



City of Westminster

# Audit and Performance Committee Report

<b>Meeting:</b>	<b>Audit and Performance Committee</b>
<b>Date:</b>	<b>30 June 2014</b>
<b>Classification:</b>	<b>For General Release</b>
<b>Title:</b>	<b>Internal Audit &amp; Counter Fraud 2013/14 – Year End Summary Report</b>
<b>Wards Affected:</b>	<b>All</b>
<b>Financial Summary:</b>	<b>Service Budget 2013/14 £983,155</b>
<b>Report of:</b>	<b>Deputy Director Corporate Finance (Acting Section 151 Officer)</b>

## 1. Executive Summary

Key outcomes from the Internal Audit & Counter Fraud work in 2013/14:

- Audit work carried out by the Council's Internal Audit & Counter Fraud contractor, Baker Tilly Risk Advisory Services LLP (Baker Tilly), in the financial year 2013/14 found that in the areas audited, internal control systems were generally effective with 83% of the audits undertaken receiving a positive assurance opinion. This is an improvement on the percentage of audits receiving a positive opinion in the previous financial year. The internal control framework is considered to be improving and the Council was found to be effective, in most areas, at implementing recommendations where problems were found. There are a few areas where control improvements are required and compliance with agreed systems should be improved. In each case, action plans are in place to remedy the weaknesses identified and these will be followed up until they are considered to be complete.
- In addition to the audit work undertaken by Baker Tilly, five audits have been completed in the year in respect of services provided within RB Kensington & Chelsea (RBK&C), LB Hammersmith and Fulham (LBHF) and Westminster City Council (WCC) which were undertaken by the external contractor to LBHF/RBK&C or the in-house internal auditors at RBK&C. Where these audits

have resulted in a limited assurance opinion, the findings are reported to the Committee by the Tri-borough Director of Audit and are taken into account by the Council when preparing their Annual Governance Statement.

- Housing Benefit investigations resulted in ten prosecutions and eighty-two “Cautions” or “Administrative Penalties” during 2013/14 which related to overpayments and fines totalling nearly £500k of which approximately £99k has been recovered so far.
- General fraud investigation work during the year has resulted in five Council properties being recovered and one housing application being prevented. In addition, investigations into the misuse of disabled parking badges have resulted in two prosecutions.

## **2. Recommendation**

That the Committee consider and comment on the internal audit and counter fraud work carried out during the period.

## **3. Background, including Policy Context**

Baker Tilly Risk Advisory Services LLP (Baker Tilly) is the Council’s appointed internal audit and counter fraud specialist. Detailed reports on the performance of the Internal Audit and Anti-Fraud contract and the outcomes of the work undertaken by Baker Tilly are presented monthly to the Acting Section 151 Officer. These can be made available to the Committee on request. Some of the audits in the annual plan are undertaken on a tri-borough basis by either Baker Tilly, the external contractor to RBK&C/LBHF or RBK&C’s in house audit team. These audits are managed by the Tri-Borough Director of Audit. The Audit & Performance Committee are provided with updates at each meeting on all RED or AMBER RAG limited assurance audits issued in the period.

With effect from 1 April 2013, the internal audit service has been provided in accordance with the UK Public Sector Internal Audit Standards (PSIAS) and the associated Local Government Application Note which supersedes the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. The changes arising from the new standard are relatively minor were discussed with the Process and Audit Group Members at a meeting in September 2013. Under the Standards, internal audit services are required to have an external quality assessment at least once every five years. During 2011, the Baker Tilly Risk Advisory service line commissioned an external independent review of our internal audit services to provide assurance whether our approach meets the requirements set out in the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA). The PSIAS are based upon the IPPF and therefore we are confident that the results of this review apply to our continuing services in the sector. The external review concluded that “*the design and*

*implementation of systems for the delivery of internal audit provides substantial assurance that the standards established by the IIA in the IPPF will be delivered in an adequate and effective manner.”*

#### **4. Internal Audit Opinion**

As the provider of the internal audit service to Westminster City Council, Baker Tilly are required to provide the Acting Section 151 Officer and the Audit & Performance Committee an opinion on the adequacy and effectiveness of the Council's governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide is a reasonable assurance that there are no major weaknesses.

Our opinion is that, at the time of preparing this report and based upon the work completed this year, the Council's governance, risk management and internal control systems in the areas audited were adequate with the exception of those areas detailed as “amber/red” and “red” all of which have been reported to the Audit & Performance Committee. Overall this can be viewed as a positive opinion which means that the Council generally has effective internal control systems with 83% of audits receiving a positive assurance opinion. Appendix 1 to this report contains:

- an overview of the audits completed in 2013/14 which shows the assurance opinions given for each audit undertaken;
- an indication of advisory work completed in the period; and
- a summary of the performance indicators for the internal audit service.

