

**REPORT OF DEPUTY CHIEF EXECUTIVE & CORPORATE DIRECTOR FOR
RESOURCES**

INTERNAL AUDIT REPORTS SELECTED FOR EXAMINATION

1 PURPOSE OF REPORT

This report presents the Internal Audit reports selected for detailed examination at the July 2011 meeting. The Audit Committee should appraise the quality and scope of the Internal Audit work and determine whether the action taken by the audited service has been sufficiently robust and prompt in response to the audit findings. Colleagues from both Internal Audit and the reviewed service will be present at the meeting to assist the Committee with this activity.

2 RECOMMENDATIONS

To critically appraise the Internal Audit reports at **Appendix A** (15 Plus Service) and **Appendix B** (Top Valley School and Engineering College) to:

- determine whether the audit work was of an appropriate quality and scope;
- determine whether the service response was sufficient, robust and prompt;
- make any further observations and/or comments considered relevant;
- determine any further action.

3 REASONS FOR CONSIDERATION

The critical appraisal of selected Internal Audit reports is an important aspect of the Audit Committee's governance work. This helps the Committee to fulfil its responsibility to receive reports on the work undertaken by Internal Audit and to monitor its performance. In doing this, the Committee is testing the robustness of and contributing to the organisation's audit and other governance arrangements. This also aids development of a deep understanding of the Council's internal control environment and Internal Audit working practices. Issues to consider are:

- how the audit was selected – for example the risk assessment, the potential for fraud, previous track record of the service, frequency of the audit;
- whether the audit coverage was appropriate, adequate and correctly focussed;
- the time spent on the audit against the outcomes and findings;
- the quality of the Internal Audit report;
- the actual findings and the impact on the service and the Council overall;
- the service's response to the audit recommendations;

- the speed and robustness of the actions taken to address the recommendations;
- whether there are any learning points or principles that could be applied in future audit or governance work.

The above list is illustrative only and the Committee is at liberty to explore other governance issues.

4 **OVERVIEW OF WORK UNDERTAKEN**

Appendix A is a final report issued 31 December 2010 focussing on the 15 Plus Service provided by Children & Families. An outline of the audit work and a summary of the key issues are set out in **Table A**.

TABLE A – Final Audit Report – 15 Plus Service	
Reason for audit	
The Head of Children in Care (HOC) requested Internal Audit to undertake a review of the 15 Plus Service in order to ensure that it was complying with Financial Regulations and statutory and best practice. The review covered the following three aspects of the service areas operation:	
<ul style="list-style-type: none"> • Provision of Accommodation • Petty Cash • Leaving Care Grants 	
Assurance level:	Limited
Key findings	
<ul style="list-style-type: none"> • No formal contracts existed for the provision of accommodation. A review of the payments made to suppliers of accommodation found that only three orders had been raised since January 2010. • The Leaving Care Act provides a framework that includes a priority list of items that could be funded. However, Nottingham City Council did not have a definitive list, with the exception of those basic items required to equip first time accommodation. • The Council had not produced a definitive policy or a list of items that it is prepared to fund for care leavers. • There were weaknesses found in the use of petty cash to make payments. • Records for tracking the amounts paid out in Leaving Care Grant and bursaries to clients were inadequate. 	

Recommendations					
Total:	12	High Priority:	6	Medium Priority:	6
Time taken					
Actual days:	24		Planned days:	16.5	
The difference between actual days and planned days was because the original estimate was based on discussions of the perceived issues with the HOC. As work progressed, additional procurement related issues were considered and operational difficulties were encountered due a restructuring of the service.					
Implementation of recommendations					
The ownership of Internal Audit recommendations is the responsibility of the audit client. An update of progress has been included in the report. In summary all recommendations are complete or plans are set in place to complete them or address the underlying issue before the end of 2011.					

Appendix B is a final report issued in 28 March 2011 focussing on Top Valley School and Engineering College. An outline of the audit work and a summary of the key issues are set out in **Table B**.

