



Agenda Item

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The Children and Young People's Service

Report Status

For information/note ☒
For consultation & views ☐
For decision ☐

Report to Haringey Schools' Forum – 25 June 2020

Report Title: The schools internal audit programme 2019/20 outcomes

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Purpose:

To advise the Schools Forum of the outcomes of the 2019/20 audit programme and formal follow up audits relating to 2018/19 audits.

Recommendations:

That the Schools' Forum note the feedback on the work completed in 2019/20, including the results of the follow up audits on 2018/19 audits.

1. Background

- 1.1 Internal Audit undertakes a programme of school audit reviews to ensure that schools are complying with the requirements of the Schools Finance Manual; and to confirm the risks associated with the key financial and non-financial processes are appropriately managed.
- 1.2 Currently all schools receive a full audit at least every three years and follow up work is completed the financial year after the visit.
- 1.3 The schools audit programme is delivered by the Council's outsourced audit partner, Mazars, under the supervision of the Head of Audit and Risk Management.
- 1.4 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 to support the SFVS declarations.

2. Feedback on 2019/20 audit work

2.1 This report:

- Summarises the overall outcomes and assurance levels provided to individual schools from 2017/18 to 2019/20;
- 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 control weakness, where recommendations were made.

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

2.3 Prior to 2019/20 the four levels assurance: Full, Substantial, Limited and Nil. The 'Full Assurance' assurance was rarely applied. As a result, in 2019/20 a new criteria for assurance was implemented to provide more distinction in the outcomes of audit work. The assurance is provided based on the number and priority of recommendations raised.

Table 1 – Summary of assurance ratings provided 2017/18 to 2019/20

	Number of audits planned	Substantial Assurance rating	Adequate Assurance rating	Limited Assurance rating	Nil Assurance rating
2017/18					
Primary Schools (incl. nursery/special)	19	10	N/A	7	2
Secondary Schools	1	1	N/A	0	0
Sub-total	20	11	0	7	2
2018/19					
Primary Schools (incl. nursery/special)	11	7	N/A	4	0
Secondary Schools	1	1	N/A	0	0
Sub-total	12	8	0	4	0
2019/20					
Primary Schools (incl. nursery/special)	17	1	10	4	2
Secondary Schools	1	1	0	0	0
Sub-total	18	2	10	4	2
Total	74	29	10	28	7

- 2.3 The table above shows 67% of schools audited in 2019/20 returned above 'adequate' assurance ratings. This is consistent performance to 2018/19 but a noted improvement on 2017/18.
- 2.4 Due to significant weaknesses from schools audits in 2016/17, as reported in previous years to the forum, Schools Governance and Finance has been included as an issue on the statutory Annual Governance Statement, which is approved by the Corporate Committee in July each year and is published as part of the Council's Annual Statement of Accounts. Due to the improvements in the last two years' this issue has been proposed for removal from the 2019/20 AGS. Results of school audits will continue to be monitored by the Corporate Committee as part of their annual reporting cycle.
- 2.5 The percentage of schools receiving limited and nil assurance is following a downward trend, two schools received 'Nil Assurance' in 2019/20, although this is obviously a concern. Our expectation is that when a follow up audit is carried out in 20/21, the schools will have put in place adequate measures to improve their rating to a satisfactory level.
- 2.6 For the school audits completed in 2019/20, **a total of 190 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 – Summary of recommendations raised against audit areas

Area of Scope	Recommendations Raised		
	Priority 1	Priority 2	Priority 3
Management organisation	0	26	25
School improvement plan & OFSTED inspections	0	7	2
Budget setting, monitoring & control	1	15	3
Staffing	0	5	5
Expenditure & accounting records	4	24	6
Asset Management & Inventory Records	0	16	24
School unofficial fund	0	2	3
Income & Lettings	0	4	6
School meals	0	2	2
Data Protection	0	2	3
Total	6	105	79

- 2.6 The table shows six issues were felt to be fundamental weakness with the bulk of issues being significant (105 recommendations) and many minor issues being identified (79 recommendations) which relate to good practice or housekeeping actions.
- 2.7 Key areas of weakness include governance (mainly issues about proper constitution and recording of Governor decisions), income and budget management and procurement. A summary of the themes noted with regards recommendations is included at Appendix A.
- 2.8 As noted above the proportion of schools receiving 'limited' and 'nil' assurance has decreased over time, 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 also decreased. A summary of the outcomes and the details of Priority 1, 2 and 3 recommendations raised is shown in Appendix B.
- 2.9 Serious weaknesses identified in key financial processes and areas indicate that basic financial controls were weak or non-existent in some schools, which puts the school at a greater risk of fraud and poor long-term financial stability. Key findings in 2019/20 included the following:
- 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; and
 - VAT returns not submitted regularly.