Follow up reviews confirmed that the implementation of “significant” and “fundamental” recommendations has been consistently effective.

There were some areas where improvements in compliance with controls were needed with a total of seven audits (excluding schools) being designated as “limited assurance”. In this regard it is of note that three of these limited assurance audits related to tri-borough services. The tri-borough provision of services in a number of areas of the Council's activities has resulted in significant changes to systems and structures within these areas. In addition, full integration of these services is not possible until further changes within areas such as managed services have been fully implemented. Several of the weaknesses identified in the tri-borough audits completed in 2013/14 will be addressed as systems become embedded and best practice is adopted across the three councils.

Two schools received a limited assurance opinion. Although compliance with established systems by schools has generally been good, some exceptions have been identified during 2013/14, which has resulted in these limited assurance audits. An overview of the school audits undertaken in 2013/14 is contained in Appendix 2 to this report.

The remaining four limited assurance audits were in respect of Westminster specific operational systems.

In the above context we stress that:

- This opinion is based solely upon the areas reviewed this year and the progress made by the Council to action our recommendations;
- Assurance can never be absolute neither can our work be designed to identify or address all weaknesses that might exist;
- Responsibility for maintaining adequate and appropriate systems of internal control resides with council management, not internal audit;
- We have not placed reliance on other agencies' work in carrying out our audits;
- We have placed reliance on the element of tri-borough audits that relate to Westminster Council's systems when forming our opinion. This only relates to four audits.

Issues arising from Internal Audit work which have significant implications for the Council's control assurance framework have been included in the Annual Governance Statement which is separately reported to this Committee. The monitoring process in respect of the Annual Governance Statement also ensures that follow up action is taken to remedy the key control weaknesses found.

## **5. Audit Outcomes**

5.1 Since the last report to members seven audits have been completed, four of which did not identify any key areas of concern:

- Tri-Borough Insurance (satisfactory assurance, Amber RAG);
- Mayor for London Funding (satisfactory assurance, Amber RAG);
- Resident Parking Permits (substantial assurance, Green RAG);
- Investment Portfolio (satisfactory assurance, Amber RAG).

Three limited assurance audits were issued in respect of Adult Services, Residential Placements, Governance Arrangements for Delegated Authority and Adult Services-Risk Management. A summary of the findings are contained in paragraphs 5.1.1, 5.1.2 and 5.1.3 below:

### **5.1.1 Residential Placements (Amber)**

Local authorities have the power to charge for residential care under section 22 of the National Assistance Act 1948. The method of assessing how much a client has to pay is contained within the National Assistance (Assessment of Resources) Regulations 1992. Local authorities use the guidance "Charging for Residential Accommodation Guide (CRAG)", when making assessments. The guide is updated annually by the Department of Health (DoH). In January 2013, the Council

introduced a case management system ("Frameworki") within adult social care services and at the time of the audit, 853 adult service users were in residential care costing £32.9m per year. Income due from the service users in the 2013/14 financial year was budgeted at £5.9m. The audit reviewed the adequacy of the processes for identifying, billing and collecting income due in respect of adults in residential care.

Eight significant recommendations were made to address the following control weaknesses:

- The processes for assessing, billing and collecting income using Frameworki had not been documented;
- A clear audit trail was not always provided to support all client assessments;
- Care Managers required training on Frameworki to prevent delays in assessments being completed and overpayments being made to care homes;
- Robust management controls were not in place to ensure that the billing of clients and the payment of providers is accurate and based on current placements;
- Overpayments were identified which needed to be actioned/monitored to ensure that they were fully recovered in a timely manner with the control framework reassessed to limit the risk of future overpayments; and
- Three debts were identified where action was required to confirm responsibility for the client's finances to ensure that income could be collected in a timely manner.

The recommendations have been accepted and an action plan agreed which will address the weaknesses identified. A follow up review will be undertaken to verify the implementation of the recommendations.

### **5.1.2 Governance – Delegated Authority (Amber)**

Each member of the Council's Strategic Executive Board (SEB) has been designated powers and duties in relation to their specific service line which they can exercise when required. Due to the numbers of decisions required to be made it is not feasible for SEB members to make all of the decisions required under their remit. As a result of this SEB members are authorised, under the Council's Constitution, to delegate some of their powers and duties to Designated Officers. SEB members are responsible for the overall management of the Council, for setting and monitoring direction, ensuring high performance and for overall risk and reputation management. In line with this SEB members should maintain a list of officers that they have delegated powers to, including the limitation of such powers.

