains	Infant	Limited	0	9	1	10	0	4	1	5	2	0	1	0	0	2
Stroud Green	Primary	Limited	4	7	4	15	2	4	2	8	6	0	1	0	0	0
St Pauls Roman Catholic	Primary	Substantial	0	5	2	7	0	3	1	4	3	0	0	0	0	0
Primary/Special Total			11	106	48	165	7	78	35	120	31	3	5	1	0	5
Hornsey School for Girls	Secondary	Substantial	1	3	0	4	0	2	0	2	2	0	0	0	0	0
Secondary Total			1	3	0	4	0	2	0	2	2	0	0	0	0	0
Overall Total			12	109	48	169	7	80	35	122	33	3	5	1	0	5