3. Follow up programme for 2018/19 audits

- 3.1 Internal Audit completed formal follow up audits of all school audits, which were undertaken in 2019/20. No school received "Nil assurance" consequently, no schools required a revisit to undertake a full audit. Appendix C 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.
- 3.2 The Schools' Forum will note that of the 135 original recommendations, 87 (67%) had been fully implemented at the time of the follow up visits. This is a significant improvement on what we reported last year (55%). This does, however, include 30 significant issues which were raised as priority 2 recommendations which have not been fully addressed.

3.3 For 2020/21 we are reviewing our approach to follow up. The plan is to move from a point in time update to a more proactive on-going monitoring approach that tracks recommendations to closure. This will provide more relevant assurances to key stakeholders.

4. Training for Schools and Governors

4.1 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.

4.2 A workshop session was again offered to all schools with audits planned during 2020/21 as well as where key staff have changed in the last twelve months; the session was held on 17th March 2020 and some schools due to be audited in 2020/21 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.

4.3 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.

5. Internal Audit schools audit and follow up programme 2020/21

5.1 Internal Audit has not been commenced for the 2020/21 programme of school audit visits due to the Covid-19 outbreak.

5.2 We are using this time to review the audit programme and approach to school audit and follow up with Mazars. Actions will be taken to ensure safe arrangements for audits to be carried out. The planned approach for 2020/21 will be communicated to all schools and schools scheduled for audit this year will be contacted and dates agreed for their audit visits will be agreed.

6. Recommendation

6.1 That the Schools' Forum notes the feedback on audit work completed in 2019/20.

Key Themes from 2019/20 Audits

AUDIT AREA	FINDING	RISK
Governance	<ul style="list-style-type: none"> • Register of Interests forms have not been completed by employees / Governors. • Committee terms of reference conflict with the Scheme of Delegation regarding the Head Teacher's delegated expenditure limit / have not been approved by the governing body. • School Development Plan not submitted to governors. • Policies / procedures / key documents are not in place / up to date or they had not been submitted to governors. • Minutes of governor meetings do not contain sufficient detail of action taken / are not produced promptly / are not approved as an accurate record at the next meeting. • Committee meetings are not held regularly or in accordance with their terms of reference. • Signed Statements of Acceptance not held on personnel files. • Employment records not regularly updated and reconciled to Single Central Record. • Instrument of Governance not approved by the Director of Children's Services. 	<ul style="list-style-type: none"> • Potential conflict of interest - work could be awarded to companies who Governors / staff have an interest in. • Expenditure requiring approval has not been submitted to governors. • Governors may not be aware of the strategic direction of the school and what target improvements need to be made. • Governors may not be aware of processes within the school. • Lack of evidence of Governor approval for action taken. • Delays to key decisions being taken. • Inability to legally enforce terms and conditions of contract. • Inaccurate information relating to staff safeguarding status may be held. • Non-compliance with Education Act 2002.
Financial Planning	<ul style="list-style-type: none"> • Pupil Premium Strategy had not been approved by the Governing Body / pupil premium evaluation not completed. 	<ul style="list-style-type: none"> • Funding may not be available to support the achievement of education strategy.
Budget Monitoring	<ul style="list-style-type: none"> • Monthly budget monitoring reports are not signed / are not checked / do not include payroll reports. • No evidence of approval for budget virements. 	<ul style="list-style-type: none"> • Lack of evidence / audit trail to demonstrate performance of a key checking control.
Financial Controls	<ul style="list-style-type: none"> • Documented financial procedures are not in place / not sufficiently detailed. 	<ul style="list-style-type: none"> • Procedures may not be performed properly in the absence of key staff.

