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Introduction

Welcome to the 38th issue of Audit Matters. We hope you find this edition useful and informative. As always, comments for improvement, or indeed suggestions for articles, are welcomed (e-mail Dianne Harris – dianne.harris@leics.gov.uk). A reminder that the Leicestershire County Council Internal Audit Service (LCCIAS) pages of the County Council's web-site contain lots of helpful advice, as well as copies of previous bulletins:- www.leics.gov.uk/audit_schools_colleges

Internal Audit and External Audit – What are the differences?

There are actually a significant number of differences between the two but in summary format the table below shows some of the main differences. Those schools that choose to become academies are required to have External Audits; this is not a requirement for Local Authority maintained schools. However at this stage we are unable to provide External Audit but do offer a number of Internal Audit Services to Academies. Should any school seeking to become an academy require further information on this please contact Scott Brownlow 0116 305 7610 or scott.brownlow@leics.gov.uk.

Internal Audit	External Audit
<p><i>"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."</i></p> <p>(Institute of Internal Auditors)</p>	<p><i>"External auditing is a periodic examination of the books of account and records of an entity carried out by an independent third party (the auditor), to ensure that they have been properly maintained, are accurate and comply with established concepts, principles, accounting standards, legal requirements and give a true and fair view of the financial state of the entity."</i></p> <p>(Chartered Institute of Management Accountants)</p>
<p>The main function of an internal audit is to review the systems and procedures in place to give assurances to a school's management that they are operating effectively, and that business risk is managed / minimised in all key areas.</p>	<p>The main function of an external audit is to ensure that a school's financial statements are prepared in accordance with UK and international financial reporting standards, are free from material misstatements and provide a "true and fair" view of the financial state of the organisation from its underlying financial records.</p>

What are the differences continued.....

<p>The role of internal audit is to a large extent determined by the school's management and governors, and will inevitably focus not only on finance, but also on matters such as risk management, operational efficiency and effectiveness; non-financial risk, prevention of fraud and irregularity; and strategic planning.</p>	<p>Part of an external auditor's work typically includes to evaluate, document and conclude on the adequacy of the internal auditor's work.</p>
<p>It is for a school's management to establish its rules of operation, within the confines of legal boundaries (e.g. in Finance Policies and other governance documentation). An internal audit will measure a school's compliance against those local rules.</p>	<p>An external audit of an academy school must be carried out by a "Registered Auditor", under the provisions of the Companies Act.</p>
<p>An internal audit will assess a school's level of compliance against relevant Education legislation and good practice (e.g. Schools' Financial Value Statement) and other UK legislation (e.g. VAT legislation).</p>	

So, what would a LCC internal audit give to a school that an external audit typically would not:-

- Assurance on the effectiveness of internal controls, including commending good practice
- Control advice seeking to minimise a school's exposure to risk, including that of fraud and irregularity
- Advice on efficiency
- Sharing of good practice based on our knowledge of practices in other schools
- A review of a school's risk management processes, including all forms of business risk (e.g. financial, human, operational, reputational, legal, governance ...)
- Audit programmes aligned with the requirements of the Schools' Financial Value Statement (SFVS) and the Academies' Financial Handbook
- A range of traded ad hoc services for schools to access as and when required
- (e.g. grant funding audits, reviews of new systems)
- Telephone or email support (e.g. routine queries)
- Termly "Audit Matters" bulletin
- Periodic fraud alerts (e.g. cascaded down from Trading Standards, the banks, other schools etc.)

Additionally, we will look to:-

- Forge an effective working relationship with your external auditors, to avoid areas of duplication, and to the end that the external auditors can place confidence and reliance in the work undertaken by Internal Audit. This arrangement can only benefit all parties, as well as minimising external audit fees payable by the school.

Safeguarding / Safer Recruitment In Schools



Following the completion of a recent audit looking at safer recruitment procedures in schools and colleges, a number of areas of non-compliance were noted from the sample of schools visited whereby establishments could find themselves exposed to risk in one or more of the following areas:

Human: Increased risk of injury or harm to a pupil, a member of staff, a volunteer or a visitor.

Financial: The School may suffer financial loss (e.g. through litigation or through operational inefficiency)

Reputation: The School / Local Authority may receive internal and external criticism and adverse publicity (e.g. OfSTED inspection)

Legal: The School / Local Authority may be subject to legal action.

Although Guidance on Safer Recruitment is currently available on EIS the LA is currently in the process of revising this guidance which it is understood will be made available to schools and colleges in Autumn 2011.