Guidance has been issued regarding the publication of officer executive decisions. The Head of Legal and Democratic Services currently has an outstanding commitment to report to the General Purposes Committee on progress in implementing this requirement. It is intended to report on this to the Committee in the Autumn of 2014. The regulations require all Officer Executive decisions to be

recorded. As there is much uncertainty about what is required across the sector, it is intended that one of the recommendations in the General Purposes report will be to make representations to the Department for Communities and Local Government (DCLG) seeking clarification as to what is required.

An audit was undertaken to assess whether officers, at Senior Leadership Team (SLT) level within the Council are making and approving decisions within their authorised remit and whether the Council is compliant, in terms of publishing Officer Executive Decisions, with the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012. Two fundamental recommendations have been made to address the following weaknesses:

- Not all SEB members have documented the delegated authorities for their service areas. Furthermore, a number of SLT members required clarification on what constituted an executive decision; and
- Executive Decisions made by officers have not been published on the Council's website.

The Council has already taken action to address these weaknesses and a follow up review will be undertaken to ensure that the action has been effective.

### **5.1.3 Adult Services – Risk Management (Amber)**

There is one risk register for the Tri Borough Adult Social Care Service and the three Boroughs have contributed to the drafting of a joint policy and strategy statement for the management of risk across Tri-Borough services, which had not been agreed and adopted at the time of the audit. The audit identified that there was no coordinated approach to risk management in relation to Adult Social Care across the three Boroughs and the approach to communicating risks to different parts of the Councils has not been agreed. In addition, the risk register is reported to the Tri-Borough Management Team, which consists of senior management and the Executive Director, but the frequency of the review is not formalised.

Improvements were required to the content of the risk register to address the following weaknesses:

- It is not clear from the risk register which controls exist and which ones are proposed. It is also unclear whether actions have been taken and whether these are sufficient in mitigating the risks identified;
- The risk evaluation did not include both inherent and residual risk scores to measure the effect of the mitigating actions;
- The risk register does not include information on whether independent assurances, such as those from the Care Quality Commission, third party providers, or controls from other Council service lines are relied on for mitigating risks;

- independent assurance providers or controls in other parts of the Council are relied on for mitigating risks;
- The classification of individual risks (strategic, change and operational) are not included in the risk register to ensure that risks are identified across all relevant areas. In addition, a number of risks such as fraud and health and safety are not included in the ASC risk register.

Two fundamental and five significant recommendations have been made to address the weaknesses identified which have been accepted by management.

## **5.2 Implementation of Audit Recommendations**

Follow up audit work found that the implementation of recommendations was generally good with 94% of fundamental (priority 1) and significant (priority 2) recommendations implemented by their due date. Further follow up work will be undertaken to ensure outstanding recommendations are implemented.

## **5.3 Performance of the Internal Audit Contractor**

The key performance indicators for the internal audit contractor are contained in Appendix 1. As shown by the performance indicators, the quality of audits delivered was of a high standard with recommendations accepted and implemented in a timely manner and positive satisfaction surveys received from auditees. Due to delays in starting some of the work in the last quarter of the year, the performance indicator for the issue of draft audit reports by the end of March 2014 was missed by 5%. The contractor will be working with the “clientside” to ensure that all audits are completed by the due date in 2014/15.

## **6. Anti-Fraud Work Outcomes**

### **6.1 Summary of Housing Benefit Fraud Investigations in 2013/14**

The table below illustrates the sanctions achieved in the financial year 2013/14. From a total of four-hundred and eighty-nine investigated cases there have been ninety-two sanctions. The investigations have identified nearly £500k in overpaid Housing Benefit of which approximately 19% has been recovered to date. The remaining amounts are subject to continuing recovery action. It has always been the case that recovery has been slow due to the constraints on the action that can be taken, although eventually the majority of the money will be recovered. Internal Audit continues to work with the relevant sections of the Council to improve the speed of recovery. During 2013/14, Confiscation Hearings were completed in respect of over £325k of assets that had been restrained under the Proceeds of Crime Act with the Council recovering losses of £172k from these restrained assets.

