

Governance & Record Keeping

AUDIT ARRANGEMENTS



NOVEMBER 20

London Borough of Haringey
Authored by: Schools Finance



Audit Arrangements

Internal control, as defined by accounting and auditing, is a process for assuring of an organisation's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies.

Contents

NO	DESCRIPTION	PAGE NO
1.	INTRODUCTION	3
2.	ACCOUNTABILITIES AND RESPONSIBILITIES	3
3.	STATUTORY AND REGULATORY REQUIREMENTS	4
4.	INTERNAL AND EXTERNAL AUDIT	4-5
5.	FACILITATING EXTERNAL/INTERNAL AUDITS	5-7
6.	INTERNAL AUDIT APPROACH AND SERVICE DELIVERY	7-9
7.	AUDIT REPORTING	9-11
8.	FRAUD, CORRUTION OR IRREGULARITIES	11-13
9.	RETENTION OF RECORDS	13

Notes:

ESFA – Education & Skills funding Agency

DfE – Department for Education

LA – Local Authority

VFM – Value for money

Contact us:
s-SchoolsReturns@haringey.gov.uk

Prepared by: Muhammad Ali
Reviewed by: Brian Smith
Issue No.: August 2020 v1.2
Next Review: August 2021

INTRODUCTION

Schools financial regulations set out the internal controls and procedures to be followed by schools in relation to the audit of their financial and other records.

This manual follows the same structure and order as the financial regulations but is designed to give detailed assistance to schools in designing processes to record and demonstrate compliance with the regulations. This part of the Schools Finance Manual explains the role that Internal /External /Audit has in respect of the individual school, governing bodies, and the Local Authority. Examples are also given where process compliance by schools can assist and ease the audit process.

In any case where conflict is perceived between this manual and the school's financial regulations then the regulations will apply.

If a school has difficulty in interpreting the regulations or this corresponding financial manual, they should contact either their Schools Financial Adviser or the Head of Audit and Risk Management.

ACCOUNTABILITIES AND RESPONSIBILITIES

The primary responsibility of a school is to provide the best education possible for its pupils. Much of the finance to do this is provided with public funds, delegated from the Local Authority. The school therefore has a responsibility to ensure that it has proper financial management procedures in place to demonstrate that it is using its delegated funds appropriately.

Good financial management and controls over income and expenditure are essential to schools, because they provide an effective framework for financial planning and accountability and safeguard the use of public funds.

All schools maintained by a local authority must ensure that their financial arrangements comply with the current financial regulations, standing orders and schemes of delegation issued by their local authority. Whilst some information must be provided in a certain way at specific times (e.g. VAT returns), schools may adopt their own systems to comply with other requirements (e.g. maintaining an asset register) provided they meet at least basic control standards.

STATUTORY AND REGULATORY REQUIREMENTS

Haringey Council needs to comply with various statutory requirements in relation to financial matters. One of the key pieces of legislation is the **Local Government Act 1972**, which stipulates (in Section 151) that “Every Local Authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has the responsibility for those affairs.”

Within Haringey, this responsibility (the S151 Officer) rests with the Director of Finance and cannot be overridden or delegated to any other officer or school. The S151 Officer is responsible for ensuring that high financial standards are maintained. The Director of Finance therefore must ensure that there is effective financial administration and control within schools.

The Accounts and Audit Regulations 2003 (as amended 2006) require that “A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and accounting control systems in accordance with the proper internal audit practices, and any officer or member of that body shall, if the body requires, make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purpose of the audit and shall supply the body with such information and explanation as that body considers necessary for that purpose.”

INTERNAL AND EXTERNAL AUDIT

The Council is required to have both internal audit and external audit. The following section summarises the role of each:

External audit

The Council is required to have its accounts, financial statements, and internal control arrangements approved on an annual basis. School accounts form part of the overall Council income and expenditure records of the Council and therefore need to be included in the review process. Approval that the Council’s financial statements are accurate and comply with relevant legislation is given by external auditors.

External auditors are completely independent of the Council and are appointed by the Audit Commission. The Audit Commission prepares a Code of Audit Practice, which external auditors follow when carrying out their audits.