The audit involved visiting a sample of schools and reviewing their recruitment procedures with a view to giving assurances that procedures are effective and serves to safeguard children against risk. Checks were undertaken to ensure for a random sample of new appointees, that the school had, and was indeed able to demonstrate that it had undertaken the following important checks:-

References
Qualifications
Right to Work in the UK
Medical Fitness Checks
CRB checks
First Aid Qualifications

Testing identified that there was some confusion over current requirements and what information schools and colleges should be retaining as evidence of checks having been carried out.

Some of these checks are legislative requirements and schools may incur a financial penalty for non-compliance (e.g. £10k fine for employing a person who has no right to work in the UK) or criticism from government, parents or the media (e.g. no evidence of CRB checks carried out, no verification of references, qualifications, gaps in employment history etc.). Schools and colleges could be increasing the risk to pupil and staff safety where the employment history of individuals is not checked at recruitment stage and relevant references not verified or where the school does not have adequate numbers of qualified first aid staff available on site.

Schools and Colleges should review their current recruitment procedures to confirm that the relevant checks are being undertaken and that this can be evidenced; and also what information they should and should not be holding on an individual's file. Further advice, if required, should be sought in the first instance from the ESC helpdesk: 0116 305 8815 eschelpdesk@leics.gov.uk.

As well as the information held on EIS, schools and colleges can access the following guidance to confirm that they are complying with current legal requirements when recruiting new staff:

https://portal.leics.embc.uk.com/eis/laservices/hr/Documents/HR%20A-Z%20Policies,%20Procedures%20and%20Guidance/dfes_safeguarding_children_safer_recruitment.pdf

FRAUD ALERT



Changes to Bank Accounts

Be Alert

There has been an increasing amount of frauds reported nationally concerning supposed changes to supplier bank account changes. Look out for the following tell-tale signs:

The fraudster may initially telephone an organisation and ask for a contact name that they can send the invoice to. A written request will be sent (this will appear in order and seemingly from a known supplier, contractor, etc) advising you that they have changed their bank account details used to receive regular payments. The request is usually on headed paper which appears authentic.

The details for the Company Secretary, Finance Director or other officials, including their signature, will often appear correct. This information has likely been copied from the Company's Annual Report and/or web site.

Email addresses used by the fraudsters are very similar to the genuine suppliers, contractors and other third parties.

How you can protect your organisation

ALWAYS undertake an independent check with the company who is asking for their bank details to be changed, using a known contact telephone number and not simply the one on the letter. Ask to speak with the Accounts Department or Credit Control Department.

Initiate the same process as above for any new suppliers / payments.

Do not publish your bank account details on the internet (the site may get cloned and genuine customers may end up sending monies to the fraudsters' account).

Ensure that information is not disclosed to third parties who are not entitled to receive it or who cannot be suitably verified.

The Home Office's Action fraud web-site contains useful resources to help in the fight against fraud:-
<http://www.actionfraud.org.uk/>

Fraud / Misappropriation

Importance of Segregation of Duties

At a recent meeting of the Midland Counties' Fraud Group, it was apparent across the member authorities how the levels of fraud and financial irregularity were significantly on the increase, although to be fair similar trends have not yet been noted within Leicestershire. A particularly high number of financial irregularities were being reported by other authorities in their schools, and generally in the following areas:-

- Travel claims
- Overtime and honoraria
- Petty cash
- Purchasing cards
- Private funds

In most instances, the frauds were compounded by a lack of effective internal control in the schools (segregation of duties). We cannot emphasise enough that trust in an individual is not a substitute for good internal control. Wherever possible, there should be an element of internal check in all financial procedures, for example the review and authorisation of petty cash expenditure prior to disbursement.

Other Frauds

Further useful information on the types of frauds that schools can be faced with can be found on the audit pages of the LCC website:-

www.leics.gov.uk/audit_twenty_common_frauds_and_scams.htm

Schools' Financial Value Standard (SFVS)

During the Summer, the Department for Education (DfE) formally launched the replacement to the Financial Management Standard in Schools (FMSiS) – the Schools' Financial Value Standard (SFVS). A dedicated section of the DfE web-site exists which provides a significant amount of information and further resources on the SFVS:-

<http://www.education.gov.uk/schools/adminandfinance/financialmanagement/Schools%20Financial%20Value%20Standard>

Whilst schools will be able to read this information at their leisure, we have extracted some of the headlines from it, detailed in bullet point below:-