<b>Year 2013/14 Sanction</b>	<b>No of Cases</b>	<b>Overpayments/ Fine</b>	<b>Recovered to Date</b>	<b>Recovery Rate</b>	<b>Comparison Recovery Rate Previous Year</b>
Prosecution	10	£232,517	£ 16,153	6.95%	19.83%
Official Cautions	33	£ 75,625	£ 11,212	14.83%	10.46%
Administrative Penalties (overpayments & fines)	49	£191,753	£ 72,126	37.61%	25.21%
<b>Totals</b>	<b>92</b>	<b>£499,895</b>	<b>£ 99,491</b>	<b>19.90%</b>	<b>19.76%</b>

Whilst the overpayment recovery rate appears to be very low, the following need to be taken into consideration as they have an impact on the figures reported above:

- 73% of the sanctions achieved in the year to date were obtained in the last 6 months (October 2013 to March 2014) and these equate to 71% of the total overpayment value. Therefore there has been insufficient time for effective overpayment recovery to be achieved;
- The value of one of the prosecution cases alone is £76,500 and, although it is anticipated that this will be recovered as assets have been restrained; this will not be for at least another six months.

Although it can take time to progress cases where assets have been restrained under Proceeds of Crime (POCA) legislation, they usually result in the majority if not all of the overpayment being recovered. In 2013/14 more than £112k of overpaid HB was recovered using POCA in respect of three prosecution cases.



## 6.2 Summary of General Fraud Investigations in 2013/14

During 2013/14, two-hundred and thirty-three general fraud investigations were completed, the majority of which have been reported to the Committee during the year. The outcomes included:

- five Council properties recovered for re-letting;
- one application for housing stopped;
- two prosecutions for misuse of disabled badges;
- thirty-nine resident parking permits recovered/prevented from being issued, with an estimated saving of £270k;
- eleven disabled parking badges recovered/prevented from being issued, with an estimated saving of £83k;
- two disabled parking bays being removed from use;
- two members of staff dismissed;
- four investigations which resulted in the single person discount on Council Tax being removed.

The estimated value to the Council of the housing related investigations was in the region of £324k.

**If you have any queries about this Report or wish to inspect any of the Background Papers please contact:**

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### **BACKGROUND PAPERS**

Internal Audit Reports;  
Monthly monitoring reports.

## Internal Audit Plan – 2013/14

Plan Area	Job Title	Risk	Assurance	RAG Status	No of Priority 1 Recs	No of Priority 2 Recs	No of Priority 3 Recs	Reported to Committee
Public Health	Tri-Borough - Financial Accounting & Charging	High	Limited	Red	2	7	2	Apr-14
Adult Services	Residential Placements	Medium	Limited	Amber/Red	0	8	4	Jun-14
Corporate Services	Governance – Delegated Authority	Medium	Limited	Amber/Red	2	0	0	Jun-14
City Management	Commercial Waste	Medium	Limited	Amber/Red	2	6	16	Apr-14
Housing	Abbots Manor Residents' Association	Medium	Limited	Amber/ Red	1	2	2	Feb-14
Adult Services	Tri-Borough - Homecare	Medium	Limited	Amber	2	5	1	Nov-13
Adult Services	Tri-Borough – Departmental Risk Management	Medium	Limited	Amber	2	5	0	Jun-14
Children's Services	Tri-Borough - Troubled Families Part 1 (2 part audit)	Medium	Satisfactory	Amber/Green	0	2	2	Sep-13
Corporate	Anti-Fraud Policy	Medium	Satisfactory	Amber/Green	0	1	13	Apr-14
Finance	Local Council Tax Support	Medium	Substantial	Amber/Green	0	0	2	Feb-14
Finance	NNDR	Medium	Substantial	Amber/Green	0	1	3	Apr-14
Finance	Accounts Receivable (O2C)	High	Satisfactory	Amber/ Green	0	4	1	Apr-14
Finance	Accounts Payable (P2P)	High	Satisfactory	Amber/ Green	0	3	9	Apr-14
Finance	Housing Benefit	Medium	Substantial	Amber/ Green	0	0	5	Apr-14
Finance	Tri-Borough - Insurance	Medium	Satisfactory	Amber/ Green	0	3	6	Jun-14
City Management	Mayor for London - Funding	Medium	Satisfactory	Amber/ Green	0	3	0	Jun-14
City Management	Refuse Collection Contract	Medium	Substantial	Amber/Green	0	0	4	Nov-13
City Management	Parks & Open Spaces - Contract Monitoring	High	Satisfactory	Amber/Green	0	2	7	Nov-13
Housing	Lessee Charges	Medium	Satisfactory	Amber/Green	1	2	3	Apr-14
Housing	CWH - Business Transformation Delivery	Medium	Satisfactory	Amber/Green	0	3	3	Apr-14

