

# London Borough of Hammersmith and Fulham Schools 2012/13 Year End Summary Report June 2013

This management letter has been prepared on the basis of the limitations set out on page 15.

---

*This report and the work connected therewith are subject to the Terms and Conditions of the Engagement Letter dated 14 April 2011 between London Borough of Hammersmith & Fulham and Deloitte & Touche Public Sector Internal Audit Limited under an arrangement agreed with Croydon Council. The report is confidential and produced solely for the use of London Borough of Hammersmith & Fulham. 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.*

---

## 1. Executive Summary

- 1.1. The Schools Audit Strategy consists of a three-year plan to visit all schools at least once during this period. From September 2011, the audit programme has been broadly based on the Schools Financial Value Standard (SFVS) assessment supplemented by a programme of thematic audits covering school meals income and leasing arrangements in schools.
- 1.2. The SFVS replaces the Financial Management Standard in Schools (FMSiS) and has been designed in conjunction with schools to assist them in managing their finances and to give assurance that they have secure financial management in place. Minor amendments have been made to the 2012/13 audit coverage so that coverage is sufficient to provide assurance against the SFVS.
- 1.3. In 2012/13, our standard assurance opinions changed from Nil, Limited, Substantial and Full to Nil, Limited, Satisfactory and Substantial in order to be consistent with tri-borough audit colleagues. The new assurance opinions are broadly comparable with the new opinions and for the purposes of consistency when making comparisons we have used the new assurance opinions in all cases.

### 1.4. School Audit Visits and Follow Up

- 1.4.1. Overall the results in 2012/13 had declined since the previous year, with 12 schools audited receiving a Satisfactory Assurance opinion and four schools receiving a Limited assurance opinion. This compares to all 22 schools receiving a Satisfactory Assurance opinion in 2011/12.
- 1.4.2. When looking at the results for all schools over the last three years, four schools have received a Limited assurance opinion and only one a Nil Assurance opinion. All four Limited Assurance opinions in the last three years were provided in 2012/13.
- 1.4.3. Three schools audited this year have improved their assurance opinion from Limited to Satisfactory when compared to the previous visit in 2009/10 and three school's assurance opinions have moved from Satisfactory to Limited. One school (Fulham Primary School) has received a Limited Assurance opinion in its last two audit visits. A recommendation has been raised regarding this.
- 1.4.4. 11 priority 1 recommendations were raised as a result of the schools audits 2012/13 in comparison to nine in 2011/12. Of these 11 recommendations, five have been reported as implemented and four are from reports currently at draft stage.
- 1.4.5. Although no full follow up visits needed to be undertaken in 2012/13, two priority 1 recommendations raised in previous Satisfactory or Substantial Assurance reports were followed up. One of the applicable recommendations had been fully implemented and one recommendation was not implemented.
- 1.4.6. The most commonly occurring issues in audit reports were:
  - Evidence of value for money not being retained for large value purchases;
  - The adequacy of school meals income records and the audit trail between income collected and cash banked;
  - Official orders not being raised on the SIMS system;
  - Payments not being made to suppliers promptly; and
  - No evidence of Governing Body approval of key documents such as the School Development Plan.

### **1.5. Additional Audit Work Undertaken Related to Schools**

- 1.5.1. An audit of Central Financial Management of Schools was undertaken. A Satisfactory Assurance opinion was provided with three priority 2 and one priority 3 recommendations being raised.
- 1.5.2. Thematic testing of leasing arrangements was undertaken during school audit visits. From the 12 schools visited at the time the results were compiled recommendations were raised in ten instances; in each of the ten cases the School had not sought advice or approval from the Council.
- 1.5.3. As part of the 2012/13 internal audit plan, we also undertook a comparison of the schools audit test programmes used by LBHF, RBKC and WCC. This comparison was used to assist in developing a consistent test programme across the tri-borough arrangement. A new test programme has been developed and our aim is to use this new test programme in LBHF and RBKC in 2013/14.

### **1.6. Proposed Management Actions**

- 1.6.1. This report has proposed a number of actions for management to consider that have not been raised in individual audit reports. The main recommendations are that the Children's Services department should take proactive action, in collaboration with schools, to improve control and address the common areas of weakness identified. This may also include providing fraud awareness training to schools' staff.
- 1.6.2. Furthermore, as the Schools Management Service was considered a source of assurance for the Council with regards to financial management in schools, management should consider whether the same level of independence and assurance can be provided under the new ELM arrangement or whether alternative sources of assurance are required.

## MAIN REPORT

### 2. Introduction

2.1. This report gives an overall summary of the results of the work we have undertaken on schools during the 2012/13 financial year. This includes a summary of:

- School audit visits and follow up work;
- Additional audit work related to schools; and
- Further action for management to consider.