TABLE B – Final Audit Report – Top Valley School and Engineering College	
Reason for audit	
The audit was completed as part of the Audit Plan for 2010/11, with the aim of safeguarding the assets and resources of the school and ensuring:	
<ul style="list-style-type: none"> • compliance with standards incorporated in the (now defunct) FMSiS • effective budgetary control • the reliability of financial records • that other financial and administration procedures are operating effectively and in accordance with statutory requirements 	
Assurance level:	A rating was provided in respect of eight areas of governance. This is given below.
<u>Area</u>	<u>Rating</u>
Leadership & Governance	Adequate
People Management	Good
Policy & Strategy	Adequate
Partnership & Resources	Good
Processes	Good
Purchasing	Adequate
Invoice Processing	Adequate
Voluntary Funds	Poor

Key findings					
<ul style="list-style-type: none"> • Meetings of the Governors' sub-committees had not been held on a term by term basis. • The school was operating with a deficit budget and had no deficit recovery plan in place. It is was agreed with School's Finance that due to the school receiving a notice to improve in July 2010 and the uncertainty of the future of school's funding, the school had until the end of March 2011 to have a deficit recovery plan in place. • Testing identified a purchase where no alternative quotations had been obtained by the school. • Concerns were raised at the lack of records in operation for the recording of income for the School Fund. 					
Recommendations					
Total:	9	High Priority:	5	Medium Priority:	2
Time taken					
Actual days:	5	Planned days:	3.5		
The Office Manager was new to the authority and had not been audited before. Information was not available when the audit commenced and took longer to obtain than planned. The initial report highlighted 23 recommendations and the school was given extra time to implement them.					
Implementation of recommendations					
The ownership of Internal Audit recommendations is the responsibility of the audit client. Eight of the nine recommendations from this report have now been implemented and a plan is in place to address the issues of the remaining recommendation (producing a deficit recovery plan).					

5. **BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION**

None

6. **PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

Minutes and report from the Audit Committee dated 29 July 2011

Carole Mills-Evans
Deputy Chief Executive & Corporate Director for Resources

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Internal Audit Report
15 Plus Service
Children and Families
2010 - 2011

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Document title:	Draft Internal Audit Report	
Issue Date:	31/12/2010	
Issued to:	Paulette Thompson-Omenka	Head of Children in Care
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1 Executive Summary and Opinion

- 1.1 The Head of Children in Care requested Internal Audit to undertake a review of the 15 Plus Service in order to ensure that the service was complying with Financial Regulations and statutory and best practice.
- 1.2 This review covered the following three aspects of the service areas operation:
 - Provision of Accommodation
 - Petty Cash
 - Leaving Care Grants
- 1.3 We extracted data from the OneWorld Nominal Ledger file to review the types of expenditure being incurred. This data covered the period 1 January 2010 to 24 September 2010 and covered the following business units:
 - ECGB040 – Aftercare 1011
 - EKAX300 – Unaccompanied Asylum Seekers
 - ECGB041 – 15+ Service 1011
- 1.4 We sample checked the petty cash claims for July and August 2010 in order to identify high value payments and identify the types of payments being made.
- 1.5 We also requested and obtained an abbreviated listing of Care First references, from the Care First system in order to confirm the Leaving Care Team's involvement and to validate the payment being made.

Accommodation

- 1.6 Accommodation is provided to unaccompanied asylum seekers through a letting agent, Whitegates. The cost of this accommodation includes all the utility bills as well as rent and council tax. Young care leavers have also been placed with other agencies such as TBR and the National Foster Care Agency.
- 1.7 The 15 Plus Team also uses the Placements Team to place care leavers and may place them with other agencies.
- 1.8 The City Council has incurred costs in excess of £100,000 (January 2010 to September 2010) with Whitegates, TBR and the National Foster Care Agency, but no formal contracts exist. This breaches Financial Regulations (Contract Procedure Rule paragraph 6.2) which requires that at least three tenders should be sought.
- 1.9 We understand that the issue surrounding the commissioning of accommodation is being addressed by the Children and Families Commissioning Team and that it is envisaged that a framework will be in place by June 2011 for the placement of care leavers. We understand that tenders have been issued for the Leaving Care accommodation contracts.
- 1.10 We have reviewed the payments made to suppliers of accommodation and note that very few orders have been raised. This breaches Financial Regulations (Contract Procedure Rules Paragraph 10) which requires official orders to be raised to allow accurate monitoring of commitment and spend and the accurate processing of invoices. This failure also has the effect of delaying payments to suppliers as

colleagues within Accounts Payable have then to try and trace the originator of the placement for the invoice to be certified and paid.

Petty Cash

- 1.11 The section has two petty cash imprest accounts. We reconciled both accounts and found that each float balanced to the physical cash held.
- 1.12 The petty cash floats are held securely at night and weekends, as are the cheque books that are associated with the imprest accounts.
- 1.13 There are a limited number of signatories able to sign the cheques relating to the accounts. Each cheque drawn requires the signature of two officers before the cheque can be issued.
- 1.14 The value of the payments made through petty cash varies. However, it has been noted that some payments made exceed the £50.00 petty cash limit, as stipulated within the Financial Regulations (Corporate Financial Process Rules and Standards (CFPRS15)). The highest value identified within our sample was a payment of £2800 in respect of rent arrears for one individual.

