



Coventry City Council

Public report

Report to

Audit and Procurement Committee

10th September 2018

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

Director approving submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected:

City Wide

Title:

School Audit Recommendations

Is this a key decision?

No

Executive summary:

The purpose of this report is to provide the Audit and Procurement Committee with details of the high risk school audit recommendations made in last three years and the action taken to assist schools to ensure that financial controls are complied with.

Recommendation:

The Audit and Procurement Committee is recommended to note and consider the summary of school audit recommendations and confirm its satisfaction with the action taken to assist schools to ensure that financial controls are complied with.

List of Appendices included:

None

Background papers:

None

Other useful documents:

None

Has it or will it be considered by scrutiny?

No other scrutiny consideration other than the Audit and Procurement Committee.

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

No

Report title:

School Audit Recommendations

1. Context (or background)

- 1.1 The responsibility for maintained schools to ensure proper financial management and financial probity is a statutory duty based on financial controls which the local authority is required to set out. These controls are detailed in the Council's Fair Funding Scheme of Delegation, which contains regulations covering all aspects of financial management. Schools are also required to complete an annual self-assessment of the effectiveness of the systems in place through completion of the Schools Financial Value Standard.
- 1.2 Alongside this, the Council's S151 Officer (Director of Finance and Corporate Services), is statutorily responsible for ensuring the proper administration of the Council's financial affairs. This includes all aspects of financial management undertaken by schools. In practice, this role is discharged through the Council's finance function and work undertaken by Internal Audit to provide assurance that effective systems of financial management are in place.
- 1.3 To deliver this assurance, the Internal Audit Service carry out a risk-based programme of school audits on an annual basis. Where areas for improvement are identified, audit recommendations are made and agreed with the school's management.
- 1.4 At the meeting of the Audit and Procurement Committee on the 26th March 2018, further information was requested on school audit recommendations. Members also requested whether other actions could be taken to assist schools to ensure they have effective financial controls in place.

2. Options considered and recommended proposal

- 2.1 The scope of internal audit work in relation to schools includes providing an opinion as to whether systems are being effectively managed. The table below provides details of the school audits carried out in the last three financial years, along with the audit opinion provided:

Year	School	Audit Opinion
2015-16	Keresley Grange	Limited
	Longford Park	Moderate
	Christ the King	Significant
	Whoberley Hall	Significant
	Mount Nod	Significant
	Southfields	Significant
	Stoke Heath (follow up)	Significant
2016-17	Aldermans Green	Moderate
	Broad Heath	Moderate
	Potters Green	Limited
	Keresley Grange (follow up)	Significant
2017-18	Hillfields	Limited
	Edgewick	Limited
	Leigh C of E	Moderate
	Whitmore Park	Moderate
	Ernesford Grange	Moderate
	Henley Green	Moderate
	Potters Green (follow up)	Significant

2.2 In practice, where the findings of an audit results in limited or moderate assurance being provided, Internal Audit will make appropriate recommendations for improvement, which are agreed with the school's management, including a timescale for implementation. The audit findings which lead to recommendations are given a risk rating, to assist schools in understanding the implications of the issue and prioritise the remedial action required. The risk level (high or medium) is determined by the Auditor, based on their professional judgement and in the context of the school environment, including the extent to which controls have not been complied with. A summary of the high risk issues raised in the last three years is detailed below:

Issue	Identified risks
Poor methods of recording cash income and banking only prepared by one officer.	An appropriate audit trail is not maintained over the recording of income. Monies are misappropriated and this is not detected.
Inappropriate use of the manual cheque book	Purchasing controls are bypassed. Inappropriate use of the schools budget.
Lack of separation of duties in raising / authorising purchase orders. Raising purchases orders after the invoice has been received.	Purchasing controls are bypassed. Inappropriate purchases are made. Management have no oversight of expenditure that the school is planning to incur.
Lack of control over purchasing cards	An appropriate audit trail to support card usage is not maintained. No management oversight over the appropriateness of the transactions. Inappropriate expenditure is made.
Lack of separation of duties in raising / authorising credit notes	Credit notes are issued inaccurately / illegitimately and this is not detected.
Non-compliance with IR35 HMRC requirements (payments to individuals)	The HMRC impose a financial penalty on the school for non-compliance with IR35 requirements
Delays in income being input to the Schools Information Management System. Not undertaking timely bank reconciliations and no separation of duties within this process, including no independent review of bank reconciliations performed.	Illegitimate bank transactions are not identified in a timely manner. Budgetary control information is not kept up to date and as a result Governors do not receive accurate information. The potential for loss / misappropriation of income as any discrepancies could be concealed / not identified.
Virements actioned without approval	Breach of the Fair Funding Scheme of Delegation. Governors are not aware of budget changes made.
Lack of training for new staff	Poor governance over financial management arrangements.