### 3. Results of School Audit Visits and Follow Up Visits

#### 3.1. Results of School Audit Visits

- 3.1.1. A summary of the schools audited in 2012/13, with the results of their most recent OFSTED inspection, is shown in the table at Appendix A. Furthermore, a summary of assurance opinions provided over the last four years covering all schools can be seen in Appendix C.
- 3.1.2. Overall, the results in 2012/13 had declined since the previous year, with 12 schools audited receiving a Satisfactory Assurance opinion and four schools receiving a Limited assurance opinion. This compares to all 22 schools receiving a satisfactory assurance opinion in 2011/12.
- 3.1.3. When looking at the results over the last three years, four schools have received a Limited assurance opinion and only one a Nil Assurance opinion, with all four Limited Assurance opinions being provided in 2012/13.
- 3.1.4. Three schools audited this year have improved their assurance opinion from Limited to Satisfactory when compared to the previous visit in 2009/10 and three school's assurance opinions have moved from Satisfactory to Limited. One school (Fulham Primary School) has received a Limited Assurance opinion in its last two audit visits.
- 3.1.5. 11 priority 1 recommendations were raised as a result of the schools audits 2012/13, in comparison to nine in 2011/12. Of these 11 recommendations, seven have been reported as implemented, two are from reports currently at draft stage and two were not due as at the time of writing. The priority 1 recommendations raised covered the following themes:
- Reconciliations not being undertaken between income collected and cash banked and / or an inadequate separation of duties in the income collection and banking process;
  - Quotes and tenders not being obtained / retained for large value purchases;
  - Bank reconciliations not being undertaken; and
  - Budget monitoring not being undertaken.
- 3.1.6. The following recurring issues were identified across a number of schools visited:
- The required number of quotes or tenders and Governing Body approval not being obtained and retained for large value purchases and a number of cases where suppliers and contractors had been used for several years without the market being tested to confirm that value for money was still being received (nine schools);
  - The adequacy of school meals income records, inadequate separation of duties and an incomplete or unclear audit trail between income collected and cash banked (eight

schools);

- Official orders not being raised on the SIMS system (nine schools). It is acknowledged that the School's Finance Manual does not require primary schools to raise official orders on SIMs; however, this is considered good practice;
- Payments not being made to suppliers promptly (seven schools); and
- Evidence of Governing Body approval of key documents such as the School Development Plan (eight schools).

3.1.7. The Children's Services department should take proactive action, in collaboration with schools, to address common areas of control weakness and improve the control environment within schools. Internal Audit will offer their support where required.

### **3.2. Results of School Follow Up Work**

3.2.1. Although no full follow up visits were required in 2012/13, two priority 1 recommendations raised in substantial assurance reports were followed up to confirm implementation. One recommendation had been fully implemented and one had not been implemented. The results of our follow up work can be seen in Appendix B.

3.2.2. Internal Audit are available to offer advice and support where there is any doubt over the implementation of recommendations.

## **4. The Schools Financial Value Standard (SFVS)**

4.1. The new Schools Financial Value Standard (SFVS) was launched by the Department for Education (DfE) on 18 July 2011 and has been available for schools to use since September 2011. The SFVS replaces the Financial Management Standard in Schools (FMSiS), which was withdrawn by the Secretary of State with effect from 15 November 2010.

4.2. Maintained schools are required to complete the SFVS once a year. Those schools which never attained FMSiS were required to complete and submit the SFVS to their local authority by 31 March 2012. For all other maintained schools, the first submission was required by March 2013. An annual review is required thereafter for all schools.

4.3. The Chief Finance Officer is required to submit an assurance statement to the DfE by 31 May 2013 declaring:

- How many Schools have not submitted returns in 2012/13 and the reason why; and
- That a system of audit for schools is in place that gives adequate assurance over their standards of financial management and the regularity and propriety of their spending.

4.4. In December 2012, Internal Audit undertook work to assess the procedures in place within the Council to monitor submission of SFVS returns and prepare the return/submission to the Department for Education.

4.5. At the time of our audit work there was no system in place to monitor receipt of SFVS returns and responsibility for this task had not been assigned. As a result of this, the target date for submitting the Council's SFVS return was missed. One priority 1 recommendation was raised as a result of our work to implement a system for monitoring SFVS returns.

## 5. Employee-Led Mutual

5.1. Staff providing support services for schools across the three boroughs have set themselves up as an employee-led mutual (ELM), which will become known as 3BM upon trading. At a meeting on 4 March 2013, Cabinet approved a private sector partner to work with the mutual, Prospects Services Limited. The mutual went live on 2 April 2013.