Leaving Care Grants

- 1.15 The Leaving Care Grant is a discretionary payment that can be made to care leavers to help them with their basic needs for their accommodation.
- 1.16 The Leaving Care Act provides a framework that includes a priority list of items that could be funded. However, Nottingham City Council does not have a definitive list, with the exception of those basic items required to equip first time accommodation.
- 1.17 Strategic Finance and Foster Care have a “policy” document that sets out, in outline, what types of items that may be purchased and the total value of the Leaving Care Grant.
- 1.18 The Leaving Care Team has a list of basic items that may be purchased and we understand that the actual requirements for each individual are discussed and agreed as part of the individual’s pathway plan.
- 1.19 Nottingham City Council has not produced a definitive policy or a list of items that it is prepared to fund for care leavers. We found that a number of different authorities publish their leaving care policy on the internet and that these policies include a list of items that they will fund and the level of funding provided.

Leaving Care Living Allowance

- 1.20 Amounts are paid to care leavers as a living allowance either through the Foster Care System or through petty cash. The rate for these allowances has been increased steadily for a number of years but has not been published as part of any leaving care policy. In addition, the rate has not been properly reviewed to ensure that it covers day to day living costs. A review of this allowance may help reduce the number of hardship payments being made.

Individual Client Expenditure Records

- 1.21 The 15 Plus Team maintain a series of Excel workbooks that contain the detailed records of all payments made to individual clients. These records provide a means of tracking the amounts paid out in Leaving Care Grant and bursaries to clients, to ensure that no overpayments occur. The maintenance of these records also ensures

that colleagues within the Kilbourne Street and Brook Street offices do not duplicate payments to the same client.

- 1.22 These records have further usage in that both the Home Office, in the case of unaccompanied asylum seekers, and the City Councils Leaving Care Advisers have a record of the expenditure incurred by each individual. In the case of the Advisers, they are then able to provide relevant advice where young person is struggling to manage their own financial affairs.
- 1.23 These records are not comprehensive and do not contain a full audit trail, detailing for example, who recorded each transaction or the recipient of each payment made. Any of these records could be changed and there would be no record of who made the change or why. Unauthorised amendments or entries to the data could occur without detection because the workbooks are not password protected. In addition, these records are not linked to the primary records held within CareFirst

Care First Data

- 1.24 CareFirst is the primary record of those citizens who are currently in the care of Nottingham City Council. This system contains all the primary data required to identify individual citizens, name address, CareFirst reference and dates of birth.
- 1.25 Some of the petty cash vouchers and all of the Foster Care records contain the name of the individual citizen and their CareFirst reference number. Therefore, there is a duplication of effort in recording basic data.
- 1.26 Whilst reviewing the payments made, we cross-referenced petty cash data and foster care records with records in CareFirst. In three instances we found that incorrect CareFirst references have been recorded within Foster Care. We also note that the dates of birth are incorrect in two instances, within CareFirst.
- 1.27 For those cases sampled, we found an appropriate entry within CareFirst. We are able to conclude therefore that payments are being made to valid City Council citizens.

Opinion

- 1.28 We are required to provide an opinion on the adequacy and effectiveness of internal controls in relation to the area under review. Our opinion is based on the work performed as set out in the agreed Audit Brief.
- 1.29 We are able to give **Limited Assurance** in that steps are being taken to address the issues around the commissioning of accommodation and that the petty cash is held securely.
- 1.30 However, there are a number of issues that need to be addressed as a matter of priority as they either breach Financial Regulation or they expose the City Council to unnecessary risk. These are:
 - Financial Regulations state that the maximum amount that can be paid through Petty Cash is £50 and this limit must be adhered to.
 - Alternative methods of payment should be used for anything above this value and where practical alternative means such as corporate procurement card should be used.

- The policy and available funding for the Leaving Care Grant should be published as this would remove any ambiguity as to costs that will be met by Nottingham City Council.
- The level of allowances paid to care leavers should be reviewed and published.
- Data held within Care First should be reviewed to ensure that it is both accurate and complete.

