

Report

Audit Committee

Part 1

Date: October 2019

Item No: 8

Subject **Call in of Headteacher & Chair of Governors of Caerleon Comprehensive School following Unfavourable Internal Audit Opinion.**

Purpose To allow Members of the Audit Committee to discuss, with the Headteacher and Chair of Governors their concerns raised in the Internal Audit review of:

- Caerleon Comprehensive School

and to gain assurances that action will be taken to improve the internal controls in operation and agree how to follow up implementation of actions

Author Chief Internal Auditor

Ward General

Summary Following the presentation of the Internal Audit's six monthly update on unfavourable audit opinions in June 2019, Members of the Audit Committee agreed to escalate their concerns and call the Headteacher and Chair of Governors of Caerleon Comprehensive School in to provide reasons why the controls were poor and provide assurances that action will be taken to make the necessary improvements. This was in relation to an **Unsatisfactory** audit opinion in relation to:

- Caerleon Comprehensive School

Proposal

- 1) To review and assess proposed actions and come to a view if they are robust and deliverable and will address the issues identified satisfactorily within reasonable timescales.
- 2) To ensure the Headteacher takes responsibility for implementing the proposed actions.
- 3) Agree that Internal Audit will carry out further follow up work in this area by the end of 2019/20 and report the resulting outcome back to Audit Committee.
- 4) The Audit Committee is asked to note the assurances given by the Headteacher that improvements will be made to the service provided by the implementation of the agreed management actions so that the further Internal Audit follow up review will result in a more positive audit opinion.

Action by	Audit Committee
Timetable	Immediate

Background.

1. An internal audit review is undertaken to provide assurances (or otherwise) that appropriate internal controls, governance arrangements and risk management processes are in place to safeguard the Council's assets, to ensure the proper use of public money and that it has been used effectively, efficiently and economically, that fraud, error and misappropriation has been minimised and overall risks have been reduced.
2. Following the presentation of Internal Audit's six monthly update on unfavourable audit opinions in June 2019, Members of the Audit Committee were concerned that a significant number of issues were identified in the original draft Internal Audit report of Caerleon Comprehensive School. They were concerned that the School was operating with a large budget deficit which was projected to reach in excess of £1.6 million within the next 18 months. No recovery plan was in place to reduce the deficit amount and the School had exceeded the licenced deficit amount without obtaining further approval from the LEA. The School was in breach of the June 2014 Intervention Plan and unable to repay the £500k loan agreement with the LEA.
3. The Internal Audit of this school identified 1 Critical weakness, 25 significant weaknesses and 18 Moderate weaknesses.
4. It is important to note that the Internal Audit opinion is based on a balance of strengths and weaknesses identified within the internal control environment; an **Unsatisfactory** opinion is given where the critical / significant weaknesses identified outweigh the strengths identified. Both strengths and weaknesses are based on the evidence, or lack of, seen by the Internal Audit team, or expected to be in place but wasn't, during the audit. This report is still in draft (@ 4/10/2019) as the Headteacher has continually disagreed with the many elements of the content and management actions of this report.
5. The timeline for the Internal Audit review was as follows:

	<u>Date of audit visit to the school</u>	<u>Draft Report Issue Date</u>	<u>Final Report Issue Date</u>	<u>Audit Opinion</u>
Original Report	5 th & 6 th December 2018	15 th March 2019	Not Applicable as at 4 th October 2019	Unsatisfactory

6. Initial responses and management actions were provided by the School on 29th March 2019. Between the end of March and September 2019 a number of meetings and correspondence have taken place between the School and Internal Audit. In the main, this was to give the School the opportunity to provide additional evidence in place at the time of the audit to help support a strength in control. Although some was forthcoming, it did not change the overall Unsatisfactory Audit opinion.
7. The issues identified during the course of the audits highlighted a continued lack of internal control and exposed the Council to an unacceptable level of risk. The table of critical, significant and moderate weaknesses identified during the review is shown at Appendix B. The critical risk related to the school's budget deficit position, the fact that it had not improved and the probability that it was likely to increase significantly.
8. The weaknesses shown at Appendix B are those which Internal Audit can support by evidence, or lack of evidence which should have been in place, as at 30th September 2019.