5.2. The Cabinet report defines the core services to be provided to the Council as:

- To LBHF strategic consultancy advice on:
  - Schools organisation;
  - Education aspects of borough regeneration projects;
  - Asset management of schools sites; and
  - The overarching schools capital programme.
- To LBHF and LBHF Schools Forum strategic advice on:
  - Schools financial management; and
  - Schools resources strategies.
- To RBKC:
  - ICT strategic support for Family and Children's Services.

5.3. In addition, the ELM will make a range of specified traded services available to schools, if they wish to purchase them. These traded services will be commissioned by schools directly and include financial consultancy and accountancy services; Information management services, and ICT and Network Support services.

5.4. The Council may also commission the ELM to undertake programme management of schools capital projects.

5.5. Internal Audit had planned to undertake audit work on the new ELM in 2011/12 and 2012/13; however, due to delays in setting up the ELM, audit work has been deferred to 2013/14.

5.6. As the Schools Management Service was considered a source of assurance for the Council with regards to financial management in schools, management should consider whether the same level of independence and assurance can be provided under the new arrangement or whether alternative sources of scrutiny and assurance are required.

## 6. Additional Audit Work Undertaken Related to Schools

### 6.1. Central Financial Management of Schools

6.1.1. An audit of Central Financial Management of Schools was undertaken. A Satisfactory Assurance opinion was provided with three priority 2 recommendations and one priority 3 recommendation being raised.

### 6.2. Leasing in Schools

6.2.1. Thematic testing of leasing arrangements was undertaken during school audit visits in 2012/13. From the 12 schools visited at the time the results were compiled, 11 were identified as having lease agreements in place for items and services including:

- Photocopiers;
- Telephone systems and mobile phones;
- Water coolers;

- Interactive Whiteboards; and
- Postal services.

6.2.2. From the 12 schools visited, recommendations were raised in ten instances. In each of the ten cases the School had not sought advice or approval from the Council prior to entering into the lease agreement as required by the School Finance Procedures Manual. The following issues were also identified:

- One leasing arrangement examined was to provide postal services at no cost to the school. The school is charged for postage by Xerox Finance and then reimbursed in full by Cleanmail Solutions. We were unable to determine why the leasing company would provide such an arrangement;
- One lease agreement expired on the 31 March 2012; however, the School had continued to pay the same monthly payments at the time of the audit (May 2012) and no action has been taken to renew the lease or seek an alternative arrangement; and
- Leasing agreement documentation could not be provided at the time of the audit in one case.

### 6.3. Comparison of audit test programmes across the tri borough

6.3.1. As part of the 2012/13 internal audit plan, we also undertook a comparison of the schools audit test programmes used by LBHF, RBKC and WCC Councils. The outcome of this work was used to assist in developing a consistent test programme across the tri borough. Our aim is to use this test new programme in both LBHF and RBKC in 2013/14.

## 7. Proposed Actions for Management

7.1. As a result of the work undertaken in 2011/12, we make the following recommendations in addition to those recommendations already raised in individual audit reports:

- The Children's Services department should take proactive action in collaboration with schools to address common areas of control weakness and improve the control environment within schools. Particular areas of focus should include:
  - Demonstrating that value for money has been obtained for large value purchases;
  - Controls around income collection and banking to minimise the risk of fraud and error; and
  - Procedures for entering into leasing arrangements.
- As the Schools Management Service was considered a source of assurance for the Council with regards to financial management in schools, management should consider whether the same level of independence and assurance can be provided under the new ELM arrangement or whether alternative sources of scrutiny and assurance are required;
- Schools should be reminded that all recommendations agreed and included in their final internal audit report should be implemented. Consideration should be given to gaining additional assurance that priority 1 recommendations have been implemented and also determining why unimplemented recommendations were reported as implemented; and
- Consideration should be given to providing fraud awareness training to schools.

7.2. An action plan detailing the issues identified and recommendations raised can be found in Appendix E.

## Appendix A - School Audits Undertaken in 2012/13

The table below summarises the assurance opinions and Ofsted inspection results for each of the school audits audited this financial year.