## Internal Audit Plan – 2013/14

Plan Area	Job Title	Risk	Assurance	RAG Status	No of Priority 1 Recs	No of Priority 2 Recs	No of Priority 3 Recs	Reported to Committee
Housing	Right to Buy	Medium	Satisfactory	Amber/Green	1	1	7	Feb-14
Property & Housing	Corporate Property Investment Portfolio	Medium	Satisfactory	Amber/Green	0	5	4	Jun-14
Community Services	Records Management Centre	Medium	Satisfactory	Amber/Green	0	1	9	Apr-14
Property & Housing	Facilities Management Decommissioning	Medium	Satisfactory	Amber/Green	0	2	2	Feb-14
Property & Housing	CWH - Financial Accountabilities	Medium	Satisfactory	Amber/Green	0	4	3	Apr-14
Adult Services	Tri-Borough - New Social Care System (Framework)	Medium	Satisfactory	Amber/Green	0	3	0	Nov-13
Corporate Services	Customer Services/Complaints Handling	Medium	Substantial	Green	0	2	3	Nov-13
Corporate Services	Procurement Cards	Medium	Substantial	Green	0	1	4	Feb-14
City Management	Fees & Charges - Special Events	Medium	Substantial	Green	0	0	3	Feb-14
City Management	Third-Party Claims	Medium	Substantial	Green	0	0	4	Sep-13
City Management	Waste Disposal	Medium	Substantial	Green	0	4	1	Apr-14
City Management	Residents Parking Scheme	Medium	Substantial	Green	0	0	1	Jun-14
City Management	Parking - Bailiff Contract Monitoring & Management	Medium	Substantial	Green	0	0	2	Apr-14
Public Health	Tri-Borough - IT - Information Governance through NHS Connecting for Health	High	Substantial	Green	0	0	0	Apr-14
Housing	Discretionary Housing Payments	Medium	Substantial	Green	0	0	5	Apr-14
Corporate Services	Tri-Borough - IT Strategy	High	Satisfactory	Green	0	3	0	Apr-14
Finance	Tri-Borough - Local Support Payment Systems	Medium	Substantial	Green	0	2	0	Sep-13
Schools	As reported in Appendix 2							

## Advisory Reviews – 2013/14

In addition to the audits listed above, three advisory pieces of work were undertaken during 2013/14 by Baker Tilly on behalf of the Council. Two of these pieces of work were undertaken by specialists within Baker Tilly who are not part of the team that provide internal audit services due to the specialisms required by the Council. The engagement partner for the Internal Audit Service ensured that there was no conflict in interest for Baker Tilly in undertaking these reviews with the specialists reporting to the relevant service area in accordance with their terms of engagement.

Service Area	Job Title	Scope	Date of Review	Comments
Procurement	Transport	Review the ITT Documents and the evaluation process encompassing the award of the framework and Mini Competitions.	April 2013	Review undertaken by procurement and contract specialists who are not part of the internal audit team.
Finance	Income Management	Review the level of compliance with the current systems in place, as well as identifying actions that the Council needs to undertake to ensure that potential issues which may impact on managed services are dealt with.	March 2014	Further assistance will be undertaken on an advisory basis to support as required.
City Management	Parking	<p>Three reviews were undertaken between July and November 2013 to support the Council in procuring contracts in respect of parking services which covered:</p> <ul style="list-style-type: none"> <li>• A review of the proposed evaluation criteria and process to be applied, including proposed performance measures and pricing model;</li> <li>• A check to ensure compliance with the requirements of the EU Procurement Regulations;</li> <li>• A review of the PQQ evaluation process to ensure that it has been undertaken in accordance with the Council's agreed processes;</li> <li>• A review of compliance with the evaluation criteria;</li> <li>• A review of the tender evaluation process to ensure that it has been undertaken in accordance with the Council's agreed processes;</li> <li>• A review of all aspects of the evaluation process to ensure compliance with the evaluation process specified.</li> </ul>	July to Nov 2013	Review undertaken by procurement and contract specialists who are not part of the internal audit team.

