

AUDIT AND PENSIONS COMMITTEE

30 June 2011

CONTRIBUTORS

Chief Internal Auditor
Deloitte & Touche LLP

Schools 2010/11 Year End Summary Internal Audit Report

This report is a summary of the audit findings relating
to schools in 2010/11.

WARDS

All

RECOMMENDATION:

To note the contents of this report

LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/ Copy	Department/ Location
1.	Full school reports from April 2010 to March 2011	Geoff Drake Ext. 2529	Finance and corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU

London Borough of Hammersmith and Fulham Schools 2010/11 Year End Summary Report May 2011

This management letter has been prepared on the basis of the limitations set out on page 13

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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 the 2010/11 year, the programme has been based on the Financial Management Standard in Schools (FMSiS) assessments supplemented by a programme of thematic audits covering purchasing and school meals. In addition, the thematic audits were conducted on three central functions.
- 1.2.** On 15 November 2010 the Secretary of State announced the decision to immediately abolish FMSiS. As the Council still required assurance on whether there are sound governance and financial management arrangements across schools, the FMSiS audit programme was amended to form standard probity audits covering broadly the same areas of scope.

1.3. School Audit Visits and Follow Up

- 1.3.1. Overall the results in 2010/11 were improved over the previous year with all but one of the 17 schools audited receiving a 'Substantial' or 'Full' assurance opinion. Other than the one school that received 'Nil' assurance, St Mary's Catholic Primary, no priority one recommendations were raised as a result of our probity audit testing. Further, when looking at the results of the last 4 years of audit coverage only 3 schools have received a limited assurance and only one a nil assurance.
- 1.3.2. Follow up visits were undertaken at three of the schools that received a 'Limited' assurance opinion in 2009/10. The results were disappointing as 54% of these recommendations that had been reported as implemented by the schools had not been fully implemented.
- 1.3.3. No significant common issues were identified from the audits. The most commonly occurring issues were governors and staff not being included in registers of pecuniary interests; financial procedures not being approved by Governors annually; required numbers of quotes not being obtained and retained, and official orders not being raised on SIMS.

1.4. YPLA Funding

- 1.4.1. Local authorities receive funding from the YPLA in respect of maintained schools with sixth forms and post-16 learners with special educational needs. Internal Audit undertook audits of YPLA funding at two schools in 2010/11. Our audit testing identified a small number of exceptions at each school; however no significant errors or anomalies were found.

1.5. Additional Audit Work Undertaken Related to Schools

- 1.5.1. Additional work undertaken in relation to schools included audits of School Meals contract Management; School Management Support Service and Schools Centralised Banking and Financial Management.
- 1.5.2. Substantial assurance was given for all work where an assurance opinion was provided. The main issues identified were:
- School meals - the monitoring of school returns plus budget monitoring and evidencing checks on free meals eligibility;
 - School Management Support Service - maintaining service agreements and records of school visits, undertaking financial health checks on schools, prompt invoicing of schools and formal monitoring of service budget position and performance; and

- Central Financial Management - maintaining bank mandates, issuing reminders for schools monthly returns, deactivating access to Bankline for those not accessing the system for 90 days, and reviewing unreconciled items reports from schools.

1.5.3. At the end of the 2010/11 financial year six of the 13 priority 1 and 2 recommendations raised in the above audits had not yet been implemented.

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 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 in audit reports. Schools should ensure that they have fully implemented audit recommendations before they report this has been done. Support to schools on this should be available from Children's Services Department.

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 2010/11 financial year. This includes a summary of:

- Schools audit visits and follow up visits;
- FMSIS and the proposed replacement scheme, Schools Financial Value Standard (SFVS);
- YPLA Funding audits;
- 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. The probity element of our audit visits has been reduced in scope in comparison to previous years with the intention of targeting key areas and also undertaking a number of thematic audits. The abolition of FMSIS during the year had no effect on the programme of schools to be visited and little impact on the coverage of the audit programme.
- 3.1.2. A summary of the schools audited in 2010/11 with the results of their most recent OFSTED inspection is shown in the table at Appendix A. Further, a summary of assurance opinions provided over the last four years covering all schools can be seen in appendix C which shows that in the period only 3 schools received a limited assurance and only one a Nil assurance. Overall the results in 2010/11 were improved over the previous year with all but one of the 15 schools audited receiving a 'Substantial' or 'Full' assurance opinion; one school received 'Nil' assurance, St Mary's Catholic Primary School. This is the only school where any priority one recommendations were raised.
- 3.1.3. For the one school that received a 'Nil' assurance opinion, the Council has engaged with the school to assist in addressing the weaknesses identified and consequent audit recommendations, with Internal Audit service support where requested.
- 3.1.4. While there were no common significant (priority 1) issues, the following common issues were identified across a number of schools:
- Governors and staff with financial management responsibility not being included on the register of pecuniary interests (6 schools);
 - The Governing Body not formally approving the School's Financial procedures on an annual basis (6 schools);
 - The required number of quotes or tenders not being obtained and retained (4 schools); and
 - Official orders not being raised on the SIMS system (8 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.
- 3.1.5. 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 Visits

- 3.2.1. Follow up visits were undertaken at three of the schools that received a 'Limited' assurance opinion in 2009/10 to confirm that recommendations had been implemented. The results of these follow up visits can be found in appendix B.
- 3.2.2. The results of these follow up visits were disappointing as 54% of recommendations had not been fully implemented (34% partly implemented and 20% not implemented). We would encourage schools to take corrective action where control weaknesses have been identified and only report recommendations as being implemented where they are confident the issue has been addressed.
- 3.2.3. Internal Audit are available to offer advice and support where there is any doubt over the implementation of recommendations.

4. FMSIS and the Schools Financial Value Standard (SFVS)

- 4.1. On 15 November 2010, the Secretary of State announced the decision to abolish FMSiS immediately and develop a simpler standard as a replacement. From this point on there has been no requirement to complete FMSiS assessments.
- 4.2. The results of the FMSiS assessments were relied upon for the Head of Internal Audit assurance opinion and the Council still required assurance that there are sound procedures with respect to governance and financial management. With this in mind, FMSiS assessments were replaced with a standard audit visit covering the following areas:
 - Governance;
 - Financial Management;
 - Purchasing; and
 - School Meals.
- 4.3. The Department for Education (DfE) are now seeking views on the new Standard, provisionally named the Schools Financial Value Standard (SFVS). The Department of Education website states that, "The replacement will be a much simpler version concentrating on key points on which governors and heads ought to assure themselves. It will:
 - Concentrate on demonstrating value for money rather than processes;
 - Be developed in conjunction with schools themselves, and be proofed as acceptable and helpful to them before it is introduced; and
 - Be usable by academies and free schools as well as the maintained sector."
- 4.4. The proposed assessment takes the form of a series of questions which school governing bodies should formally discuss with their head teacher and other senior staff annually. The first run should be completed by September 2012 and for schools that had not attained FMSiS, must be completed before the end of March 2012. Only one school in the borough has failed to achieve FMSiS – St Mary's Catholic Primary. Management will need to consider how to ensure this is delivered, and how this will be reported under the new regime.
- 4.5. Consultation for the new standard went live on 10 March 2011 and ends on 30 April 2011. Based on the limited information provided on the DfE website, it appears that the audit work currently undertaken at schools will be sufficient to provide assurance on compliance with the new standard without significant additions or amendments to the current coverage.

5. YPLA Funding

- 5.1.** We received a request to trial audits of Young People's Learning Agency (YPLA) funding to provide added assurance on the accuracy of returns. The funding methodology for YPLA intends to provide a nationally consistent method of calculating allocations to all 16–18 providers based on the amount of learning delivered. Local authorities receive funding from the YPLA in respect of maintained schools with sixth forms and post-16 learners with special educational needs and are required to consider the risks to funding and the need for assurance. There are five sixth forms and academies receiving funding with LBHF.
- 5.2.** The Internal Audit service undertook audits of YPLA funding at two schools in 2010/11 – Lady Margaret and London Oratory. The work undertaken was based on the testing suggested in 'YPLA Finance Guidance to Local Authorities'. Our audit testing identified a small number of exceptions at each school; however no significant errors or anomalies were found.
- 5.3.** It is our opinion that the significant time required to undertake this testing outweighed the assurance provided by the work. Therefore, we would recommend in future years that the Council considers undertaking some form of assurance work using internal resources as this may offer better value for money.