AUDIT AREA	FINDING	RISK
Procurement	<ul style="list-style-type: none"> • Procurement processes are not aligned to the Council's Contract Procedure rules contract rules, where insufficient number of quotations had been obtained. • Invoices have not been authorised. • Orders have not been raised / do not include the order value / documents missing / goods not received. • Checks have not been made to determine if the roles of individuals are on a self-employed basis or they should be paid via the payroll. 	<ul style="list-style-type: none"> • Non-compliance with the Council's contract rules. • Inappropriate payments may be made. • Non-compliance with HM Revenues and Customs regulations.
Income	<ul style="list-style-type: none"> • Lettings agreements do not contain charges / are not signed by hirers to confirm acceptance of terms. • VAT not charged on lettings / VAT reconciliations not completed regularly. • School meal income records / summary of cash received each day/ summary of banking is not maintained / is not sufficiently detailed. • School meal debtors are not promptly followed up. • Cost / Benefit analysis of after school club not completed and reported to Governing Body. 	<ul style="list-style-type: none"> • Potential loss of income. • Non-compliance with HM Revenues and Customs regulations. • Income is not accounted for correctly. • Potential loss of income. • After school club fails to break even resulting in potential loss of income.
School Fund / Extended Activities	<ul style="list-style-type: none"> • Accounts are not audited / not reported to Governors. 	<ul style="list-style-type: none"> • Governors will not be aware of School Fund activity.
Bank Accounts	<ul style="list-style-type: none"> • Monthly bank reconciliations are not undertaken, not undertaken regularly or where undertaken are not signed / checked. 	<ul style="list-style-type: none"> • Errors / omissions / fraudulent activity may not be identified promptly / may not be undetected.
Inventory	<ul style="list-style-type: none"> • Inventory is not up to date/ not subject to annual review / evidence of review not documented / purchase date not included. • IT equipment is not security marked. • Equipment loaned to staff not authorised or recorded correctly. 	<ul style="list-style-type: none"> • Unable to demonstrate accountability for equipment.

AUDIT AREA	FINDING	RISK
Payroll	<ul style="list-style-type: none"> • Performance management for finance staff is not undertaken. • Overtime had not been checked / signed / authorised / promptly submitted. • No evidence of review of payroll records. 	<ul style="list-style-type: none"> • Training issues may not be identified and addressed. • Unauthorised payroll transactions may occur.

Outcomes and recommendations raised for 2019/20 school audits

School	Type	Assurance	Recommendations Raised			Total
			Priority 1	Priority 2	Priority 3	
Blanche Nevile	Special	Adequate	0	2	3	5
Weston Park	Primary	Adequate	0	2	7	9
Muswell Hill	Primary	Adequate	0	4	5	9
St. John Vianney	Primary	Adequate	0	6	4	10
St. Mary's Priory	Infant & Junior	Adequate	0	6	1	7
St. Michael's C of E	Primary	Substantial	0	1	5	6
The Vale	Special	Adequate	1	4	0	5
Belmont	Infant	Limited	0	6	9	15
Coleridge	Primary	Adequate	0	5	4	9
Lordship Lane	Primary	Limited	0	8	6	14
Pembury	Nursery	Limited	2	6	3	11
St. Gilda's Catholic	Junior	Adequate	0	4	7	11
Stroud Green	Primary	Nil	3	18	5	26
The Brook Special	Primary	Limited	0	7	5	12
St. Aidan	Primary	Adequate	0	5	3	8
Seven Sisters	Primary	Adequate	0	5	6	11
Lea Valley	Primary	Nil	0	14	6	20
Primary & Special Sub-total			6	103	79	188
Gladesmore	Secondary	Substantial	0	2	0	2
Secondary Sub-total			0	2	0	2
Total			6	105	79	190

Results of internal audit's follow-up work on the 2018/19 school audits

Follow up of 2018/19 audits	Type	Assurance	Recommendations raised				Recommendations Implemented				Partly Impl.	Not Impl.	N/A	Priority 1 O/S
			Priority 1	Priority 2	Priority 3	Total	Priority 1	Priority 2	Priority 3	Total				
School										Total	Total	Total	Total	
Chestnuts	Primary	Limited	0	9	6	15	0	5	4	9	4	2	0	0
Devonshire Hill	Primary	Substantial	0	1	2	3	0	1	2	3	0	0	0	0
Earlham	Primary	Substantial	0	3	0	3	0	3	0	3	0	0	0	0
Earlsmead	Primary	Substantial	0	3	2	5	0	3	2	5	0	0	0	0
Highgate	Primary	Substantial	0	4	8	12	0	0	6	6	2	4	0	0
Risley Avenue	Primary	Limited	1	15	5	21	1	8	0	9	12	0	0	0
Rowland Hill	Nursery	Substantial	0	1	5	6	0	1	3	4	1	1	0	0
South Harringay	Infant	Substantial	0	6	4	10	0	4	3	7	1	2	0	0
St. Francis de Sales	Infant & Junior	Substantial	0	3	5	8	0	2	5	7	1	0	0	0
St. Ignatius RC	Primary	Limited	3	9	3	15	1	4	2	7	4	3	1	2
St. James C of E	Primary	Limited	1	12	4	17	0	8	2	10	7	0	0	1
The Willow	Primary	Substantial	0	2	6	8	0	2	6	8	0	0	0	0
Primary/Special Total			5	68	50	123	2	41	35	78	32	12	1	3
Park View	Secondary	Substantial	0	5	7	12	0	5	4	9	3	0	0	0
Secondary Total			0	5	7	12	0	5	4	9	3	0	0	0
Overall Total			5	73	57	135	2	46	39	87	35	12	1	3