## Performance Indicators – 2013/14

Internal audit performance is summarised below against a range of performance indicators:

Performance Indicators	Target	Actual	Comments
<b>Delivery</b>			
Percentage of audit jobs completed by 31 March 2014	85%	80%	Although all of the planned audit work had commenced before the end of the year, the field work for some audits could not be commenced until the end of March/beginning of April. These audits are due to be completed in Q1 of 2014/15.
Percentage of draft reports issued within 10 working days of fieldwork being completed	90%	89%	Slightly under target – purpose and importance of timeliness of delivery is a focus for improvement in 2014/15.
Percentage of audits finalised within 10 days of a satisfactory response	95%	100%	
<b>Quality</b>			
External audit conclude they can place reliance on Internal Audit work (annual)	Yes	Yes	
Percentage of jobs with positive feedback from client satisfaction surveys	90%	100%	Survey introduced wef Oct 2013 – 9/9 received score 3 or above.
Percentage of priority 1 & 2 recommendations accepted by management	95%	100%	
Percentage of priority 1 & 2 recommendations implemented by management	95%	94%	Small number of priority 2 recs not fully implemented at time of follow up.



# Westminster City Council

## Internal Audit

### Schools 2013/14 Year End Summary Report

May 2014

## 1. Introduction

- 1.1 The internal audit strategy allows for the schools within Westminster to be audited on a three-year cycle. The audit programme has been reviewed by Tri-borough audit service with the aim of adopting a common approach to school audits across the three boroughs and a revised programme was used for school audits at the three boroughs during 2013/14.
- 1.2 The audit programme is broadly based on the Schools Financial Value Standard (SFVS) assessment and has been designed to give assurance to the schools on their financial management processes.
- 1.3 The 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.
- 1.4 The Chief Finance Officer is required to submit an assurance statement to the DfE by 31 May 2014 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.

## 2. School Audit Visits and Follow Up

- 2.1 A summary of the schools audited in 2013/14, with the results of their most recent OFSTED inspection, is shown in the table at Appendix A.
- 2.2 Overall the results in 2013/14 have improved since the previous year, with nine schools receiving a substantial assurance opinion, five schools receiving a satisfactory assurance opinion and two schools receiving a limited assurance opinion (four substantial, four satisfactory and five limited assurance opinion audits were completed in 2012/13).
- 2.3 Three fundamental (priority 1) recommendations were raised as a result of the 2013/14 schools audits in comparison to four in 2012/13.
- 2.4 Seven follow up visits were undertaken in 2013/14 to check the implementation of recommendations raised in previous audits. These follow up audits confirmed that the implementation of recommendations is generally good (the results of the follow up reviews are contained in Appendix B).
- 2.5 The most common occurring issues in the audit reviews were:
- A lack of evidence of self-employment status for individuals not paid through the school payroll;
  - Declaration of interests not being signed by all Governing Body members and staff with financial decision making responsibilities;
  - Inadequate evidence of governor discussions and decisions;
  - A lack of evidence of oversight in the procurement process;
  - A lack of evidence of oversight and approval of the payroll;
  - Poorly maintained asset records.
- 1.3.5 A summary of assurance opinions provided over the last four years covering all schools is contained in Appendix C. From this, it can be seen that only eight schools have received a limited assurance opinion in the past three years. Six schools have improved their assurance opinions when compared with the previous audit visit in 2011/12, three of these improved from limited to satisfactory assurance and three from satisfactory to substantial assurance. The assurance opinion for one school, which has since become an academy, moved from substantial to limited assurance.



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

4.1 A number of schools became academies during 2013/14 and audits undertaken at these schools did highlight some issues that needed to be managed more effectively prior to a change in a school's status. The key issues were:

- A lack of understanding by the schools on the ownership and/or transfer of assets when they became academies;
- Inadequate arrangements in place to close down bank accounts and recover any cash floats held by the schools;
- A lack of understanding by the schools on the processes that would be in place to deal with payments relating to pre-academy expenditure.

1.4.2 In addition, concerns were raised about the controls and governance arrangements in place in the two federated special schools. Although these schools were audited in 2012/13, there had been a number of staff changes at the schools and the Federated School Business Manager requested support in recommending appropriate systems of control. The schools will be re-audited in 2014/15 to evaluate their progress in implementing the recommended improvements to their processes.

1.4.3 The auditors have been liaising with Children's Services Finance and the schools on the impact of Managed Services. The majority of the schools will be moving to new financial management systems during 2014/15 and will need to change a number of their existing systems and processes to accommodate this. Internal audit will provide support to the schools during this period of change and a contingency allowance has been provided for in our audit plan to accommodate this.