Management Responsibility

Whilst a number of recommendations are included in this report, it is the responsibility of management to determine the action that will be taken in response to each recommendation. Management should assess the risks to the objectives involved and the cost-effectiveness of the control improvements suggested.

It is expected that management will respond to this draft report within 10 working days of receipt.

Management is responsible for ensuring that all agreed recommendations are implemented within the agreed timescales.

The City Council's Audit Committee review summary Internal Audit reports and the main issues arising, and seek assurance that action has been taken where necessary. As a consequence we provide details of each final audit and recommendations made. Management may be required to attend Committee or respond to it in relation to actions agreed and taken

Management should note that any recommendations that relate to Financial Regulations must be implemented unless a satisfactory business case has been agreed justifying why the recommendation will not be implemented.

2 Updated Action Plan - September 2011

Ref	Finding/ Recommendation	Priority	Management Response (Please update the management response where the action has not been completed.)	Original Target Date	Revised Target date / Action Complete
Accommodation					
R01	<p><u>Finding</u> No formal contracts exist for the provision of accommodation.</p> <p><u>Risk</u> Value for money not achieved.</p> <p><u>Recommendation</u> Formal tenders for the provision of accommodation should be drawn up and contracts placed in order to comply with the Contract Procedure Rules</p>	High	A corporate decision has been made to bring accommodation provision into the Placement team. Formal tenders will be submitted in Sept 2011 and provision will commence in October managed by the Placement team.	Head of Children in Care - April 2011	October 2011
R02	<p><u>Finding</u> Only three orders have been placed for accommodation services since January 2010.</p> <p><u>Risk</u> The City Council is unaware of its full liabilities and outstanding commitments at the year-end which may affect the City Councils Final accounts.</p> <p><u>Recommendation</u> Orders must be raised to ensure compliance with Financial Regulations and to assist with the speedy processing of invoices</p>	High	Support staff have undergone training in the use of OneWorld to raise purchase orders directly. Until this system is in place the e-requisition process has been used. All staff have been advised of policies and procedures through team meetings.	Head of Children in Care - April 2011	October 2011

Petty Cash				
R03	<p><u>Finding</u> Our review identified that there are individual petty cash payments that exceed the £50 limit as prescribed by Corporate Financial Process Rule and Standard 15.</p> <p><u>Risk</u> Inappropriate or invalid payments may be made in respect of reimbursement of expenditure.</p> <p><u>Recommendation</u> To comply with CFPRS 15, management should ensure that Petty Cash is only used for the purpose of reimbursing approved, minor expenditure of less than £50 in value.</p>	High	<p>Staff have been reminded of the £50 cash limit for non living allowances which is being monitored by senior admin and Business Manager.</p> <p>New processes implemented to restrict emergency payments to £5 and food parcels. Some living allowances (£53.45) have to be paid out of petty cash to unaccompanied asylum seekers who do not have access to bank accounts due to their immigration status. Currently exploring local agreement with banks for possible solutions.</p>	Head of Children in Care - April 2011
R04	<p><u>Finding</u> Petty Cash disbursements are made either by cash or cheque. We undertook a brief analysis of the types of payments being made and found that the payments made fall within the following categories:</p> <ul style="list-style-type: none"> • Bus Passes • Rent payments • Vacation accommodation for those in Further Education • Payment of Allowances • Hardship Payments • Bursaries for Care Leavers attending Further Education • Leaving Care Grant payments • TV Licences • Gym Membership • Payment to Foster Carers to retain short term accommodation 	Medium	<p>Exemptions are agreed for TV licences which are purchased at the post office counter with a cheque.</p> <p>Living allowance is only paid via petty cash when a bank account has not been set up and is time limited until such a time as regular payments can commence. All service users now required to have a bank account for payment of allowances.</p> <p>Payments to foster carers made through boarding out payment process.</p> <p>Rent payments and bursaries are paid via either BACS or blue bill process. All other purchases are now made with purchase card.</p>	<p>Head of Children in Care - June 2011</p> <p>Complete</p> <p>Bank accounts to be established by Dec 2011</p> <p>Complete</p> <p>Complete</p>