Type of School	School	Audit Opinion				Draft Issue Date	Final Issued Date	Date of last Ofsted	Result of Ofsted
		Nil	Limited	Satisfactory	Substantial				
<b>FINALISED</b>									
Primary	Avonmore			✓		07/06/2012	16/10/2012	18/10/2011	Good
Primary	Brackenbury			✓		31/05/2012	16/10/2012	24/01/2006	Good
Secondary	Cambridge		✓			26/07/2012	11/12/2012	08/09/2010	Outstanding
Primary	Greenside		✓			18/06/2012	11/12/2012	21/12/2012	Requires Improvement
Secondary	Lady Margaret			✓		13/07/2012	27/09/2012	12/10/2011	Outstanding
Primary	New Kings			✓		31/05/2012	16/10/2012	14/01/2013	Good
Primary	Pope John			✓		30/05/2012	16/10/2012	20/05/2004	Outstanding
Primary	St Mary's			✓		13/07/2012	16/10/2012	02/07/2010	Good
Primary	St Stephens			✓		29/06/2012	16/10/2012	24/05/2011	Outstanding
Primary	Wormholt Park			✓		31/05/2012	16/10/2012	15/12/2008	Good
<b>DRAFT</b>									
Primary	All Saints			✓		06/03/2013	-	14/07/2011	Good
Pupil Referral Unit	Bridge Academy			✓		23/10/2012	-	01/07/2010	Outstanding
Primary	Fulham Primary School		✓			28/09/2012	-	28/09/2012	Good
Secondary	Hurlingham and Chelsea			✓		13/09/2012	-	12/09/2011	Outstanding
Primary	Kenmont		✓			06/03/2013	-	05/10/2012	Good
Special	Woodlane			✓		01/03/2013	-	10/06/2011	Outstanding
<b>Total</b>		0	4	12	0				

**Appendix B – Priority 1 Recommendation Follow ups Undertaken in 2012/13**

Although no full follow up visits were undertaken in 2011/12, a number of priority 1 recommendations raised in substantial assurance reports were followed up to confirm implementation. The results were as follows:

Financial Year of Audit	School	Recommendation	Implemented	Partly Implemented	Not Implemented	Not Applicable
2011/12	Randolph Beresford Early Years Centre	School Meals Reconciliation			✓	
2009/10	Cambridge School	Registration with Data Protection Registrar and Confidentiality Policy	✓			
			1	0	1	0

## Appendix C – Assurance Opinions For All Schools

The table below shows the assurance opinions provided to each school over the last four years.\*

School	Year			
	2009/10**	2010/11	2011/12	2012/13
<b>Nursery Schools</b>				
Bayonne Nursery School			Satisfactory	
James Lee Nursery School			Satisfactory	
Randolph Beresford Nursery School			Satisfactory	
Addison Primary School	Satisfactory		Satisfactory	
All Saints C of E Primary School		Satisfactory		Satisfactory
Avonmore Primary School	Satisfactory			Satisfactory
Bentworth Primary School			Satisfactory	
Brackenbury Primary School	Limited			Satisfactory
Canberra Primary School			Satisfactory	
Flora Gardens Primary School			Satisfactory	
Fulham Primary	Limited			Limited
Greenside Primary School	Satisfactory			Limited
Holy Cross RC Primary School	Satisfactory		Satisfactory	
John Betts VA Primary School		Satisfactory		
Kenmont Primary School		Satisfactory		Limited
Langford Primary School			Satisfactory	
Larmenier Sacred Heart RC Primary School		Satisfactory		
Lena Gardens Primary School		Satisfactory		
Melcombe Primary School			Satisfactory	
Miles Coverdale Primary School		Satisfactory		
New Kings Primary School	Satisfactory			Satisfactory
Normand Croft Community School			Satisfactory	
Old Oak Primary School		Satisfactory		
Pope John RC Primary School	Satisfactory			Satisfactory
Queens Manor Primary School			Satisfactory	
Sir John Lillie Primary School		Satisfactory		
St Augustine's RC Primary School			Satisfactory	
St John's C of E Walham Green Primary School			Satisfactory	
St Mary's RC Primary School		Nil		Satisfactory

St Paul's C of E Primary School		Satisfactory		
St Peter's C of E Primary School			Satisfactory	
St Stephens' C of E Primary School	Satisfactory			Satisfactory
St Thomas of Canterbury RC Primary School		Satisfactory		
Sullivan Primary School			Satisfactory	
The Good Shepherd RC Primary School			Satisfactory	
Vanessa Nursery School			Satisfactory	
Wendell Park Primary School		Satisfactory		
Wormholt Park Primary School	Limited			Satisfactory
<b>Secondary Schools</b>				
Fulham Cross Girls' School**			Satisfactory	
Henry Compton School**			Satisfactory	
Hurlingham & Chelsea School	Satisfactory			Satisfactory
Lady Margaret School	Satisfactory			Satisfactory
Phoenix High School		Satisfactory		
Sacred Heart High School		Satisfactory		
William Morris Sixth Form		Substantial		
<b>Special Schools</b>				
Cambridge School	Satisfactory			Limited
Jack Tizard School			Satisfactory	
Queensmill School		Satisfactory		
Woodlane High School		Satisfactory		Satisfactory
<b>Pupil Referral Unit</b>				
The Bridge Academy	Satisfactory			Satisfactory

\* Assurance opinion definitions changed in 2013/14 with Satisfactory Assurance now being broadly comparable to the Substantial Assurance opinion of previous years. For the sake of consistency, previous assurance opinions have been updated to reflect the new opinions.