9. A follow up audit will need to be undertaken within 6 months of the issue of the final report, with the subsequent audit opinion being reported back to Audit Committee in due course.
10. One of the key objectives of an audit report is to outline compliance against expected controls within a system, an establishment or the duration of a project or contract. Generally, the audit report should give management assurance that there are adequate controls in place to enable the system to run effectively, efficiently and economically. If adequate controls are not in place then there is greater exposure to the risk of fraud, theft, corruption or even waste.
11. NCC Internal Audit reports outline strengths of the system under review along with any weaknesses in internal control. The reports are discussed with operational management where the issues identified are agreed. The operational manager will then add his / her action plans to the report which will address the agreed issue and mitigate any further risk.
12. Heads of Service and service managers are responsible for addressing any weaknesses identified in internal systems and have agreed to do this by incorporating their comments within the audit reports and taking on board the agreed management actions.
13. Internal Audit are continuing to raise the awareness of financial regulations and contract standing orders within the Council by delivering seminars to all service areas; during recent years this training has been further targeted towards areas that have had unsatisfactory audit opinions.
14. Where managers are compliant with Council policies and procedures and sound financial management can be demonstrated then audit reviews should result in an improved audit opinion being given. If, as a result, improvements are made to internal controls then greater assurance can be given by Internal Audit to the Audit Committee, the Leader and the Chief Executive on the overall effectiveness of all the Council's internal controls.
15. Giving management assurance on systems in operation gives them confidence that there is sound financial management in place, that more effective services can be provided and the risk of theft, fraud and corruption is minimised. Better service provision, looking after the public pound makes our City a better place to live for all our citizens

Financial Summary

16. There are no financial issues related to this report.

Risks

17. If the issues identified in the audit reports are not addressed then weaknesses in the control environment will continue which could expose the Council to a potential risk of non-compliance, fraud, error or misappropriation.

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Issues not addressed by implementation of agreed management actions	M	H	School Management need to agree what action they intend taking in order to address the identified weaknesses; this then needs to be implemented.	Headteacher / Chair of Governors

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

18. Giving management assurance on systems in operation gives them confidence that there is sound financial management in place, that more effective services can be provided and the risk of theft, fraud and corruption is minimised. Better service provision, looking after the public pound makes our City a better place to live for all our citizens, hence Improving People's Lives.

Options Available

19. This is a factual progress report and therefore there are no specific options to be considered. Internal Audit team assess the adequacy of the Council's internal control environment to ensure the public pound is spent wisely and appropriately and that fraud, theft and corruption is minimised.
20. The Audit Committee is asked to note the assurances given by the Chief Education Officer that improvements will be made to the service provided by the implementation of the agreed management actions so that the further Internal Audit follow up review will result in a more positive audit opinion.

Comments of Chief Financial Officer

21. This report is compiled on behalf of the Head of Finance. It is important that the Audit Committee review proposed actions thoroughly and come to a conclusion on whether improvements will be realised, within a reasonable timescale. It will be essential that Internal Audit carry out the follow up audit sometime in 2019/20 in this area and ensure controls have improved to satisfactory levels and this will provide the Committee's future assurance in this area.

Comments of Monitoring Officer / Head of Law & Regulation

22. The Report has been prepared in accordance with the Council's internal audit procedures and Performance Management framework. It will be important to review the adequacy of the proposed management actions to address the identified risks within acceptable timescales. In particular, critical risk areas will need to be addressed as a matter of priority.

Comments of Head of People and Business Change

23. The report highlights areas for concern within the operational management of the school. The Committee is being asked to consider whether the actions outlined and progress to date are satisfactory. Internal Audit provides a critical function within the Council to provide assurance on financial systems and monitoring and to highlight weaknesses so that issues can be identified and addressed.

The Chief Internal Auditor has considered the sustainable development principle as required by the Wellbeing of Future Generations Act (2015).

Comments of Cabinet Member

24. Not applicable

Local issues

25. N/A

Scrutiny Committees

26. N/A

Equalities Impact Assessment and the Equalities Act 2010

27. The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. In exercising its functions, the Council must have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other conduct that is prohibited by the Act; advance equality of opportunity between persons who share a protected characteristic and those who do not; and foster good relations between persons who share a protected characteristic and those who do not. The Act is not overly prescriptive about the approach a public authority should take to ensure due regard, although it does set out that due regard to advancing equality involves: removing or minimising disadvantages suffered by people due to their protected characteristics; taking steps to meet the needs of people from protected groups where these differ from the need of other people; and encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.
28. As this is not a decision making report there is no need for an Equalities Impact Assessment. All audits are undertaken in a non-discriminatory manner.

