

# Final Internal Audit Report

## Traded Services – Education

### June 2024

Distribution: Corporate Director Children, Young People & Education - Interim  
Director of Education  
Head of Commissioning and Services to Schools  
Director of Finance (Deputy S151)  
Corporate Director Resources and S151 Officer (Final only)

Assurance Level	Issues Identified	
Limited Assurance	Priority 1	1
	Priority 2	2
	Priority 3	0

#### Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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**Please refer to the Statement of Responsibility in Appendix 4 of this report for further information about responsibilities, limitations and confidentiality.**

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**1. Introduction**

- 1.1 The London Borough of Croydon (the 'Council') provides a wide variety of traded services to schools, academies and other educational establishments both within and external to the Borough. Currently, the Council offers eight different services via the Croydon Education Partnership online portal. The services include Education Development and Partnership, Early Year Service, Governance, Educational Psychology, IT Services, Human Resources, Early Career Teacher, and Professional Development.
- 1.2 All services are provided based on an underlying service level agreement between both parties when the services are commissioned. The Head of Education Service and the Education Business Services Manager are responsible for setting the service/course fee. The course fee per delegate can be seen on Croydon Education Partnership and agreed upon at the time booking the service. It is acknowledged that a number of, but not all, customers are Croydon maintained schools.
- 1.3 The Council provided traded services to 270 establishments between April and December 2022, with an annual trading target of £1.493 million.
- 1.4 Responsibility for oversight and management of traded services sits with the Council's Education Service. The Croydon Education Partnership team comprises of seven Central Services members, and the Head of Education Services oversees the team.
- 1.5 The Council engages internal staff to deliver most of the services and external service providers where specific expertise is required in providing the services.
- 1.6 The traded services are promoted via the Council and Croydon Education Partnership's website, contract renewals for existing customers, local newsletters, general emails to the schools and brochures.
- 1.7 The Council has an updated terms and conditions (February 2022 version) for the supply of services, which is available on Croydon Education Partnership's website and updated annually.
- 1.8 The Council has an Operations Procedural Manual to guide staff on traded service operations, accessible to staff on the Service SharePoint.
- 1.9 While our review and testing were performed remotely, we were able to obtain all relevant documents required to complete the review.
- 1.10 The audit was undertaken as part of the agreed Internal Audit Plan for 2022/23. The objectives, approach and scope are contained in the Audit Terms of Reference in Appendix 1.

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## 2. Key Issues

### Priority 1 Issue

Testing of a sample of 20 overdue invoices found that 11 did not have evidence of reminders being sent. None of the 20 had been passed on to the Council's debt collector team, exceeding the Council's 30-day late payment target. **(Issue 1)**

### Priority 2 Issues

Testing of a sample of 30 services sold in three months found that in one month (five invoices), the sales invoices were sent to the schools more than one month from when the order was placed. **(Issue 2)**

A review of the monthly reconciliation process found that the Traded Service team did not perform sales reconciliations on sales invoices to help ensure errors or duplications were detected. **(Issue 3)**

**3. Actions and Key Findings/Rationale**

**Control Area 3: Financial Viability of the Services Offered to the School**

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 1
1	<p>1. Reminders in MyRes Collection module are automated at start of the account. Once reminders have been generated, if invoices are still unpaid, and new invoices are raised, reminders are not automatically generated, the system has to be manually updated to restart reminders for new invoices. This is an issue that has been raised with Oracle in the Oracle Value Assessment going on at the moment. There are also training issues which will be picked up in this financial year to improve the collectors monitoring of their cases.</p>	<p><b>Expected Control</b></p> <p>The Council has a duty to ensure that all monies owed to it are collected efficiently and effectively. Per the Croydon Education Partnership Terms and Conditions (T&amp;Cs) for the Supply of Services, the customer shall pay each invoice due within 30 days of the date of the invoice. If a customer defaults in paying the invoice by the due date, the Council has remedies under the Termination for Breach Clause. The customer shall pay interest on any overdue Charges under the T&amp;Cs per the Late Payment of Commercial Debts (Interest) Act 1998. The Council may suspend all Services until the customer has paid in full.</p> <p><b>Issue/Finding</b></p> <p>A sample of 20 unpaid invoices between October 2020 and November 2022 were tested to confirm whether the Corporate Debt Recovery Support (CDRS) had followed up on unpaid invoices, sent reminder letters to the schools, academies and other educational establishments and passed overdue invoices to the Council’s collector team. Testing found:</p> <ol style="list-style-type: none"> <li>1. 11 instances where 1st and 2nd Reminder letters were not sent;</li> <li>2. 20 instances where unpaid invoices were not given to the Collectors; and</li> <li>3. Six instances where reminder letters were sent to the schools later than 31 days.</li> </ol>

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	<p>2. This is not possible; all invoices go into the collectors caseload 64 days after the invoice due date.</p> <p>3. Please refer to 1 above. This might happen where the reminders are manually reset.</p> <p>The Education Traded Service Team have been advised how to get access to the AR Enquiry reporting in ERP dashboard. One of the reports on this dashboard, includes an aged debt report which can be filtered to only Croydon Education Partnership invoices. If the Education Traded Services Team are expected to chase bad debtors, this will require additional resource.</p>	<p>The Head of Education Service advised that the Traded Service Team did not have access to Accounts Receivables (AR) Enquiry Reporting on the ERP Dashboard within My Resource, which makes it difficult for them to view details of unpaid invoices and aged debtors. The Traded Service Team also did not receive aged debtors' reports.</p> <p>It is acknowledged that a number of, but not all, customers are Croydon maintained schools.</p> <p><b>Risk</b></p> <p>Where the Council does not follow up on unpaid invoices in a timely manner, there is an increased risk that the payments may not be recovered, leading to financial loss to the Council. Where the Traded Service does not have access to the aged debtor's report, there is a risk that services will still be provided to the debtor, thereby leading to a further increase in the debt.</p>
<p>Responsible Officer</p>	<p>Deadline</p>	
<p>Debt Recovery Manager</p>		