Internal Audit

Internal auditors review the management of the school's finances on behalf of the local authority. Internal Audit operates as an independent division within the Council and provides assurance to the Director of Finance that there is an adequate and effective system of internal control across the Council. This assists the Director of Finance to comply with the requirements of S151 of the 1972 Local Government Act.

The Head of Audit and Risk Management is responsible for the strategic management of the whole internal audit service and supervision of all fraud matters.

The Council works in partnership with an external provider, currently **Mazars Accountants**, to provide most of the internal audit function, including the audit of its schools. The in-house internal audit team is responsible for the investigation of all financial irregularities, including those within schools.

Internal auditors will give assurance to all levels of management, including school governors and Headteachers, about the efficiency and effectiveness of operations, compliance with laws and regulations, and accuracy and reliability of management reporting. Internal audit also acts as a source of impartial and professional advice specifically to help-line management improve the school's risk management, control, and governance.

FACILITATING EXTERNAL/INTERNAL AUDITS

The accounts of schools with delegated budgets will be subject to regular internal audit and must be made available for inspection as necessary by the Local Authority's external auditor. The Council's Constitution/Financial Regulations set out the various authorisation and access rights which auditors have in relation to records, information, monies, accounts, staff, buildings etc. During, and in response to, an audit:

- the governing body and staff of a school should give internal and external auditors access to such premises, documents and assets as the auditors consider necessary.
- the governing body and staff should provide auditors with any explanations they consider necessary.

-
- the Headteacher should consider and respond promptly to recommendations in audit reports and report to the governing body the results of audits and any action to be taken by the school.
 - the Headteacher shall immediately notify the auditors of any suspected irregularity.

Auditors will, under normal circumstances, give schools advance notice of an audit visits.

Auditors may provide information directly to the Local Authority, if necessary and appropriate, without the knowledge of the Governing Body, in order that the Local Authority is able to fulfil its responsibilities under the Accounts and Audit Regulations

The Governing Body of each school in receipt of a delegated budget has the same responsibilities to Internal and External Auditors and must: -

- Monitor the adequacy of the system of internal control within the school.
- Consider Audit Reports.
- Approve action plans in response to Audit Reports.
- Monitor the implementation of such action plans.
- Allow the Auditors to attend meetings or report on matters affecting their audit responsibilities

The Governing Body would normally delegate to its Headteacher responsibility to: -

- Ensure the day to day maintenance of internal controls.
- Check and confirm the identity of the Auditor at the beginning of an audit in their area of responsibility.
- Give auditors access for the purposes of the audit to premises, land, staff records, documents and correspondence relating to the operations being audited.
- Ensure that all financial records are stored in a secure and easily retrievable manner.
- Ensure that all staff co-operate with the Auditors during audits and explanations are provided as necessary.
- Nominate a member of staff to liaise with the Auditors.
- Provide timely responses to audit reports and draft suitable action plans in response to audit reports.

-
- Organise the proper implementation of audit recommendations to the agreed timetable

In instances where a school wishes to seek an additional source of assurance at its own expense, a governing body is permitted to spend funds from its budget share to obtain external certification of its accounts, separate from any Council or internal audit process. Where a school chooses to seek such an additional audit it does not remove the requirements that the school must also co-operate with the Local Authority's internal and external auditors.

INTERNAL AUDIT APPROACH AND SERVICE DELIVERY

The internal audit approach will be aimed at assisting school Governors, Headteachers and the Local Authority to establish and maintain effective systems of financial management and control. However, it will also seek to assess the risks at the schools and adapt the audit approach accordingly. The audit approach will aim to:

- Audit all schools identified as having (or having the potential for) high risk issues, within a three-year period.
- Ensure all schools which continue to be identified as having high risk areas are subject to a formal follow up visit within 12 months; and
- Introduce a more risk-based approach to audit visits, in conjunction with, where appropriate, control self-assessment techniques.

The Council will conduct the internal audit of each school in accordance with the CIPFA Code of Practice for Internal Audit in Local Government, particularly:

- Ensuring that internal audit is independent from the school and have personal objectivity.
- Seeking to foster a constructive working relationship with the school and with external review agencies e.g. external audit, auditors of private funds and OFSTED.
- Employing appropriately qualified and experienced staff.