### **4. Proposed Management Actions**

4.1 As a result of the work undertaken in 2013/14, the following actions are recommended in addition to those already raised in individual school audit reports:

- Children's Services should take proactive action, in collaboration with schools, to address common areas of control weakness and improve the control environment within schools. Internal Audit is able to provide support, training and advice where appropriate.
- The Schools Finance Team should ensure that they are proactive in managing the transition for schools transferring to academy status, particularly in respect of ensuring that processes are in place for recovering or transferring Council assets such as cash and bank balances.
- The Schools Finance Team should work with the schools as they implement new financial management systems during 2014/15, to ensure that they are fully informed and aware of the Council's requirements.

## Appendix A - School Audits Undertaken in 2013/14

The table below summarises the assurance opinions and Ofsted inspection results for each of the school audits audited this financial year. A total of 16 school audits were undertaken:

- 14 primary schools;
- 1 secondary school; and
- 1 pupil referral unit

Any school which is given a limited assurance opinion will be reported to the Audit and Performance Committee during the year. Follow up audits are undertaken on all schools where fundamental (priority 1 or high) or significant (priority 2 or medium) recommendations have been made, regardless of the assurance opinion given.

School (date reported to Cttee)	Assurance & RAG	No of Recommendations				Follow Up Assurance & RAG	Date & result of Last Ofsted
		Pr 1	Pr 2	Pr 3	Total		
Beachcroft PRU (Nov-13)	Satisfactory	0	5	8	13	Satisfactory	Apr 2013 – Good
Churchill Gardens Primary (Feb-14)	Limited	2	4	9	15	N/A - Academy	Sep 2012 - Satisfactory
St Augustine's High (Nov-13)	Satisfactory	0	5	10	15	Substantial	Sep 2013 – Outstanding
St Edward's Primary (Nov-13)	Substantial	0	2	5	7	Substantial	May 2013 - Inadequate
Wilberforce Primary (Nov-13)	Satisfactory	0	4	10	14	N/A - Academy	N/A
Christchurch Bentinck Primary (Nov-13)	Substantial	0	0	3	3	Not required	Nov 2013 – Good
Gateway Primary (Sep-13)	Substantial	0	3	5	8	Not required	Jul 2008- Outstanding
Hampden Gurney Primary (Feb-14)	Substantial	0	2	9	11	Substantial	Jun 2009 - Outstanding
Hallfield Primary (Feb-14)	Satisfactory	0	3	7	10	Substantial	Nov 2013 – Good
Essendine Primary (Feb-14)	Limited	1	7	9	17	TBC	Mar 2013 – Good
St Augustine's Primary (Apr-14)	Satisfactory	0	6	11	17	Due Q1 2014/15	Oct 2013 – Good
All Souls Primary (Apr-14)	Satisfactory	0	5	7	12	Due Q2 2014/15	Jul 2011 – Good
St Gabriel's Primary (Apr-14)	Substantial	0	2	10	12	Due Q1 2014/15	Mar 2014 – Good
Barrow Hill Junior (Apr-14)	Satisfactory	0	1	4	5	Due Q2 2014/15	Jan 2013 – Good
St Vincent's Primary (Apr-14)	Substantial	0	4	6	10	Due Q2 2014/15	Nov 2010 - Outstanding
Burdett Coutts Primary (Apr-14)	Substantial	0	1	6	7	Due Q2 2014/15	Jan 2012 – Good

**Appendix B – Recommendation Follow ups Undertaken in 2013/14**

The table below shows the follow-up audits to review the implementation of recommendations at schools where priority 1 (fundamental/high) and/or priority 2 (significant/medium) recommendations had been made. Of the 57 recommendations followed up, 45 (79%) were implemented, 3 (5%) were partly implemented and 9 (16%) were not yet implemented (of which 8 were not yet due to be implemented).

School	No. of Recommendations Priority			Implemented			Partly Implemented			Not Implemented/ Not yet Due*		
	1	2	3	1	2	3	1	2	3	1	2	3
Hallfield Primary School	0	3	7	0	1	5	0	2	1	0	0	1
Hampden Gurney Primary School	0	2	9	0	2	9	0	0	0	0	0	0
Soho Parish Primary School	0	2	4	0	2	4	0	0	0	0	0	0
St Edward's Primary School	0	1	6	0	1	5	0	0	0	0	0	1*
St Gabriel's Primary School	0	2	10	0	0	5	0	0	0	0	2*	5*
St George's Hanover Sq Primary School	0	2	4	0	2	4	0	0	0	0	0	0
St James' & St Michael's Primary School	0	3	2	0	3	2	0	0	0	0	0	0
<b>Total</b>	0	15	42	0	11	34	0	2	1	0	2	7