2.3 From Internal Audit's perspective it is not surprising that similar issues arise in schools given that they use resources for the same purposes and often have similar working practices, procedures and processes in place. In considering why control failings occur in schools, it is our view that typically risks arise because of:

- Manual systems of financial control – most schools rely largely on a manual approach to systems of control, which reflects the relative size / nature of the organisation. However, this increases the risk that controls are not complied with or arrangements break down, for example, where there are changes in staffing, or there is a lack of management oversight. In such circumstances, it is likely that any control issues will not be detected until a later point (e.g. when an audit is undertaken.)
- Demands on resources which results in controls being by-passed - Whilst on occasion this may be unavoidable in the context of the school environment, in our experience, the importance of consistently complying with controls is not always fully appreciated until an issue arises which could have been prevented if appropriate financial controls had been in operation.

2.4 Where audit recommendations are made, follow up processes are in place to ensure that the agreed actions have been implemented as planned. This includes formal follow up audits, where a further audit opinion will be provided as to the effectiveness of the systems in place. For those schools where we have undertaken a formal follow up in the last three years, Internal Audit subsequently provided significant assurance that appropriate financial controls were in place.

2.5 Whilst the work undertaken by Internal Audit provides assurance to the Council and governing bodies, and assists school to improve their financial management, further work has been undertaken to consider whether other actions can be taken to assist schools to discharge their statutory duty in regards to ensuring that effective systems of financial management are maintained (this is notwithstanding the on-going work already undertaken by the Council's Financial Management Service.) This has identified / led to the following:

- Internal Audit have, in-conjunction with the School Finance Team, made arrangements to produce a Finance and Audit newsletter on a termly basis, which will be issued to all local authority maintained schools. The purpose of the newsletter includes highlighting common issues found in school audits, promoting the importance of financial controls and reinforcing the requirements of the Fair Funding Scheme of Delegation. The first newsletter was issued to schools in July 2018.
- Scope to provide more feedback to other areas of the Council who work with schools to ensure that issues are dealt with not just as a response to an audit recommendation but as part of on-going dialogue / interaction with services such as Finance and Human Resources. Work has commenced in this area, with feedback on HMRC issues provided to Payroll, and issues around virements discussed with the Schools Finance Team.
- The provision of school business professional training is being considered by Human Resources. If there is sufficient interest in this from schools, a training provider will be commissioned to deliver this and in the event that this is progressed, there will be an opportunity to discuss with the provider any additions that may be required to ensure that there is appropriate coverage around financial controls.

Internal Audit will continue to develop these arrangements with colleagues and pursue other opportunities as appropriate to take action to support schools.

3. Results of consultation undertaken

3.1 None

4. Timetable for implementing this decision

4.1 There is no implementation timetable.

5. Comments from the Director of Finance and Corporate Services

5.1 Financial Implications

There are no specific financial implications associated with this report. Internal audit work has clear and direct effects, through the recommendations made, to help improve value for money obtained the probity and propriety of financial administration and / or the management of operational risks.

5.2 Legal implications

The Council has a duty under S151 of the Local Government Act to make arrangements for the proper administration of their financial affairs. . This includes all aspects of financial management undertaken by schools / governing bodies. Work undertaken by Internal Audit contributes to these arrangements by providing assurance that effective systems of financial management are in place in local authority maintained schools.

6. Other implications

6.1 How will this contribute to achievement of the Council's plan?

Internal Auditing is defined in the Public Sector Internal Audit Standards as “an independent, objective assurance and consulting activity designed to add value and improve and organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness to risk management, control and governance processes.” As such the work of Internal Audit is directly linked to the Council’s key objectives / priorities with specific focus agreed on an annual basis and reflected in the annual Internal Audit Plan.

6.2 **How is risk being managed?**

In terms of risk management, there are two focuses:

- Internal Audit - The key risk is that actions agreed in audit reports to improve the control environment and assist the Council in achieving its objectives are not implemented. To mitigate this risk, a defined process exists with the Service to gain assurance that all actions agreed have been implemented on a timely basis.
- School perspective - There is a risk that schools do not maintain an effective system of financial management through the operation of appropriate financial controls. This risk is managed through a number of processes, for example, assurance checks carried out by the School’s Finance Team, the work of Internal Audit and the additional actions identified in this report.

6.3 What is the impact on the organisation?

None

6.4 Equalities / EIA

None.

6.5 Implications for (or impact on) the environment

No impact

6.6 Implications for partner organisations?

None

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