Children and Families (Wales) Measure

29. N/A

Wellbeing of Future Generations (Wales) Act 2015

30. In compiling this report the principles of this Act have been considered:
- Long term: The Internal Audit workload is based on an annual operational plan supported by a 5 year strategic plan

- Prevention: Internal Audit identify strengths and weaknesses within the control environment of Newport City Council; addressing the weaknesses gives management the opportunity of preventing gaps in service provision getting worse. This should also minimise the potential for fraud, theft, loss or error.
- Integration: Internal Audit opinions provide an objective opinion on the adequacy of the internal control environment in operation and support sound stewardship of public money.
- Collaboration: Internal Audit work with operational managers to develop an appropriate action plan in order to address identified concerns.
- Involvement: Heads of Service and Senior Managers are invited to contribute to the audit planning process each year in order to prioritise audit resources.

Crime and Disorder Act 1998

31. The work undertaken by Internal Audit should minimise potential fraud, corruption, theft or misappropriation within the Council. Allegations of potential criminal activity will be investigated and reported to the police where appropriate.

Consultation

32. N/A

Background Papers

33. N/A

Dated:


Appendix A

INTERNAL AUDIT SERVICES – RISK RATINGS / AUDIT OPINIONS

- The following ratings have been applied to the individual weaknesses identified during the follow up audit

RATING	DESCRIPTION
CRITICAL	Major risk to the system.
SIGNIFICANT	Unacceptable risk.
MODERATE	Risk partially mitigated but should still be addressed.

- The Audit Opinion has been colour coded based on a traffic light system and the report only contains key issues which need to be addressed.

	GOOD	Well controlled with no critical risks identified which require addressing; substantial level of assurance.	Green
	REASONABLE	Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.	Yellow
	UNSATISFACTORY	Not well controlled; unacceptable level of risk; changes required urgently; poor level of assurance.	Amber
	UNSOUND	Poorly controlled; major risks exists; fundamental improvements required with immediate effect.	Red

SUMMARY OF WEAKNESSES

The tables below summarise the individual weaknesses identified during the review.

Ref.	CRITICAL
6.01	The School was operating with a large budget deficit which is projected to reach in excess of £1.6 million within the next 18 months. No recovery plan was in place to reduce the deficit amount and the School had exceeded the licenced deficit amount without obtaining further approval from the LEA. The School was in breach of the June 2014 Intervention Plan and unable to repay the £500k loan agreement with the LEA.

Ref.	SIGNIFICANT
1.05	Receipting of budget income was not always completed promptly. Formal receipts issued did not always reflect the actual date of income received.
1.06	The income processes at the School lacked a segregation of duties. Paye.net banking reports and paying-in counterfoils had not been independently certified by the Headteacher / a designated senior officer.
1.07	There was no evidence to confirm that the School's Lettings Policy and Fees & Charges had been reviewed and agreed by the Governing Body on an annual basis. Charges for the lettings were not consistent and were collected in arrears.
2.09	The procurement quotation process for appointing a Catering Contract Management company did not present all available options to Governors. The Contract Manager was costing the School in excess of £22k over a 3 year period, despite running a deficit budget.
2.10	The School had not acquired quotes in accordance with Contract Standing Orders for Schools and there was no evidence available to support that the School had always conducted market-testing to demonstrate value for money when purchasing goods and services.
3.04	A staffing structure detailing names and job titles was not available at the time of the audit. The Teaching and Learning Responsibility (TLR) posts at the School had not been reviewed since 2015.
3.05	DBS checks were not always completed prior to members of staff commencing work at the School. In the absence of a DBS check, a DBS Risk Assessment was not always completed prior to the employees start date with the DBS application form being submitted to the DBS.
3.06	Staff were permitted to take 3 days paid leave of absence if their child was unwell. This was not recorded onto the HR & Payroll system. There was no documented policy at the School and evidence of Governing Body approval for these arrangements was not provided.
3.07	High levels of Time off in Lieu (TOIL) were being accrued by members of staff with no evidence of authorisation for the additional hours being worked. The School did not have a TOIL policy and when requesting days off using accrued TOIL, full information was not provided to the Deputy Headteacher. TOIL earned was sometimes paid as additional hours.
3.08	A number of Sickness Absence and Return to Work Discussion forms could either not be located or were not completed in full.
3.09	The review of driving at work documentation was not sufficient, had not been conducted on an annual basis for all staff and those who drove fleet vehicles / transported young people did not have their licence reviewed every 6 months.