## 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			
	2010/11	2011/12	2012/13	2013/14
<b>Nursery Schools</b>				
Dorothy Gardner		Satisfactory		
Mary Patterson		Substantial		
Tachbrook		Substantial		
Portman		Substantial		
<b>Primary Schools</b>				
All Souls CE	Limited			Satisfactory
Barrow Hill	Substantial			Substantial
Burdett Coutts	Satisfactory			Substantial
Christchurch Bentinck	Substantial			Substantial
Churchill Gardens (now an Academy)	Substantial			Limited
Edward Wilson			Substantial	
Essendine	Limited			Limited
Gateway	Substantial			Substantial
George Eliot		Substantial		
Hallfield	Limited			Satisfactory
Hampden Gurney CE	Substantial			Substantial
Millbank (now an Academy)		Satisfactory		
Our Lady of Dolours RC		Satisfactory		
Paddington Green		Substantial		
Queen's Park		Satisfactory		
Robinsfield		Substantial		
St Augustine's CE	Substantial			Substantial
St Barnabas CE		Substantial		
St Clement Danes CE		Substantial		
St Edward's RC	Substantial			Substantial
St Gabriel's	Satisfactory			Substantial
St George's Hanover Square			Satisfactory	
St James' & St Michael's			Limited	
St Joseph's RC		Substantial		
St Luke's CE			Limited	
St Mary's Bryanston Square		Limited		

School	Year			
	2010/11	2011/12	2012/13	2013/14
St Mary Magdalene's		Satisfactory		
St Mary of the Angel's		Satisfactory		
St Matthew's CE		Satisfactory		
St Peter's Chippenham Mews			Substantial	
St Peter's Eaton Square			Satisfactory	
St Saviour's CE		Substantial		
St Stephen's CE			Limited	
St Vincent's RC	Satisfactory			Substantial
St Vincent de Paul RC			Substantial	
Soho Parish CE			Limited	
Westminster Cathedral			Substantial	
Wilberforce (now an Academy)	Limited			Satisfactory
<b>Secondary Schools</b>				
St Augustine's				Satisfactory
St George's RC (now an Academy)			Satisfactory	
Schools now Academies (last audited 2009/10, all substantial assurance: <ul style="list-style-type: none"> <li>• Grey Coat Hospital School</li> <li>• Quintin Kynaston</li> <li>• St Marylebone</li> <li>• Westminster City School</li> </ul>				
<b>Special Schools</b>				
Queen Elizabeth II			Limited	
College Park			Satisfactory	
<b>Pupil Referral Unit</b>				
Beachcroft				Satisfactory

### Appendix D - Definition of Audit Opinions

We provide an opinion to the Council on whether they can be assured that the controls relied upon to manage risks are suitably designed, consistently applied and are effective. There are four categories of assurance opinion which are shown below

Opinion	Definition
Substantial Assurance	There is a sound system of control with good levels of compliance and few material errors or weaknesses identified.
Satisfactory Assurance	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 Assurance	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.
No Assurance	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.

### Appendix E – Recommendations

Issue	Recommendation & Priority
<p>Overall the results of internal audits in 2013/14 have improved since the previous year. The most commonly occurring issues in audit reports were:</p> <ul style="list-style-type: none"> <li>• A lack of evidence of self-employment status for individuals not paid through the school payroll;</li> <li>• Declaration of interests not being signed by all Governing Body members and staff with financial decision making responsibilities;</li> <li>• Inadequate evidence of governor discussions and decisions;</li> <li>• A lack of evidence of oversight in the procurement process;</li> <li>• A lack of evidence of oversight and approval of the payroll;</li> <li>• Poorly maintained asset records.</li> </ul>	<p>Children's Services should take proactive action, in collaboration with schools, to address common areas of control weakness and improve the control environment within schools. Internal Audit is able to provide support, training and advice where appropriate.</p> <p><b>Priority 2 (Significant/Medium)</b></p>

Issue	Recommendation & Priority
Some issues were identified which need to be managed more effectively when schools go through the transition to academy status.	The Schools Finance Team should ensure that they are proactive in managing the transition for schools transferring to academy status, particularly in respect of ensuring that processes are in place for recovering or transferring Council assets such as cash and bank balances. <b>Priority 2 (Significant/Medium)</b>
The implementation of Managed Services within the Council will impact on the financial systems operated within the schools which will require support from the Schools Finance Team.	The Schools Finance Team should work with the schools as they implement new financial management systems during 2014/15, to ensure that they are fully informed and aware of the Council's requirements. <b>Priority 2 (Significant/Medium)</b>

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The matters raised in this report are only those which came to our attention during the course of our review 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. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

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