\*\* The test programme for 2010/11 to 2012/13 audit visits is reduced from previous years and therefore the assurance opinion provided in 2009/10 may not be comparable.

## Appendix D - Definition of Audit Opinions

We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

	Substantial	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and few material errors or weaknesses were found.
	Satisfactory	While there is a basically sound system, there are weaknesses and/or omissions which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
	Limited	Weaknesses and / or omissions in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
	None	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

The assurance gradings provided above are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full Assurance' does not imply that there are no risks to the stated objectives.

## Appendix E – Recommendations

### 1. Commonly Occurring Issues

Priority	Issue	Recommendation
2	<p>Overall the results of internal audits in 2012/13 had declined since the previous year. The most commonly occurring issues in audit reports were:</p> <ul style="list-style-type: none"> <li>• Evidence of value for money not being retained for large value purchases;</li> <li>• The adequacy of school meals income records and the audit trail between income collected and cash banked; and</li> <li>• No evidence of Governing Body approval of key documents such as the School Development Plan.</li> </ul> <p>Thematic testing of leasing arrangements was undertaken during school audit visits. From the 12 schools visited at the time the results were compiled recommendations were raised in ten instances; in each of the ten cases the School had not sought advice or approval from the Council.</p> <p>Furthermore, one school received a Limited Assurance opinion for the second time in succession.</p>	<p>The Children’s Services department should take proactive action in collaboration with schools to address common areas of control weakness and improve the control environment within schools. Particular areas of focus should include:</p> <ul style="list-style-type: none"> <li>• Demonstrating that value for money has been obtained for large value purchases;</li> <li>• Controls around income collection and banking to minimise the risk of fraud and error;</li> <li>• Approval of key documents; and</li> <li>• Procedures for entering into leasing arrangements.</li> </ul> <p>This may take the form of training or guidance notes. Further support should also be provided to those schools that receive a Limited Assurance Opinion.</p>
Management Response		Responsible Officer
		Deadline

**2. Assurance Gained From The Employee Led Mutual**

Priority	Issue	Recommendation	
1	Council staff providing School Management Support services for schools have set themselves up as an employee-led mutual (ELM). The Schools Management Service was considered a source of assurance for the Council with regards to financial management in schools.	Management should consider whether the same level of independence and assurance can be provided under the new ELM arrangement or whether alternative sources of scrutiny and assurance are required.	
Management Response		Responsible Officer	Deadline

**3. Implementation of Internal Audit Recommendations**

Priority	Issue	Recommendation	
2	Although no full follow up visits were required in 2012/13, two priority 1 recommendations raised in substantial assurance reports were followed up to confirm implementation. One recommendation had been fully implemented and one had not been implemented. The results of our follow up work can be seen in Appendix B.	Schools should be reminded that all recommendations agreed and included in their final internal audit report should be implemented. Consideration should be given to gaining additional assurance that priority 1 recommendations have been implemented and also determining why unimplemented recommendations were reported as implemented.	
Management Response		Responsible Officer	Deadline

**4. Fraud Awareness Training**

Priority	Issue	Recommendation	
2	Due to the large degree of autonomy given to schools and also the relatively small size of administrative teams within schools, there is an increased risk of fraud. No recent fraud awareness training has been offered to schools.	Consideration should be given to providing fraud awareness training to schools to assist them in identifying the indicators of fraud and advising them of what action to take if a fraud is suspected.	
Management Response		Responsible Officer	Deadline

**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 internal audit 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 internal audit 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 internal audit 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. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit 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 audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

**Deloitte & Touche Public Sector Internal Audit Limited**  
**London**  
**June 2013**

In this document references to Deloitte are references to Deloitte & Touche Public Sector Internal Audit Limited.

Registered office: Hill House, 1 Little New Street, London EC4A 3TR, United Kingdom. Registered in England and Wales No 4585162.

Deloitte & Touche Public Sector Internal Audit Limited is a subsidiary of Deloitte LLP, the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see [www.deloitte.co.uk/about](http://www.deloitte.co.uk/about) for a detailed description of the legal structure of DTTL and its member firms.

Member of Deloitte Touche Tohmatsu Limited