	<p>Some of these payments could be made by other means, such as by the Corporate Procurement Card or through the Foster Care system.</p> <p><u>Risk</u> Method of payment is not cost effective and may circumvent defined payment processes.</p> <p><u>Recommendation</u> The nature and types of expenditure incurred should be reviewed and most cost effective payment method determined, i.e. the use of the procurement card for bus passes.</p>				
R05	<p><u>Finding</u> Payments made for Foster Carers to retain accommodations are made via petty cash. There is no set rate for these payments and there could be an on-going tax liability for this service</p> <p><u>Risk</u> Inappropriate fees are agreed locally and any tax liability is unreported to HMRC.</p> <p><u>Recommendation</u> A fixed fee should be determined for short term accommodation, payable to a Foster Carer and paid through the Foster Care system to ensure that any tax liability is covered and reported.</p>	High	<p>All payments to foster carers now made through fostering payment process.</p> <p>A staying put policy is being written including a fixed fee for payments to foster carers (currently in draft).</p>	Head of Children in Care - April 2011	November 2011 December 2011
R06	<p><u>Finding</u> There is a lack of clear recording on the petty cash voucher as to who the payment is to and what it exactly relates to. For example, some payments simply state hardship, but do not state the nature of the hardship or the reason why the additional funds are required.</p> <p>Similarly, where cheques are used as a means of payment, the name of the payee is not stated.</p>	High	<p>Staff have been reminded of how to complete forms. Senior Admin undertaking greater scrutiny of forms and any unclear explanations are being returned.</p>	Head of Children in Care - April 2011	Complete

	<p>One instance related to the payment of Council Tax arrears but did not state which local authority was the payee.</p> <p><u>Risk</u> Lack of clear explanation could lead to payments being disguised.</p> <p><u>Recommendation</u> Clear explanations should be recorded on the petty cash vouchers to ensure that there are no ambiguities as to the nature of the payment and who the payee is.</p>				
<p>Care leavers Individual expenditure Excel sheets</p> <p>R07</p>	<p><u>Finding</u> The 15 Plus Team maintain a record of expenditure on a client by client basis within a series of Excel spreadsheets.</p> <p>These records contain insufficient information as to the payee and have no audit trail as to who entered the information or if any changes have been made to the data.</p> <p>In addition, the spreadsheets are not password protected which means the data could be changed by unauthorised colleagues.</p> <p>It is understood from IT that Care First has a Leaving Care module that may be used to manage these records</p> <p><u>Risk</u> Unauthorised changes may lead to inaccurate records and error / financial loss.</p> <p><u>Recommendation</u> Full details of the items expended should be added to the existing records and in the interim the worksheets should be password protected.</p>	High	Current spreadsheets are now password protected.	Head of Children in Care - April 2011	Complete

	In the longer term, a suitable software solution should be sought which makes this process more efficient and effective					
Leaving Care Grant						
R08	<p><u>Finding</u> There is no published list of the items that the City Council will fund and will not fund. Colleagues are therefore left to determine what is appropriate.</p> <p><u>Risk</u> Funds are used inappropriately.</p> <p><u>Recommendation</u> An agreed policy and list of items should be published in order to remove any ambiguities regarding how the Leaving Care Grant Funding should be utilised.</p>	Medium	Changes to the amount of leaving care grant has resulted in a new list of items that will be funded as part of the grant and is under constant review. This is included on the form requesting funding.	Head of Children in Care - June 2011	Complete	
R09	<p><u>Finding</u> Items purchased to help set up a new home for care leavers are purchased by means of cash or cheque, which means the level of the imprest account has to be relatively high to cater for these costs.</p> <p><u>Risk</u> Increased insurance costs are incurred for holding high values of cash.</p> <p><u>Recommendation</u> Consideration should be given to using the corporate procurement card for purchasing items for care leavers. The procurement card can be used at numerous establishments and means that Social Workers do not need to carry large volumes of cash when shopping with care leavers.</p>	Medium	The issuing and use of purchase cards to individual workers has been considered by is felt would not work. Each worker may have several set up grants being processed at one time and reconciling payments with the current online system is too complicated. Where possible online transactions will be made using purchase cards.	Head of Children in Care - June 2011	Complete	