Final for discussion purposes only

Head of  
Commissioning  
and Services to  
Schools

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**Control Area 3: Financial Viability of the Services Offered to the School**

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 2						
2	<p>The invoices were part of a request received from Croydon Education Partnership to CDRS on 3rd November. The invoices were loaded on 30th November and as per usual process, dated 3 working days later as 5th December. Before 2023, we did not have an agreed timetable for Croydon Education Partnership invoices to be raised. Now there is an agreed timetable for Croydon Education Partnership to prepare the invoice requests by 14th monthly and for CDRST to load by 21st monthly.</p>	<p><b>Expected Control</b></p> <p>The Council should invoice its customers for payment of the charges (plus VAT, if applicable) in advance once the order is placed or within a reasonable time of the order.</p> <p><b>Issue/Finding</b></p> <p>We reviewed a sample of 15 invoices (five samples /each month) of invoices from three randomly selected months (May, July and December 2022) to verify that the schools, academies and other educational institutions were invoiced promptly. There were five instances of purchases from October 2022 where the Council did not raise the invoices within one month from the order date; all of these invoices were eventually raised in December 2022. The five invoices were 2709531, 3066900, 3062086, 3063404 and 3065201. This was explained as being due to key staff being on annual leave.</p> <p><b>Risk</b></p> <p>Where the Council does not raise invoices on a timely basis, there is an increased risk of payment default, leading to financial loss to the Council.</p>						
<table border="1"> <thead> <tr> <th data-bbox="194 1072 490 1187">Responsible Officer</th> <th data-bbox="490 1072 797 1187">Deadline</th> </tr> </thead> <tbody> <tr> <td data-bbox="194 1187 490 1364">Debt Recovery Manager</td> <td data-bbox="490 1187 797 1364">Complete</td> </tr> <tr> <td data-bbox="194 1364 490 1364">Head of Commissioning</td> <td data-bbox="490 1364 797 1364"></td> </tr> </tbody> </table>		Responsible Officer	Deadline	Debt Recovery Manager	Complete	Head of Commissioning		
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**Control Area 4: Performance and Financial Monitoring of the Services Offered**

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 3						
2	<p>Since January 2023, the process has been updated for all invoice bulk uploads. A shared SharePoint library has been created. The original invoice uploads sheet is added into the library. The actual upload of invoices is added to the sheet as well as a reconciliation sheet to confirm number and value of invoices raised. This is shared with Traded Service Team can also check and reconcile invoices raised are correct.</p>	<p><b>Expected Control</b></p> <p>Performing monthly reconciliations between the sales on the SLA online and the invoices raised on the finance system "My Resource" can help identify potential errors. This allows variances and errors to be escalated and resolved promptly.</p> <p><b>Issue/Finding</b></p> <p>The Head of Education Service advised Internal Audit that they reconciled the monthly sales on My Resources to the CDRS invoice report. However, this was done by visual check to MyResource and involved review of the total sales to the total income on sold services instead of on every single sales transaction. This reconciliation was not formalised and therefore not subject to any other independent review and sign off.</p> <p><b>Risk</b></p> <p>Where the Council does not properly reconcile sales invoices each month, there is a risk that errors and duplications are not detected and resolved promptly, which may lead to financial loss to the Council.</p>						
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## AUDIT TERMS OF REFERENCE

### Traded Services – Education

#### **1. INTRODUCTION**

1.1 London Borough of Croydon has a wide range of services to support schools in developing their staff and volunteers and helping them ensure their education setting remains up to date and compliant with regulations in this fast-changing environment.

1.2 All the services can be bought through the Croydon Education Partnership portal. Croydon Education Partnership is the name of the Council's school trading service, which offers training and educational support services for schools and other educational settings. They work in partnership with local schools and key stakeholders to improve attainment and educational outcomes for our children and young people.

The following services can be purchased:

- Personalised consultancy
- Training and development
- Backoffice services (IT and HR)
- Governance and leadership support.

Service Providers within the Council are responsible for issuing Service Level Agreements or specific service terms and responding to the service delivery related queries.

1.3 This audit is being undertaken as part of the agreed Internal Audit Plan for 2022/23.

#### **2. OBJECTIVES AND METHOD**

2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.

2.2 The audit will for each controls / process being considered:

- Walkthrough the processes to consider the key controls;
- Conduct sample testing of the identified key controls; and
- Report on these accordingly.

#### **3. SCOPE**

3.1 This audit, which will focus on governance over Traded Services - Education, is being undertaken as part of the 2022/23 Internal Audit Plan. The specific scope included the following areas and identified issues:

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Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisational and Management Requirements	0	0	0
Maximising the Take-up/Utilisation of the Services Offered	0	0	0
Financial Viability of the Services Offered to the School	1	1	0
Performance and Financial Monitoring of the Services Offered	0	1	0
Management Oversight and Reporting	0	0	0
<b>Total</b>	<b>1</b>	<b>2</b>	<b>0</b>

**Appendix 2**

**Definitions for Audit Opinions and Identified Issues**

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to identified issues are based on the following criteria:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
<b>Priority 3 (Low)</b>	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

**Statement of Responsibility**

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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