

Final Internal Audit Report

Payments to Schools

February 2017

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

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	Priority 2	2
	Priority 3	2

Confidentiality and Disclosure Clause

This report has been prepared on the basis of the limitations set out in Appendix 3.

This report and the work connected therewith are subject to the Terms and Conditions of the Contract dated 1st April 2008 between the London Borough of Croydon and Mazars Public Sector Internal Audit Ltd. The content of the report is confidential and has been prepared for the sole use of the London Borough of Croydon and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law, we accept no responsibility or liability to any third party who purports to use or rely, for any reason whatsoever on this report, its contents or conclusions.

Contents

Page

Executive Summary

1. Introduction.....	2
2. Key Issues.....	2

Detailed Report

3. Actions And Key Findings/Rationale.....	3
4. Priority Three Recommendations.....	6

Appendices

1. Terms Of Reference
2. Definitions For Audit Opinions And Recommendations
3. Statement Of Responsibility

1. Introduction

The Dedicated Schools Grant is the principle source of funding for the majority of local authority maintained schools in England and for 2016/17 is approximately £4,800 per pupil. 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.

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 in advance payments made to schools. This audit was undertaken as part of the agreed Internal Audit Plan for 2016/17.

2. Key Issues

Priority 2 Issues

Outstanding returns and budget plans submitted by schools are not always followed up on in a timely manner. **(Rec. 1)**

Checks on the school year end bank reconciliations were not being conducted by the Council. **(Rec. 2)**

The priority 3 recommendations are detailed under item 4 below.

3. Actions and Key Findings/Rationale

Control Area 4: Monitoring of Returns Financial and Management Reporting	
Priority	Detailed Finding/Rational
2	<p>The Scheme for Financing Schools '2.1.2 Provision of financial information and reports' states that, 'Schools must provide the LA with the reports and returns on anticipated and actual income and expenditure in a form and at times determined by the LA. Details will be as specified in the local financial documentation on Finance Matters.' This includes, <i>inter alia</i>, the approved annual budget, quarterly income and expenditure accounts and monthly VAT returns.</p> <p>Sample testing of the returns required for a sample of schools found that</p> <ul style="list-style-type: none"> • Two of these had not submitted finance returns for Quarter 1 in 2016 within the deadline (28 July 16), and the Schools Finance team had not followed up to obtain their missing returns. • The budget plans for 2016/17 for two schools had not been submitted by the time of this audit (the deadline was 31 May 2016). There was no evidence of follow up to obtain the missing budget plans. • Monthly returns / meetings with one primary school required due to it being in deficit were not evident. It is acknowledged that there was a reminder email (25/10/16). • Two schools had not submitted VAT returns for September and one of these schools had submitted their July VAT return on 23/08/16, 13 days past the 10/08/16 deadline. In all cases of missing or late VAT returns there was no evidence of follow-up to obtain the missing documents. <p>Where the Schools Finance team is not following up on missing school budget plans and VAT returns, there is a risk that schools do not submit these and that the Council is not properly aware of the financial status of these schools. Furthermore, the late submission of VAT returns adds to the administrative burden and where these are very late or relate to prior financial years, may be queried by HMRC.</p>

Management Response	Agreed/Disagreed	Responsible Officer	Deadline
<p>Quarterly returns – one missing return was chased on the 28th July. The second return was submitted but it was the incorrect period and therefore was not chased until after this was identified early in October.</p> <p>Budget Plans – one had been received on 18th April, the second was chased in early October.</p> <p>Meetings – Schools in a cumulative deficit position have been met on a termly basis by the Head of Finance and the Head of Schools Standards with School Governors in attendance and business plans provided have been reviewed. The request for a meeting with one of the Schools was requested by the Head of Finance.</p> <p>Meetings have been requested post Qtr2 review for schools that are in deficit or with potential cashflow issues will be invited in for a meeting with the SMA and Head of Schools Standards.</p> <p>Quarterly Monitoring - In time for the Qtr 2 reporting we have set up a tracker via a scoop of the returns from schools. The scoop populates a summary review spreadsheet and highlights those schools that have not submitted returns by the deadline so they can be actively chased.</p> <p>VAT - a tracker has been set up to record when each school has submitted their return for the financial year. Schools who have not submitted their return will be chased. Reminder notice has been sent to schools via Schools Bulletin and on Fronter.</p>	<p>Agree</p>	<p>Senior Management Accountant</p>	<p>February 2017</p>