- Planning, completing, and recording the audit work to relevant professional standards.
- Exercising Due Care in fulfilling responsibilities.
- Basing conclusions and recommendations on sufficient and relevant evidence.
- Reporting findings, conclusions, and recommendations promptly to the school's Headteacher and Governors and the Local Authority and to seek actively a response from them to recommendations.

SCOPE OF INTERNAL AUDIT REVIEWS

The audit work at each school will be based on an assessment of the risks and audit needs at the school. A strategic audit approach will be developed that covers the controls and risks in place in relation to: -

(a) Management of the organisation.	(b) School journey accounting records.
(c) School Improvement Plan and OFSTED inspections.	(d) Asset Management.
(e) Budget setting, monitoring and control.	(f) School Unofficial Funds.
(g) Staffing	(h) Data protection and IT security
(i) Disbursement accounting records.	(j) Income – lettings and donations.
(k) School meals.	(l) Other significant risk areas identified

The Council's Internal Auditors need to carry out a level of detailed work that will enable the Local Authority to form an opinion on whether the controls in place at the school are appropriate enough to manage the identified risks.

As a guide they will assess the risks associated with the following areas, as appropriate, and assess the internal controls in place to ascertain if: -

-
- Governance arrangements were adequately designed and operated.
 - Financial planning, budget setting and monitoring controls were adequate and linked to the development plan.
 - The books of account were accurate, up to date and in the DfE Consistent Financial Reporting Framework format throughout the year.
 - Non-Local Authority funds donated to the school or raised by it/for it were adequately controlled.
 - Personnel controls over the appointment/departure of staff, the payment of salaries, wages and other staff payments were adequate.
 - Controls over the ordering of goods and services, the payment of invoices and the recording of expenditure were adequate.
 - Controls over the annual pupil census PLASC were adequate.
 - Controls over the receipt, recording, secure storage and banking of income were adequate.
 - Controls over the recording, use and security of assets were adequate.
 - Controls over the use and security of ICT and the data stored on it were adequate.
 - Controls over bank accounts operated by the school were adequate.
 - Adequate controls exist (including external insurance where appropriate) to manage “other” risk areas identified by the school.

AUDIT REPORTING

Once the audit work is completed, the auditor will discuss the key findings with the Headteacher and/or their nominated deputy. A draft report will then be prepared and sent to the Headteacher to prepare responses to any recommendations made. These responses will be incorporated into the draft report as a formal ‘management response’. When responses have been

agreed, a final report will be issued and addressed to the Governing Body.

Internal Audit provides an overall opinion within the report on the financial and management controls in place at the school. Four level of assurances are currently used by the Internal Auditors, which are explained below:

Definitions of Assurance Levels	
Level	Description
Substantial Assurance:	Our audit finds no significant weaknesses and we feel that overall risks are being effectively managed. The issues raised tend to be minor issues or areas for improvement within an adequate control framework.
Adequate Assurance:	There is generally a sound control framework in place, but there are significant issues of compliance or efficiency or some specific gaps in the control framework which need to be addressed. Adequate assurance indicates that despite this, there is no indication that risks are crystallising at present.
Limited Assurance:	Weaknesses in the system and/or application of controls are such that the system objectives are put at risk. Significant improvements are required to the control environment.
Nil Assurance:	There is no framework of key controls in place to manage risks. This substantially increases the likelihood that the service will not achieve its objectives. Where key controls do exist, they are not applied.

For audits which have been issued with a 'Nil Assurance' opinion, a decision will be made in conjunction with the Director of Finance as to whether the school will be issued with a warning and an action plan of recommendations, or if financial control will be taken from the school.

Recommendations on how satisfactory control can be achieved cost effectively will be made and discussed with the Headteacher at the conclusion of the audit visit. To assist in using reports, recommendations are categorised according to their level of priority.

Definitions of Recommendations	
Priority	Description
Priority 1 (Fundamental)	Recommendations represent fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk.
Priority 2 (Significant)	Recommendations represent significant control weaknesses, which expose the organisation to a moderate degree of unnecessary risk.
Priority 3 (Housekeeping)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.

A deadline for completion of the school’s responses will be set, which is normally three weeks from the issue of the draft report, but the school is able to negotiate a deadline which is more suitable if necessary.

