

Final Internal Audit Report

Payments to Schools

April 2020

Distribution: Executive Director of Resources and Monitoring Officer
Director of Finance Investment and Risk and S151 Officer
Head of Finance
Finance Manager

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

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.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, re-interpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, re-interpretation, amendment and/or modification by any third party is entirely at their own risk.

Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

Contents

Page

Executive Summary

1. Introduction.....	3
2. Key Issues.....	3

Detailed Report

3. Actions and Key Findings/Rationale	4
4. Priority Three Recommendation	5

Appendices

1. Terms of Reference
2. Definitions for Audit Opinions and Recommendations
3. Statement of Responsibility

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 and Skills Funding Agency (ESFA) and is then distributed as Individual Schools Budgets (ISBs) in accordance with a local formula, agreed with the ESFA.
- 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 This audit is being undertaken as part of the agreed Internal Audit Plan for 2019/20.

2. Key Issues

Priority 2 Issues

The licensed deficit forms for a sample of three schools were not evidenced as agreed on behalf of the Council by the Director of Finance Investment and Risk and S151 Officer. **(Issue 1)**

The Priority 3 issue is highlighted under area 4 below.

3. Actions and Key Findings/Rationale

Control Area : Financial and Management Reporting						
Priority	Action Proposed by Management	Detailed Finding/Rational – Issue 1				
2	<p>A more robust licence deficit form has been issued to schools based on the DfE’s return with targeted additions to draw out specific areas of concern that have been identified in Croydon schools.</p> <p>A revised timeline for meetings with schools and sign off by the Director has been outlined.</p> <p>First review meetings will take place with deficit schools after their submissions on 1st May*.</p> <p>Sign off by Director of Finance Investment and Risk and S151 Officer is planned for early July* (following first meetings with schools).</p> <p>*COVID-19 restrictions allowing</p>	<p>The Croydon Scheme for Financing Schools details under ‘4.9 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 Schools’ Head teacher and the Chair of Governors, which is then agreed on behalf of the Council by the Director of Finance Investment and Risk and S151 Officer.</p> <p>Examination of the records held for a sample of three schools with a deficit (Winterbourne Infants, Margaret Roper Primary and All Saints CE Primary School) found that in respect of the Winterbourne Infants budget, the deficit license form was not signed by the Chair of Governors and none of the deficit license forms were signed by the Director of Finance Investment and Risk and S151 Officer.</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 Investment and Risk and S151 Officer, 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>				
	<table border="1"> <thead> <tr> <th>Responsible officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Schools finance manager</td> <td>Quarter 1 2020*</td> </tr> </tbody> </table>	Responsible officer	Deadline	Schools finance manager	Quarter 1 2020*	
Responsible officer	Deadline					
Schools finance manager	Quarter 1 2020*					

Priority 3 Issue

Action Proposed by Management	Findings
<p>The tracker for 2020 returns has been set up & is being completed. Reminders will be sent out to schools that have not submitted or are late.</p> <p>It is noted the importance of the recording of receipted returns.</p>	<p>Schools are required to submit various returns to the Council, including the approved annual budget by 1st May, Monthly VAT returns by the 10th of the following month, quarterly returns of expenditure and annual returns at year end.</p> <p>Sample testing confirmed that schools had submitted their required returns as expected, with spreadsheets being used to monitor the submission of these. It was found; however, that the dates that the April 2019 VAT returns were submitted for the three schools sampled and the dates that the approved annual budgets were submitted for two of the schools sampled was not recorded.</p> <p>Where the dates that the various returns are submitted are not recorded, there is a risk the Council is not able to easily identify schools that are generally slow at providing their returns and for appropriate action to be taken.</p>

TERMS OF REFERENCE

Payments to School

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 and Skills Funding Agency (ESFA) and is then distributed as Individual Schools Budgets (ISBs) in accordance with a local formula, agreed with the ESFA.
- 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 This audit is being undertaken as part of the agreed Internal Audit Plan for 2019/20.

2. OBJECTIVES AND METHODOLOGY

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes relating to Business Rates.
- 2.2 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.3 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 examined the Council's arrangements for the following areas relating to Payments to School (and number of recommendations made):

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

This report is confidential 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 Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpreted amendment and/or modification by any third party is entirely at their own risk.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom.
Registered in England and Wales No 0C308299.