- The SFVS is an annual process of self-assessment, as opposed to its predecessor (FMSiS) which was a three-yearly assessment process.
- For those schools that attained an FMSiS pass under the previous Standard, the first requirement under SFVS will be to have self-assessed by 31st March 2013 (and annually thereafter).
- For those schools that have not attained an FMSiS pass under the previous Standard, the first requirement under SFVS will be to have self-assessed by 31st March 2012 (and annually thereafter).
- Schools must return their signed and completed SFVS to the LA by 31st March (the majority, therefore, being due for the first time by 31st March 2013).
- There is now no mandatory external assessment. SFVS is not externally assessed like FMSiS. It is designed in the first place to engage governing bodies through a much simpler set of questions and supporting material. Then it is expected to feed into the regular internal audit processes of local authorities.
- The DfE expects that LAs will use the annual SFVS returns to help to determine its pattern of Internal Audit. This we have always done (i.e. with FMSiS results), and will continue to do so by adjusting standard visit frequencies for pass / fails.
- There are two versions of the SFVS on the DfE web-site, link above, and one containing supplementary support notes for schools. These are similar to the notes contained in the FMSiS Toolkit and serve to assist schools in various areas of their financial management and governance.
- The SFVS contains 23 questions that schools must answer either "Yes", "In Part" or "No". Where schools state "Yes", they should state what evidence they hold in support of this. Where schools state "No" or "In Part", they should state what remedial action is to be taken and the timescales.
- Annually, a detailed report must be provided by the school to the full governing body.
- Part of the role of Internal Audit during cyclical visits will be to check that the school's assessment is in line with our own judgement. Major discrepancies will be reported to the governors.
- Annually, the Authority's s.151 officer (Director of Resources) must sign a CFO DSG Statement saying how many schools have returned a SFVS statement to the LA, and giving assurances that the Internal Audit programme of work takes into account SFVS (e.g. testing compliance).
- Compliance with the requirements of the SFVS is mandatory for all LA-maintained schools. Since SFVS will be brought within the scope of schemes for financing schools, it will be in the scope of local authorities' powers to issue a notice of concern or in extremes to withdraw financial delegation. Local authorities could issue a notice of concern where schools fail to complete SFVS as required. They could also consider publishing a list of schools that have not completed SFVS on time.





Ask the auditor



Electronic Invoices

Q: Have audit given any thought as to how we can stop printing off invoices that are received electronically and yet still be stored in a way which is acceptable to audit?

A: We have attached guidance obtained from the HMRC website in relation to this (see below) and it would appear that this is acceptable as long as they are easily accessible (there needing to be a logical way of storing the invoices) and securely stored (captured as part of regular back-up routines).

If you do move a stage further and look to microfiche / microfilm normal (i.e. non-electronic) invoices, then please ensure that you check this through with Bev King (Taxation coordinator) (bev.king@leics.gov.uk) first as you will need HMRC agreement to do so.

Storing Electronic Invoices

As with paper, you need to keep proper records of all electronic invoices you send and receive for six years. If you upgrade to a new computer system which is not compatible with your old system, you must make sure that the records held on your old system remain accessible for up to six years. If this is not possible, then you must make paper copies.

You can also keep your records on microfilm or microfiche, as long as you have received approval from HMRC and it is easy for VAT officers to view those records when they need to.

You need to store your invoice data securely in a way that allows you to:

- *keep all original invoice data*
- *prevent data from being corrupted*
- *reproduce original invoices at any time in a readable format*
- *find details of any invoice quickly and easily*

At the very least, you should consider password-controlled access to your invoice data, and taking regular backups - and checking that you can recover from backup reliably.

These requirements also apply if you store scanned images of paper invoices electronically.

Producing invoice records for HMRC

When they check your VAT records, HMRC will need to see your electronic invoices in a readable format. For more complex systems this might mean holding data in a way that allows for it to be converted to a readable format, or it might simply be that you are able to print out an email or invoice attached to an email when requested to do so by HMRC.

School Purchases by Personal Debit / Credit Card

Q - Is there anything wrong in a member of staff making a purchase for the school with their own debit or credit card?

A – We get asked this frequently at audit visits and whilst we appreciate that staff make purchases with all the best intentions there are a number of reasons, some of which are listed below, why we encourage schools to avoid this wherever possible:-

- VAT issues – A school can not claim VAT back if the invoice is not addressed to the school but to an individual. In this case the charge for the item would be greater as the school would be unable to recover VAT.
- Authorisation issues – A member of staff may not have the authority to make a purchase on the school's behalf or have insufficient budget available to make the purchase. Normal ordering procedures require the budget holder to approve any order beforehand and that official orders are raised to ensure that the value of the order is committed on the SIMS system.
- Contract law issues – Under the Sale of Goods Act, the contract would not be seen to be between the merchant and the school. This could feasibly cause issues, for example if the goods are not of merchantable quality.

Where the school has to make purchases using a payment card our recommendation would be to consider the benefits of obtaining a payment card specifically for the school. The LA's recommended product is the Government Procurement Card (GPC), and is available to all Schools irrespective of their bankers, the GPC is a charge card which offers the respective advantages of both debit and credit cards (e.g. establishing of credit limits, payment of whole balance by direct debit each month etc.).