A copy of the final report will be provided to the Head of Business Partnering and Schools Finance to assist with monitoring and control processes.

Outcomes of audits and implementation of audit recommendations (and any subsequent follow up audits) will be reported to the Head of Business Partnering and School Finance. In addition, all reports are provided to the Local Authority’s Audit Committee on a quarterly basis. The Audit Committee has the power to require officers to attend meetings to discuss relevant audit reports.

FRAUD, CORRUTION OR IRREGULARITIES

This section deals with the prevention, detection, investigation, and reporting of fraud and corruption and relates to Schools Financial; regulations 112-114.

Fraud and corruption can have significant financial implications for the Council and can cast severe doubt on its credibility. Schools are responsible for public money delegated to them and the Council has a statutory duty to prevent the fraudulent use or misappropriation of the income and expenditure it controls.

Ensuring that an adequate system of internal control is in place is the responsibility of the Governing Body. The Governing Body and/or its delegated representative is responsible for ensuring compliance with statutory and other regulations, including those in relation to the prevention and detection of irregularities, including fraud.

Internal Audit is able to carry out investigations into alleged fraud, irregularity or corruption independently of any request from, or report by, individual schools.

The school is required (by the Council's Constitution) to report all cases of suspected irregularities including fraud and corruption to the council's Head of Audit and Risk Management. The Head of Audit and Risk Management will agree the appropriate course of action in conjunction with either the governing body, Headteacher, and/or Director of Finance. All officers are required to co-operate fully with the council's Investigation Officers.

The Head of Audit and Risk Management has the right to determine, in consultation with the Governing Body, Headteacher, and/or Director of Finance, the objectives, scope, timing and methodology of any internal investigation of fraud or irregularity.

Suspicion or Evidence of any Irregularities

Any staff member or party involved in the school's activities who suspects or has evidence of the existence of fraud, corruption or any other irregularity must immediately inform the Headteacher or the Chair of Governors.

If the Headteacher or Chair of Governors appears to be implicated or involved in the matter, then it would be appropriate to directly notify the Head of Audit and Risk Management. The Head of Audit and Risk Management has the authority to report the matter to the Police and other external agencies as necessary, where there is prima facie evidence of fraud or other criminal activity.

Minimising Fraud and Corruption

Each staff member and Governing Body with delegated powers is responsible for ensuring that all reasonable steps are taken to prevent and detect occurrences of fraud and corruption.

Minimising the risk of fraud and corruption can be achieved for example by ensuring that:

- Staff are recruited in accordance with recognised best practice recruitment and selection procedures, and all the necessary preemployment checks (including CRB and/or police checks, qualification checks and reference checks) are performed. Advice on these issues can be obtained from the Head of Schools Personnel.

-
- Internal controls to prevent and detect fraud are designed, established, and regularly monitored. Advice on these issues can be obtained from the Head of Audit and Risk Management and should cover areas such as procurement, payments, cash income and portable equipment.
 - The school has an anti-fraud and corruption policy which has been circulated to all parties involved in the school's activities. Advice on these issues can be obtained from the Head of Audit and Risk Management.
 - All employees and Governors have received and are aware of the council's whistleblowing policy: Please see link below to download policy from Haringey Council's website.

https://www.haringey.gov.uk/sites/haringeygovuk/files/anti-fraud_and_corruption_policy_strategy_2018_-_appendix_2_whistleblowing_policy.pdf

RETENTION OF RECORDS

All copy orders, vouchers/invoices, receipts for income, paying in books, inventories of equipment and any other records, including computerised records, supporting either income or expenditure transactions through official school funds shall be retained for possible use by internal/external auditors.

In the absence of specific guidance on individual records within Schools Financial Regulations or the Schools Financial Manual, these should be retained for a minimum period of the current year plus six further years.

Original records necessary to assist with any Fraud or Corruption Enquiry will be managed by either internal /external audit or the specific investigating agency e.g. Police. They will be stored and managed in accordance with the documented policies of those agencies. Copies of original records taken by investigating agencies should be taken by the supplying school/department and retained and stored as if the original records. Receipts should be obtained for any original records removed by investigating agencies and stored by suppliers in a secure place.