Ref.	SIGNIFICANT
4.05	The School Private Fund management committee was not documented as meeting on a regular / termly basis to review the activities of the fund. The Fund Constitution document could not be located at the time of the audit.
4.06	Supporting documentation to identify the date and source of school private fund income being initially received was not present to support the School trip income. Teaching staff were collecting and holding significant sums of money which was in excess of the Schools Insurance arrangements.
4.07	Expenditure in relation to 'tips' on School trips were not always detailed and accompanied by supporting documentation.
4.08	The School was operating the School Private Fund across more than the permitted number of bank accounts and monthly reconciliations only accounted for 1 of the 3 SPF bank accounts held. There was no mandate held for the two additional bank accounts operated. The treasurer had online bank account access and the ability to move funds without any prior authorisation or oversight.
4.09	The SPF accounts for 2017/18 had not been independently audited. Previous account audits had not included the full fund (i.e. 3 bank accounts) and were completed by an employee of the School.
5.05	The School's inventory record was incomplete at the time of the review and did not detail all required information. It was not possible to complete an inventory check of the School's assets.
5.06	The School did not have an adequate safe and had not reviewed the access controls for a considerable period of time.
5.07	The records in support of the School's minibus were not fully completed and the statutory daily defects check sheets were not being completed.
6.02	There was no evidence to confirm that the School's budget for 2018/19 had been formally approved by the Governing Body.
6.03	No visit had been made by Schools Finance to the School for budget monitoring purposes for 5 months, despite the projected deficit. Previous visits were not made in accordance with the School's Intervention Plan (June 2014).
6.04	No budget monitoring / reconciliation documentation could be provided by the School for the period prior to the new School Business Manager commencing employment. (July 2018)
6.05	The School budget (deficit) was not a standing agenda item at the Full Governing Body meeting's The finances of the School were not regularly and sufficiently discussed by either the Full Governing Body or the Finance Sub-Committee as per the recorded minutes.
7.03	Minutes of Governing Body meetings were not readily available at the School (signed or otherwise)
7.04	Register of Business Interest forms for members of the Governing Body could not be located and had not been completed for staff employed at the School.
7.05	A number of Statutory School policies appeared out of date on the audit visit. Governing Body approval for these policies was not provided to Internal Audit.

Ref.	MODERATE
1.08	Invoices were being raised by the School in excess of £200 without going through the Corporate Debtors system.
1.09	The control record used to monitor outstanding debts was not complete. A number of invoices had been paid via the NCC Debtors system but the School records indicated the amounts were still outstanding.
1.10	The rental income for the caretaker's house had not been reviewed on an annual basis in line with the tenancy agreement.

Ref.	MODERATE
1.11	The School did not have an agreed entitlement policy for the provision of free meals to staff. Hospitality requests observed at the School were signed off by a member of staff who was absent at the time of the request's authorisation.
2.11	Purchase orders were not always raised in advance of the order being placed and the invoice being received.
2.12	Although outstanding order reports were run and reviewed by the Finance Officer on a monthly basis these were not fully annotated with the reasons for the invoices being outstanding nor reviewed by the School Business Manager. The School had 2 outstanding purchases relating to 2017.
3.10	Regular overtime was being paid to the Caretakers at the School. Income received from weekend lettings did not cover the overtime costs paid to staff. Overtime claim forms were not completed in full.
3.11	Midday supervisor allowances were paid to senior members of staff costing the School approx. £40k during the previous 12 months. As well as the allowances, these staff were also provided with a free meal. The Deputy Headteacher had approved the extension to his own midday supervisor contract.
3.12	The actual duties of the Site & IT Services Manager were not in line with the Job Description and grade.
3.13	Line rental was paid to the Site & IT Services Manager for their personal mobile phone rather than using an agreed corporate contract.
4.10	The Headteacher was not a signatory on the School Private Fund Account.
4.11	The spreadsheet used to manage the School Private Fund transactions did not detail all income received.
4.12	Statements of Account for School trips were not completed promptly and were not reported to the management committee.
5.08	The School did not have an agreed policy for the disposal of assets. There were no records maintained for assets disposed of prior to the Audit.
5.09	Portable IT and electrical equipment had not been security marked as belonging to the School / NCC.
5.10	The School did not have a complete key holder list identifying those with access to the School buildings. Keys held on the premises were not adequately concealed.
5.11	The process for visitors signing in and out at the School was inefficient.
6.06	The virement limit for the Headteacher was approved by the Finance Sub-Committee. There was no approved spend limit.