Control Area 4: Monitoring of Returns Financial and Management Reporting

Priority	Recommendation 2	Detailed Finding/Rational		
2	<p>The year-end bank reconciliations conducted by schools should be checked to the bank statements and any large variances between the School ledger's cash position and the School's bank account be followed up.</p>	<p>Local authorities (LAs) are required, under section 251 of the Apprenticeships, Skills, Children and Learning Act 2009, to prepare and submit annually to the Secretary of State separate budget and outturn statements about their planned and actual expenditure for their education and children's social care functions. In order to be able to determine the schools outturn, each school is required at year end to submit to the Council their CFR returns (including a balance sheet, analysis of balances, receipt of funding and a bank reconciliation) along with a copy of their year-end bank statements.</p> <p>It was established that, while the bank reconciliation information for each school is input into a spreadsheet, this is not checked to the bank statements and large variances between the School ledger's cash position and the School's bank account are not followed up.</p> <p>Where checks are not conducted to confirm the accuracy of school year-end bank reconciliations and to follow up on large variances, there is a risk that schools may submit incorrect information or that potential fraudulent activity may not be detected.</p>		
Management Response		Agreed/Disagreed	Responsible Officer	Deadline
<p>Large variances between a school's cash position on the ledger, and their actual bank position at 31 March will be investigated. This will be carried out by reviewing the accuracy of the school's bank reconciliation, which is submitted along with the year-end documents.</p>		Agreed	Accountancy Manager	End of April 2017

4. Priority Three Recommendations

Recommendation	Detailed Finding/Rational
<p>1. The Oracle Team should review the Oracle diary on a daily basis and confirm that all payments have been checked and initialled.</p>	<p>The Oracle team check payment schedules for errors and initial the Oracle diary to evidence they have undertaken this check. Accounts Payable are informed that payments may be released once all entries in the diary have been initialled. Therefore, reviewing the Oracle diary prior to authorising payment, to confirm that errors have been resolved, ensures that complete and accurate payments are made.</p> <p>Testing of payments made to schools found that the April 2016 Quarter payment had not been signed-off in the Oracle diary. We acknowledge that on this occasion the Officer sending final confirmation to Accounts Payable was also responsible for undertaking the check of errors, and the lack of diary sign-off is therefore an administrative error.</p> <p>Where the Oracle diary is not reviewed prior to payments being authorised, there is a risk that incomplete and/or inaccurate payments may be made.</p>
<p>2. The Schools Finance team should ensure that documentation and information on the Webfronter-Finance Matters website is updated to the current year and accurate.</p>	<p>The Schools Finance team upload guidance for year-end procedures onto the Croydon Councils' 'webfronter finance matters' website to inform schools of what they should expect and what is expected of them.</p> <p>Examination of the 'year-end checklist' and 'year-end schedule' on the Webfronter-Finance Matters website indicate that the documents were last updated in 2014/15. We acknowledge that Schools are informed of year end procedures via alternative methods such as Fronter and School bulletins.</p> <p>Where guidance notes are not updated there is an increased risk of the Council receiving outdated documentation from schools and thus not know the financial position of the Schools.</p>

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 and for 2016/17 is approximately £4,800 per pupil. 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 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. This audit is being undertaken as part of the agreed Internal Audit Plan for 2016/17.

2. OBJECTIVES AND METHODOLOGY

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of the control environment relating to Payments to Schools.
- 2.2 The audit will for each area included in the scope:
 - Document and evaluate the risks and controls for each process to consider the key controls;
 - Undertake sufficient testing of controls operating, on a sample of transactions; and
 - Reach a conclusion on the effectiveness of the controls operating and report.

3. SCOPE

3.1 The audit includes the following areas (and number of recommendations made):

Control Areas/Risks	Recommendations		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Regulatory, Organisation and Management Requirements	0	0	0
Compliance with the Scheme for Financing Schools and EFA requirements	0	0	0
Advances to Schools and PVI's	0	0	1
Monitoring of Returns Financial and Management Reporting	0	2	1
Data and Information Security	0	0	0





3.2 The audit will, where appropriate, in the above areas incorporate compliance with relevant statutes and guidance.

3.3 The scope does not include cash-flow as this is the subject of a separate thematic review currently in progress which will be reported separately.

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 for this report which is prepared on the basis of the limitations set out below.

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. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all 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. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

February 2017

This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

In this document references to Mazars are references to Mazars Public Sector Internal Audit Limited.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom. Registered in England and Wales No 4585162.

Mazars Public Sector Internal Audit Limited is a subsidiary of Mazars LLP. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.