

Final Internal Audit Report

Payments to Schools

December 2017

Distribution: Executive Director of Resources and s151 Officer
 Director of Finance Investment and Risk
 Head of Finance
 Senior Management Accountant

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	Priority 2	4
	Priority 3	1

Status of Our Reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd 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 3 of this report for further information about responsibilities, limitations and confidentiality

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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, details of 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 the schools' financial position. These returns are supported by an action plan agreed and signed with the School in deficit, to help recover the School's finances.
- 1.4 As part of the agreed 2017/18 Internal Audit Plan, an internal audit of Payments to Schools has been undertaken.

2. Key Issues

Priority 2 Issues

The content of the Webfronter website was out of date and did not include the current Scheme for Financing Schools or funding formula. **(Issue 1).**

One out of the three Schools sampled had not submitted a VAT return for April 2017 and 34 of the 59 Schools had not submitted a Quarter 1 financial return. **(Issue 2).**

Two out of the three Schools in deficit that were sampled did not have an appropriately agreed and signed deficit licence agreement. **(Issue 3).**

Two out of the three Schools in deficit that were sampled had not submitted deficit returns for May and June 2017. **(Issue 4).**

A Priority 3 issue is included under item 4 below.

3. Actions and Key Findings/Rationale

<u>Control Area 1: Regulatory, Organisational and Management Requirements</u>	
Priority	Action Proposed by Management
2	<p>The webfronter is in need of updating and we have reviewed the entire site and made a plan for each page/topic area.</p> <p>The work will be completed in stages and we are working with other service areas to ensure that they are providing up to date content.</p> <p>Going forward it will be part of the ongoing responsibilities of the finance officer and reviewed by the Senior Management Accountant regularly.</p>
	<p>Detailed Finding/Rational – Issue 1</p> <p>Section 28, Paragraph 1 and 2 of the School and Early Years Finance Regulations 2014 States that <i>'A local authority must publish its scheme on a website which is accessible to the general public...Whenever a local authority revises the whole or part of its scheme, it must publish the scheme as revised on a website which is accessible to the general public by the date that the revisions are due to come into force.'</i></p> <p>Observation of the Webfronter - Finance Matters site established that:</p> <ul style="list-style-type: none"> • The most recent Croydon Scheme for Financing Schools was not present on the site; • The 2017/18 funding formula was not present on the site; • Year-end procedures were dated 2014/15. Although Schools have access to the current documents and deadlines via the restricted access areas of Fronter and bulletins, this issue was also raised during the 2016/17 audit and has yet to be rectified; and • The Council's Data Protection Policy on the website details the address of Croydon Council's old location. <p>Where the most recent Scheme for Financing Schools is not accessible to the public, there is a risk of the Council being non-compliant with the School and Early Years Finance Regulations 2014. Where the Webfronter - Finance Matters site is not updated to reflect the current years information and deadlines, there is a risk that Schools fail to submit returns and schedules by the expected deadline.</p>
Responsible officer	Deadline
Senior Management Accountant	In progress to be completed by January 2018

Control Area 4: <u>Monitoring of Returns Financial and Management Reporting</u>	
Priority	Action Proposed by Management
2	<p>A VAT processed tracking sheet has been built and will be available for schools to review on Fronter by the end of December. This will be updated quarterly and will highlight schools that have not submitted VAT returns. The schools will then be chased for returns.</p> <p>Schools are chased for both electronic and signed hard copy versions of their quarterly returns. Electronic versions are used for reporting purposes and both versions are kept on file. The next Bursars & SFA meeting is in February 2018 and we will re confirm with the group the importance of both being submitted in a timely manner.</p>
	<p>Detailed Finding/Rational – Issue 2</p> <p>The Croydon Scheme for Financing Schools requires schools to submit monthly VAT returns and quarterly financial returns to the Councils Schools Finance Team.</p> <p>Examination of the returns held for a sample of three schools found that one had not submitted a VAT return for April 2017 and, although an electronic copy of the February 2017 Vat return was held, evidence of how this was submitted was not available.</p> <p>Examination of the Tracking Spreadsheet for the 2017 Quarter 1 financial returns found that 34 of the 59 schools had not submitted a signed copy of the return, although electronic copies of these were held for 57 of the schools.</p> <p>Where quarterly returns and VAT returns are not submitted to the Local Authority, there is a risk that the Council is unaware of the financial position of Schools. This may result in issues relating to the School's finances not being identified in a timely manner.</p>
Responsible officer	Deadline
Senior Management Accountant	In progress to be completed by end of December 2017