Leaving Care Allowance				
R10	<p><u>Finding</u> The rates for Leaving Care Allowance were determined a number of year ago and increased on an annual basis to today's rates of £49.35 week. The rates have not been published as part of any leaving care policy, nor have they been reviewed to ensure that they adequately cover day to day living costs.</p> <p><u>Risk</u> The level of the allowance may be inappropriate to meet the current needs of the individuals.</p> <p><u>Recommendation</u> The Leaving Care Allowance should be reviewed and the rate published in order that the care leavers are aware of their entitlements. This review should also consider the possible effect of increasing the allowance on the volume and value of hardship and petty cash payments. In addition this money should be paid through the Foster Care System in order that the level of the imprest account can be reduced.</p>	Medium	<p>The Leaving Care allowance was increased in April 2011 in line with Job seekers allowance - £53.45 per week.</p> <p>Regular payments, where a bank account exists are made through the fostering payment system.</p> <p>Unaccompanied asylum seekers do not have access to bank accounts due to their legal status. Staff are exploring a solution to this with local banks.</p>	<p>Head of Children in Care - June 2011</p> <p>Complete</p> <p>Asylum seeker bank accounts – December 2011</p>
Financial Regulation Training				
R11	<p>The two administrators have received training on the Financial Regulations. However there are no current records to indicate that the team managers have received training.</p> <p><u>Risk</u> Failure to comply with the City Council's Financial Regulations may expose the City Council to unnecessary risks and liabilities.</p> <p><u>Recommendation</u> All staff involved with the financial aspects of young care leavers should receive training on the City Council's Financial Regulations so that</p>	Medium	<p>Due to staffing changes there are 2 new team managers in post who have completed training in financial regulations. Any new admin staff to the department will undergo financial training.</p>	<p>Head of Children in Care - June 2011</p> <p>November 2011</p>

	they have knowledge of the process to be followed.				
Care First Data					
R12	<p><u>Finding</u> We found instances of incorrect CareFirst references being recorded within Foster Care and incorrect dates of birth within CareFirst.</p> <p><u>Risk</u> Inaccurate or incomplete data may lead to payments being made to ineligible individuals.</p> <p><u>Recommendation</u> There should be a routine review of the CareFirst data to ensure that it is both accurate and complete.</p>	Medium	Regular audits are undertaken to identify data errors. Workers are responsible for ensuring the accuracy of information on their cases. Any inaccuracies found are flagged up with the worker and their manager.	Head of Children in Care - June 2011	Audits on-going

Glossary of Terms

Levels of Assurance

We use four categories to classify internal audit assurance over the processes examined, these are defined as follows:

High Assurance	High assurance that the system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed. Our work found some low impact control weaknesses which, if addressed, would improve overall control. These weaknesses are unlikely to impair the achievement of the objectives of the system.
Significant Assurance	Significant assurance that there is a generally sound system of control designed to meet the organisation's objectives and that controls are generally being applied consistently in the areas reviewed. However, some weakness in the design or inconsistent application of controls put the achievement of particular objectives at risk.
Limited Assurance	Limited assurance as weaknesses in the design or inconsistent application of controls put the achievement of the organisation's objectives at risk in the areas reviewed.
No Assurance	No assurance as weaknesses in control, or consistent non-compliance with key controls, could result in failure to achieve the organisation's objectives in the areas reviewed.

Where appropriate we may also comment on the level of assurance we can give that objectives will be met. This may apply when there are risks either partially or wholly outside of the control of management.

Categorisation of Recommendations

The recommendations within this report have been categorised by Internal Audit as:

High Priority	A fundamental weakness which presents material risk to the audited body and requires urgent attention by management.
Medium Priority	A significant weakness whose impact or frequency presents an unacceptable risk to the audited body that should be addressed by management.
Low Priority	The audited body is not exposed to any significant risk, but the recommendation merits attention.

In all cases Internal Audit will follow up implementation of the recommendations by the agreed date.

Final Audit Report Top Valley School & Engineering College Children & Families

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Document title:	Final Audit Report	
Issue Date:	28 th March 2011	
Issued to:	Mr P Brown	Head Teacher
Copied to:	Mr G Mansfield	Chair of Governors
	Mr A Paulson	Head of Pupil & School Services

Contact Details:		
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1 Executive Summary

- 1.1 This report has been prepared following the visit to your school by Internal Audit on 19th October 2010. Relevant records have been examined, and discussions held with staff as appropriate.
- 1.2 An external assessment of the Financial Management Standard in Schools (FMSiS) was carried out, alongside our standard audit testing for Purchasing and the School Fund to evaluate the efficiency of financial systems in operation at the school.
- 1.3 Since Internal Audit visited your school the Government has announced that the FMSiS is to end. However, Internal Audit will still provide your school with an independent assessment of the school's financial controls.

