

Final Internal Audit Report

Payments to Schools

February 2019

Distribution: Interim Executive Director of Resources (Final only)
 Director of Finance Investment and Risk and s151 Officer
 Head of Finance
 Senior Management Accountant

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	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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1. Introduction

- 1.1 The dedicated Schools Grant is the principle source of funding for the majority of local authority maintained schools in England. The revenue funding is allocated to local authorities by the Education Funding Agency (EFA) and is then distributed to Individual Schools Budgets (ISBs) in accordance with a local formula, agreed with the EFA.
- 1.2 This includes drivers such as pupil numbers, sixth form pupils, special educational needs pupils and free school meals data sets which are submitted to the Department for Education. The Schools Finance Team is responsible for calculating ISBs and for the termly advance payments made to schools.
- 1.3 Schools are required to submit quarterly returns to the Schools Finance Team outlining their current financial position. Where schools are in deficit, they are required to submit these returns on a monthly basis so the Local Authority can closer assess their financial position. These returns are supported by an action plan agreed and signed with the deficit school to help recover the school's finances.
- 1.4 As part of the agreed 2018/19 Internal Audit Plan, an internal audit of Payments to Schools has been undertaken.

2. Key Issues

Priority 2 Issues

The spreadsheet use to track schools' year-end data and other returns was not properly kept up to date, **(Issue 1)**.

Licence deficit forms were not submitted on time or properly signed for 2 of the 3 schools sampled, **(Issue 2)**.

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

Control Area 1: <u>Monitoring of Returns</u>		Detailed Finding/Rational – Issue 1
Priority	Action Proposed by Management	<p>A tracking spreadsheet is maintained which should be updated as and when reports and other returns are received from schools (such as year-end returns, quarterly returns and budgets).</p> <p>Examination of the tracking spreadsheet established that several fields had not been completed (notably signed budget submissions). Discussion with Finance Officer established that these had been submitted by the schools but that the spreadsheet had not been updated. For example, it was confirmed that one School had submitted their 2018/19 signed budget, however this was not noted on the spreadsheet. This was also true for the spreadsheet used to monitor school monthly budget submissions for those schools with deficits or converting to academies.</p> <p>Where the monitoring spreadsheet is not kept up-to-date, there is a risk that there is no clear picture of the current position. In addition, there may be attempts made to obtain documents which have already been submitted, resulting in wasted staff time and a financial loss.</p>
2	<p>We accept that there have been gaps in maintaining the tracking sheet. The time/resources priority has dictated that the priority has been given to completing the reporting of the outcomes of the returns and not tracking the date submission was received. When we return to a full staffing compliment the importance of the tracker will be communicated to the new team members.</p>	
Responsible officer	Deadline	
Finance Manager	Quarter 1 2019	

Control Area 3: Financial and Management Reporting

Control Area 3: Financial and Management Reporting		Detailed Finding/Rational – Issue 2
Priority	Action Proposed by Management	
2	<p>We accept the need for the returns to be signed off by all relevant parties.</p> <p>With the time/resources constraints the priority was given to meeting with these schools. Regular meetings with schools in deficit are held with the Finance Manager & Head of Standards Safeguarding Learning Access and Inclusion, Education and Youth Engagement, to discuss the plans for the school to return to balanced position.</p> <p>One School in deficit from the samples selected updated LA officers that the deficit set was a temporary issue and would be resolved this school is no longer in a deficit position.</p> <p>Priority will be given to ensuring all schools in deficit submit a licence deficit and that it is appropriately signed off</p>	<p>The Croydon Scheme for Financing Schools details under 'Licensed deficits' that: <i>"In certain circumstances, a school may plan for a deficit budget. The school must agree an action plan with the LA (authorisation from the Assistant Chief Executive (Corporate Resources and Section 151 Officer)) in order that a non-deficit budget can be set at the end of a specified period."</i> This requires that the School must submit a deficit licence agreement/recovery plan, signed by the School's Head teacher, The Chair of Governors and the Council's S151 Officer.</p> <p>A sample of three schools in a deficit was selected for effectiveness testing and the following was noted:</p> <ul style="list-style-type: none"> For one School, the licenced deficit form and three year plan were obtained and were submitted on the 23 May 2018. The licenced deficit form was signed by the Head Teacher but not by the Chair of Governors or the Council's S151 Officer. For one School, the form had been signed by the Head Teacher and the Chair of Governors but had not been signed by the Council's S151 Officer, and was submitted on the 26 September 2018. One School did not submit a signed licence deficit form. <p>Where licence deficit forms are not appropriately signed by the schools, there is a risk that these are not the agreed versions. Where the deficit licences are not signed and submitted in a timely manner, there is a risk that these are not agreed by the Council and of uncertainty at the Schools as to whether their deficit licences agreements are accepted.</p>
Responsible officer	Deadline	
Finance Manager	Quarter 1 2019	

TERMS OF REFERENCE

Payments to Schools

1. INTRODUCTION

- 1.1 The Dedicated Schools Grant is the principle source of funding for the majority of local authority maintained schools in England. The revenue funding is allocated to local authorities by the Education Funding Agency (EFA) and is then distributed as Individual Schools Budgets (ISBs) in accordance with a local formula, agreed with the EFA.
- 1.2 This includes drivers such as pupil numbers, sixth form pupils, special educational needs pupils and free school meals data sets for which are submitted to the Department for Education. The Schools Finance Team is responsible for calculating ISBs and for the termly in advance payments made to schools.
- 1.3 This audit was undertaken as part of the agreed Internal Audit Plan for 2018/19.

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 The audit included the following areas:

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Monitoring of Returns;	0	1	0
Advances to Schools and PVIs;	0	0	0
Financial and Management Reporting;	0	1	0
Total	0	2	0

DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

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 consistently 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 which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

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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