Control Area 4: Monitoring of Returns Financial and Management Reporting					
Priority	Action Proposed by Management				
2	<p>A revised licence deficit form has been created and been issued to all schools in deficit.</p> <p>All schools in deficit have returned the forms signed and they are being reviewed by the Director of Finance, Investment and Risk (Deputy S151 Officer).</p>				
	<p>Detailed Finding/Rational – Issue 3</p> <p>The Croydon Scheme for Financing Schools, paragraph 4.9 'Licensed deficits' states 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. Full details will be contained in the Croydon financial documentation on Finance Matters (see Annex A and Annex I).</i>' This requires that the School must submit a deficit licence agreement/recovery plan, signed by the Schools' Headteacher, The Chair of Governors and the Director of Finance, Investment and Risk.</p> <p>Examination of the documents held for a sample of three the Schools which had submitted deficit licences, found that:</p> <ul style="list-style-type: none"> two of the submitted licences had not been signed by the Headteacher, Chair of Governors or the Director of Finance, Investment and Risk, and one submitted licence had not been signed by the Chair of Governors or the Director of Finance, Investment and Risk. <p>It is acknowledged that the deficit licences agreements applications are not uniformly completed by schools, with some providing more detailed information than others, which has delayed the agreement of the 2017/18 deficit licence applications and resulted in the application form being revised.</p> <p>Where deficit licences agreements 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 by the Director of Finance 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>				
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Control Area 4: Monitoring of Returns Financial and Management Reporting					
Priority	Action Proposed by Management				
2	<p>All schools in deficit are chased for their returns monthly. For Period 7 October we have had all returns however again we had two late returns. These schools have been reminded of the terms of the deficit agreement to make their returns within the designated times.</p>				
	<p>Detailed Finding/Rational – Issue 4</p> <p>The Croydon Scheme for Financing Schools, paragraph 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. Submission of such details will not be required more often than every 3 months, except those connected with tax or banking reconciliation – unless the LA has notified the school in writing that in its view the school's financial position requires more frequent submission or where the school is in its first year of operation or in its last two years of operation, or has approval to set a deficit budget.'</p> <p>During testing of three deficit schools, it was seen in two that the Schools had not submitted their monthly deficit returns for May and June 2017.</p> <p>Where schools in a deficit position do not submit returns on a monthly basis, there is a risk that the School's finance position further deteriorates without the Council being aware.</p>				
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Senior Management Accountant	Ongoing				

4. Priority 3 Recommendation

Action Proposed by Management	Findings
<p>All excel copies of the schools budgets were received and reported on. Schools Finance team will use the tracker sheet to record and chase the schools that have not submitted a signed budget.</p>	<p>An excel version and a signed pdf version of each School's budgets for 2017/18 must be submitted to the Local Authority prior to the 1 May 2017.</p> <p>Examination of the 2017/18 budget submissions for a sample of five schools found that in two cases, an excel copy of the School's budget had been sent but a signed copy had not.</p> <p>Where signed copies of schools budgets are not submitted, there is a risk that the copy of the budget send to the Council is not the agreed version.</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. 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 2017/18.

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)
Regulatory, Organisational and Management Requirements;	0	1	0
Compliance with the Scheme for Financing Schools and EFA requirements;	0	0	0
Advances to Schools and PVI's;	0	0	0
Monitoring of Returns Financial and Management Reporting; and	0	3	1
Data and Information Security.	0	0	0
Total	0	4	1

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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