Further information on payment cards can be obtained from Safina Khalifa in the Financial Analysis & Information Team (FAIT) (safina.khalifa@leics.gov.uk).



Quarterly Statistics

A total of 40 schools were visited routinely between April and September 2011. These schools were categorised under the Section's MOT scoring methodology as follows:-

- 1 school was scored as 'far exceeding the standard that we measure against' (2.5%)
- 20 schools were scored as being 'well above the standard that we measure against' (50%)
- 14 schools were scored as being 'above the standard that we measure against' (35%)
- 4 schools were scored as 'reaching the standard that we measure against' (10%)
- 1 school was scored as 'generally meeting the standard that we measure against but with major improvements needed in some areas' (2.5%)
- 0 schools were scored as being 'below the standard that we measure against' (0%)

During the period April to September 2011 we reported 98 specific **efficiency recommendations** to schools. These covered potential efficiency gains such as an elimination of duplicated procedures, expanded use of school charge cards, migration to BACS as a method of paying suppliers, automation of budgetary reporting to governors, cash collection procedures etc.

Efficiency Item

Gift Aid

In August 2011 HM Revenue & Customs published a guide on Gift Aid (incorporating Payroll Giving) for school charities.

The term 'school charity' has no special meaning and is used in the guide to describe any charity associated with the running of a school. There must be a school charity if Gift Aid is to be claimed because only charities can claim Gift Aid. So if the school's private fund or Parent Teacher Association has charitable status or if you are a voluntary aided / controlled school with established charitable status you may wish to read on.

To qualify for gift aid, donations must be gifts of money made by an individual UK taxpayer to a charity and there must be no tangible benefit for the 'donation' received. For example a

donation received for admission to a fund raising concert / event would not qualify as a charitable donation and therefore would not qualify for gift aid. However, if you asked for a donation towards a non-uniform day, provided there is no link between who pays and the student who is allowed not to wear school uniform, donations received would qualify for gift aid (In this example all pupils would need to be allowed not to wear school uniform, whether or not they have made a donation, in order for the payments received to be charitable donations.)

Donations received in respect of general fund raising for building projects, equipment etc could possibly qualify for gift aid provided there is no connection between who gets access to anything purchased by the fund and which parents donate.

Of course there is some form filling required before you can be recognised for UK charity tax relief but claiming gift aid is a way to maximise your income through donations.

For further information please refer to the HMRC guide at: http://www.hmrc.gov.uk/charities/gift_aid/rules/school-charities-ezine.pdf

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Bulletin 35 (October 2010) referred Leicestershire County Council Audit Service working more collaboratively with their counterparts at Leicester City Council with consideration being given to entering into a formal shared service. This is now formally progressing with a Head of Internal Audit Shared Service having been appointed in May 2011.

As part of the shared service this will enable both City and County internal audit teams to develop the services they provide and share expertise. In terms of school visits even before the shared service is operational we will be undertaking a handful of audit visits to City schools to see how they conduct visits and build on areas of good practice. City audit staff will also be accompanying us on a handful of audit visits to County schools.

Useful Contacts



General Finance & Budget Issues
Financial Analysis and Information Team
 0116 305 7646 / 7635
FAIT@leics.gov.uk

VAT Queries
 Bev King, Taxation Co-ordinator
 0116 305 7670
bev.king@leics.gov.uk

School Food Support Services
 Louise Studd – Business Manager
 0116 305 5771
louise.studd@leics.gov.uk

Receipt Books
 Finance Shared Services Helpdesk
 0116 305 3772
fsc.helpdesk@leics.gov.uk

Trading Standards Business Advice Line
 0116 305 8000
tradingstandards@leics.gov.uk

Strategic Finance / Budget queries /
Devolved Formula Capital
 Marjorie Allen-Carter, Vanessa Tatler
 0116 305 7646 / 6668
marjorie.allen-carter@leics.gov.uk
vanessa.tatler@leics.gov.uk

Internal Audit Savings Suggestions
savingsuggestions@leics.gov.uk

Child Protection / Safeguarding Children
in Education
 Child Protection Development Officer
 0116 305 7750

Software Licensing / SIMS Queries
 LEAMIS Helpdesk
 0116 2311280

Risk & Internal Control
 Schools' Audit Team
 0116 305 7603
dianne.harris@leics.gov.uk

Human Resources & Payroll Queries
 Employee Service Centre
 0116 305 8815
ESChelpdesk@leics.gov.uk

Governor Development Service
 0116 305 6518
governors@leics.gov.uk

Information Security
 Katie Robey, Systems Information
 Manager
 0116 305 5783
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Tell us what you think of the new look bulletin!!

Please send feedback to Samantha.Hampson@leics.gov.uk



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