Internal Audit Assessment

- 1.4 Although certain procedures were found to meet the standards of good practice, our review identified some key areas where improvements in the school's financial management procedures could be made. Details of these can be found in the section of the report marked Action Plan.
- 1.5 The school has a period of 3 months, from the date of the draft report (20th January 2011), to implement our recommendations and provide evidence in each case. If the school is unable to address these weaknesses by this time, we will report our concerns to the City Council's Section 151 Officer, who is responsible for ensuring that the financial controls operating within schools are in accordance with our policies i.e. Financial Regulations, Financial Administration and Control Policy.
- 1.6 In those areas where it is impractical to implement our recommendations in full (for example, because of limited resources), Governors should consider alternative ways of minimising risk. We are always pleased to discuss these matters and offer advice if required.

Our conclusion for each of the areas examined is shown below:

Area	Rating
Leadership & Governance	Adequate
People Management	Good
Policy & Strategy	Adequate
Partnership & Resources	Good
Processes	Good
Purchasing	Adequate
Invoice Processing	Adequate
Voluntary Funds	Poor

A key to our ratings is included in the attached glossary.

- 1.7 We would like to thank the Head Teacher and all other members of staff who provided help and assistance during the Internal Audit Assessment.

2 Scope & Approach

2.1 The controls subject to audit examination are those which:-

- Ensure compliance with the Scheme for Financing Schools (Fair Funding).
- Ensure effective budgetary control.
- Safeguard the assets and resources of the school.
- Ensure the reliability of financial records.
- Ensure that other financial and administration procedures are operating effectively and in accordance with statutory requirements.

2.2 The following areas were examined during the course of the audit; these are based on the recent external assessment for FMSiS and on the joint Ofsted/Audit Commission publication "Keeping your Balance". Our finding and recommendations are set out in section three of the report:

- Leadership & Governance
- People Management
- Policy & Strategy
- Partnership & Resources
- Processes
- Purchasing
- Invoice Processing
- Voluntary Funds

3 Action Plan

Ref	Finding	Recommendation	Priority	Management Response	Status
W01 – Leadership & Governance					
W01-01	It was identified that meetings of the sub-committees had not been held on a termly basis. Risk Governors are not made aware of information on a timely basis.	The school should ensure that at least termly meetings are held for each of the sub-committees and the minutes reported to the full Governing Body for ratification	High	The first meeting of the Academic Year of the full Governing Body will set provisional meeting dates for all sub-committees.	Complete
W01-02	It was noted that the minutes for the Finance meeting held in January 2010 had not been typed up and presented to Full Governors. Risk Staff and Governors do not have access to information discussed at meetings.	Minutes should be typed up as soon as possible in order that they can be presented to the Governing Body for ratification.	Low	There will be a requirement placed on the minute taker to email the minutes to all members of F&GP within 10 working days of the meeting. These will be re-issued along with the agenda prior to the next meeting.	Complete
W03- Policy & Strategy					
W03-03	The school is currently operating with a deficit budget and have no deficit recovery plan in place. It is has been agreed with School's Finance that due to the school receiving a notice to improve in July 2010 and the uncertainty of the	This area will be reviewed at the end of March 2011 to ensure that the school has in place an agreed deficit recovery plan.	High	Monthly meetings take place between LW and Andi Brown from the City Council to monitor/review the current position and to constantly monitor the	In progress For schools that are due to convert to academy early in 2012

Ref	Finding	Recommendation	Priority	Management Response	Status
	<p>future of school's funding, that the school has till the end of March 2011 to have a deficit recovery plan in place.</p> <p>Risk The budget does not reflect the schools future developments.</p>			<p>schools position against its current deficit recover plan. Work towards the next financial year has been delayed by the review of the funding formula by the City, but it expected final figures will be with the school in early March 2011.</p>	<p>the City has stopped creating DRP's This is because it adds no value since the DfE right off their overspend However, the City has a meeting with the sponsors for Top Valley in December where it may be decided to complete a DRP.</p>
W07 – Purchasing					
W07-04	<p>Testing identified a purchase where no alternative quotations had been obtained by the school. The school has stated that verbal quotations are periodically obtained although no evidence exists.</p>	<p>Alternative quotations should be obtained for all purchases between £1,000 and £5,000 in value made by the school and a record should be retained of all such quotations as evidence that value for money</p>	High	<p>The Financial Manager will put in place with immediate effect, control ensure competitive quotes are being gathered for order</p>	Complete