6. Additional Audit Work Undertaken Related to Schools

6.1. The following audits were undertaken in relation to schools:

- 6.1.1.** School Meals – This audit related to management of the Council's contract with Eden Foodservice for the provision of meals to Schools. Substantial assurance was provided with recommendations raised related to:
- Monitoring of school meals returns received from schools;
 - Budget monitoring; and
 - Documenting checks on eligibility for free school meals.
- 6.1.2.** School Management Support Service – Substantial assurance was provided. Recommendations were raised in relation to:
- Maintaining service level agreements with schools;
 - Maintaining records of support visits to schools;
 - Conducting and documenting annual financial health checks;
 - Prompt raising of invoices to schools; and
 - Formal monitoring of budgetary and service performance.
- 6.1.3.** Schools Centralised Banking and Financial Management – Substantial assurance was provided. Recommendations raised in relation to:
- Maintenance of authorisation for bank mandate changes;
 - Issuing reminders where monthly returns have not been received from schools;
 - Deactivating access to the Bankline system for those that have not accessed the system for 90 days; and
 - Review of unreconciled items reports received from schools.

6.1.4. BACS and Direct Debits in Schools - The Council was exploring the possibility of changing school bank mandates to include the facility to pay by Direct Debit and BACS. A request was made for Internal Audit to provide advice on the risks and controls related to making payments by Direct Debit and BACS to help ensure that any possible risk and control issues are identified and addressed prior to implementation.

6.2. At the end of the 2010/11 financial year, six of the 13 priority 1 and 2 recommendations raised in the above audits had not yet been implemented.

6.3. We are also currently undertaking a benchmarking exercise to compare the content of School Finance Manuals from four local authorities. We hope to complete this work by the end of May 2011 and will make the results available to the Children's Services Department.

7. Proposed Actions for Management

7.1. As a result of the work undertaken in 2010/11 we would ask management to consider the following recommendations:

- 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;
- 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 recommendations have been implemented for those schools receiving Limited or Nil assurance opinions and also determining why unimplemented recommendations were reported as implemented;
- Management should continue to gain assurance of the accuracy of data maintained with respect to YPLA funding. Consideration should be given to using in-house resources to gain this assurance in a more cost effective manner; and
- Consideration should be given to how the new Schools Financial Value Standard will be reported on and the involvement of Internal Audit within this process.

Appendix A - School Audits Undertaken in 2010/11

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	Substantial	Full				
FINALISED									
Primary	All Saints Primary School			✓		16/03/2011	11/05/2011	18/06/2008	Satisfactory
Primary	John Betts Primary School			✓		08/03/2011	31/03/2011	29/06/2007	Outstanding
Primary	Kenmont Primary School			✓		25/10/2010	24/02/2011	07/12/2010	Satisfactory
Primary	Larmenier & Sacred Heart Catholic Primary School			✓		08/12/2010	12/01/2011	11/02/2009	Outstanding
Primary	Lena Gardens Primary School			✓		06/12/2010	12/01/2011	09/07/2009	Good
Primary	Miles Coverdale Primary School			✓		22/11/2010	20/01/2011	14/01/2010	Satisfactory
Primary	Old Oak Primary School			✓		21/02/2011	21/03/2011	03/11/2010	Good
Primary	Sir John Lillie Primary School			✓		22/10/2010	09/11/2010	10/12/2008	Good
Primary	St Paul's Primary School			✓		28/10/2010	10/11/2010	09/12/2008	Good
Primary	St Thomas of Canterbury Catholic Primary School			✓		04/02/2011	08/03/2011	18/11/2008	Good
Primary	Wendell Park Primary School			✓		30/09/2010	29/10/2010	30/01/2008	Good
Primary	St Mary's Catholic Primary School	✓				13/07/2010	12/11/2010	10/06/2010	Good
Secondary	Phoenix High School			✓		30/11/2010	12/01/2011	16/01/2008	Outstanding
Secondary	William Morris Sixth Form				✓	09/02/2011	18/02/2011	03/02/2010	Outstanding
Special	Woodlane High School			✓		08/12/2010	05/01/2011	04/10/2007	Good
Special	Queensmill School			✓		17/03/2011	24/03/2011	10/03/2010	Outstanding
Secondary	Sacred Heart High School			✓		17/02/2011	04/05/2011	14/01/2009	Outstanding
Total		1	0	15	1				

Appendix B - School Follow up Visits Undertaken in 2010/11

Follow up visits were undertaken to the following three schools that received a 'Limited' assurance opinion in their 2009/10 audit visit. The number of recommendations found to be implemented was as follows:

School	Recommendations	Implemented	Partly Implemented	Not Implemented	Not Applicable	Draft Issued	Final Issued
Brackenbury School	14	9	2	3	0	22/12/2010	17/02/2011
Fulham Primary School	16	4	7	5	0	08/02/2011	-
St Mary's Catholic Primary School	32	15	12	4	1	24/02/2011	-
Total	62	28	21	12	1		
	%	45.9%	34.4%	19.7%	1.6%		

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			
	2007/08	2008/09	2009/10	2010/11*
Nursery Schools				
Bayonne Nursery School		Substantial		
James Lee Nursery School		Substantial		
Randolph Beresford Nursery School		Substantial		
Vanessa Nursery School	Substantial			
Addison Primary School			Substantial	
All Saints C of E Primary School	Substantial			Substantial
Avonmore Primary School			Substantial	
Bentworth Primary School		Substantial		
Brackenbury Primary School			Limited	
Canberra Primary School		Substantial		
Flora Gardens Primary School		Substantial		
Fulham Primary			Limited	
Greenside Primary School			Substantial	
Holy Cross RC Primary School			Substantial	
John Betts VA Primary School	Substantial			Substantial
Kenmont Primary School	Substantial			Substantial
Langford Primary School		Substantial		
Larmenier Sacred Heart RC Primary School	Substantial			Substantial
Lena Gardens Primary School	Substantial			Substantial
Melcombe Primary School		Substantial		
Miles Coverdale Primary School	Substantial			Substantial
New Kings Primary School			Substantial	
Normand Croft Community School		Substantial		
Old Oak Primary School	Substantial			Substantial
Pope John RC Primary School			Substantial	
Queens Manor Primary School		Substantial		
Sir John Lillie Primary School	Substantial			Substantial
St Augustine's RC Primary School		Substantial		
St John's C of E Walham Green Primary School		Substantial		

School	Year			
	2007/08	2008/09	2009/10	2010/11*
St Mary's RC Primary School				Nil
St Paul's C of E Primary School	Substantial			Substantial
St Peter's C of E Primary School		Substantial		
St Stephens' C of E Primary School			Substantial	
St Thomas of Canterbury RC Primary School	Substantial			Substantial
Sullivan Primary School		Substantial		
The Good Shepherd RC Primary School		Substantial		
Wendell Park Primary School	Substantial			Substantial
Wormholt Park Primary School			Limited	
Secondary Schools				
Fulham Cross Girls' School	Substantial			**
Henry Compton School	Substantial			**
Hurlingham & Chelsea School			Substantial	
Lady Margaret School			Substantial	
The London Oratory School		***		
Phoenix High School	Substantial			Substantial
Sacred Heart High School	Substantial			Substantial
William Morris Sixth Form	Substantial			Full
Special Schools				
Cambridge School			Substantial	
Jack Tizard School		Substantial		
Queensmill School	Substantial			Substantial
Woodlane High School	Substantial			Substantial
Pupil Referral Unit				
The Bridge Academy			Substantial	

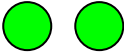



* The test programme for 2010/11 audit visits is reduced from previous years and therefore the assurance opinion provided may not be comparable.

** Fulham Cross Girls and Henry Compton Schools federated on 1 September 2009. Therefore no audit was undertaken in 2010/11

*** London Oratory School was visited in 2006/07 where Substantial assurance was given and a follow up audit was conducted in 2008/09.

Appendix C - 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:

	Full	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	Substantial	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
	Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
	None	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems 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.

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
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