Ref	Finding	Recommendation	Priority	Management Response	Status
	<p>Risk This could lead to potential for poor value for money in the procurement of goods and services.</p>	has been obtained.		exceeding £1000. All evidence of such will be retained by the Finance Manager with the invoice etc for that purchase. The SLT Finance Team which meets weekly will monitor this process.	
W07-05	<p>From a sample of 5 purchases selected for testing it could be seen that an order had been raised on one occasion. It is noted however, that the Finance Manager had reminded staff of the correct procedures in September 2009.</p> <p>Risk If official orders, appropriately authorised by the Head Teacher or other authorised member of staff, are not issued there is a risk that all commitments will not be recognised and that the school could become committed to unauthorised expenditure.</p>	<p>Official order forms, signed by the Head Teacher or other authorised member of staff, should be issued to suppliers for all goods and services being purchased by the school. Staff should be reminded that before placing a telephone order, an official order should first be raised.</p>	High	<p>The Finance Manager will remind all staff of this essential requirement and strictly enforce the measure. Any variance identified by the Finance Manager will be brought to the STL weekly meeting.</p>	Complete
W07-06	<p>The school recently purchased a number of laptops through an on-line store. The laptops were purchased by the Deputy Head</p>	<p>Staff should not purchase equipment on behalf of the school using their credit card.</p>	Medium	<p>Staff members will be instructed not to use their own cards for school purchases and</p>	Complete

Ref	Finding	Recommendation	Priority	Management Response	Status
	Teacher using her personal credit card. Risk This could lead to potential for poor value for money in the procurement of goods and services.	The school should return their purchasing card back to the bank and apply for the corporate purchasing card.		the Finance Manager will arrange for the provision of cooperate purchasing cards. Any variance identified by the Finance Manager will be brought to the STL weekly meeting.	
W08 - Invoice Processing					
W08-07	From discussions with staff it was noted that when items of value are purchased they are not always security marked. Risk Failure to security mark equipment could lead to items not being recovered.	Items of value, such as IT equipment, should be security marked for easy identification in the event of theft.	Low	The Finance Manager will liaise with the Premises and IT Managers to identify an appropriate method. The Finance Manager will ensure new and existing items are marked as soon as possible and make random monitoring checks	Complete
W14 - Voluntary Funds					
W14-08	It was noted that the accounts for the school (voluntary) fund have not been audited for 2008/09 and 2009/10. Risk Failure to apply suitable oversight to voluntary fund accounts and make the Governing Body	The school should ensure that an auditor is appointed and accounts for 2008/09 and 2009/10 are presented to them for auditing. Audited accounts relating to the school (voluntary) fund should be presented to the Governing Body and the minutes should record the	Medium	The Finance Manager will arrange for the auditing of the school fund account and present the findings to the next available F&GP meeting. Future audits will be scheduled accordingly.	Complete

Ref	Finding	Recommendation	Priority	Management Response	Status
	accountable for the related accounting information.	accounts as having been accepted.			
W14-09	<p>Concerns are raised at the lack of records in operation for the recording of income for the School Fund. Testing of a sample of income transactions found there were insufficient records to verify the income received. On occasions monies are passed over to the Finance Manager by members of staff and no record is kept of the money received,</p> <p>Risk Failure to effectively account for all income and expenditure could lead to inappropriate use and application of funds.</p>	<p>Systems should be introduced which record income being received to the school fund. Any money passed over to the Finance Officer should be first counted and recorded, this should then be verified by the Finance Manager.</p>	High	The Finance Manager will ensure that on receipt of monies from staff, that member of staff will countersign receipt of monies to the Finance Manager.	Complete

Glossary of Terms

1 Key to ratings for standard audit testing

Good	High level of assurance can be given as controls are in place, which are operating effectively.
Adequate	Some controls are not in place or are not operating effectively.
Limited	Limited assurance as some key controls are not in place or there are a significant number of recommendations.
Poor	No assurance can be seen as a number of key controls are not in place.

2 Categorisation of Recommendations

The recommendations within this report have been categorised by Internal Audit as:

High Priority	Weaknesses in the system of controls, financial or otherwise, or failures to adhere to corporate and local management policies, or a combination thereof, which are of such fundamental importance that there is a strong likelihood that the service's ability to satisfy its business objectives, goals, and responsibilities will be severely jeopardised.
Medium Priority	Weaknesses in the system of controls, financial or otherwise, or failures to adhere to corporate and local management policies, or a combination thereof, which, whilst not of fundamental importance, are of such significance that there is some likelihood that the service's ability to satisfy its business objectives, goals, and responsibilities may be jeopardised.
Low Priority	Minor weaknesses in the system of controls, financial or otherwise, or failures to fully adhere to corporate and local management policies, or a combination thereof that are of limited significance, but which if addressed would assist the service in better satisfying its business objectives, goals, and responsibilities.