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22.0 **AUDIT ARRANGEMENTS**

22.1 **Internal Audit**

Internal Audit is an independent appraisal function for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. The service is delivered by Veritau limited, a company wholly owned by the County Council and the City of York Council whose staff work to the Public Sector Internal Audit Standards issued by the UK Public Sector Internal Audit Standards Advisory Board.

22.1.1 Internal Control

This comprises the whole system of controls, financial and otherwise, which are established by Management in order to carry on the business of an organisation in an orderly and efficient manner, ensure adherence to management policies, safeguard assets and secure as far as possible the completeness and accuracy of records. So far as the Children & Young People's Service is concerned, Management encompasses Head Teachers and Governing Bodies in addition to staff within the Children and Young People's Services Directorate.

22.1.2 Independence

Internal Audit is independent of the systems and departmental activities it reviews and reports its findings to the appropriate level of Management. Reports on the audits of individual schools are sent to the Corporate Director Children & Young People's Service, the Head Teacher and the Chairperson of the school's governors. A summary of school audits is reported annually to the Schools Forum and the County Council's Audit Committee.

22.1.3 Legal Requirement

The Corporate Director – Strategic Resources is designated by the Council, under Section 151 of the Local Government Act 1972, as the officer responsible for making proper arrangements for the administration of its financial affairs. The Accounts and Audit Regulations 2011 require the authority to maintain an adequate and effective internal audit of accounts. This function is the responsibility of the Assistant Director – Central Finance who acts as client officer for the delivery of Internal Audit Services.

22.1.4 Authority of Internal Audit

LMS Financial Procedure Rules state that Veritau staff are authorised to:-

- a) enter at all reasonable times on any premises or land used by the school;
- b) have access to all correspondence, documents, books or other records relating to any financial or other transactions of the school;
- c) require and receive such explanations as they consider necessary to establish the correctness of any matter under examination;
- d) require the production of cash, stores or other school property for inspection.

The authority with respect to schools is detailed in paragraph 20 of the LMS Financial Procedure Rules (to be found in Annex F to the LMS Scheme in Section 2.0 of this manual).

The Corporate Director – Strategic Resources **shall be notified immediately of all financial or accounting irregularities or suspected irregularities** or of any circumstances which may suggest the possibility of irregularities taking place including those affecting cash, stores, property, remuneration or allowances. In practice the Head of Internal Audit, the Customer Relationship Manager or the Audit Manager (Children and Young People's Service) should be notified.

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Headteachers and Governing Bodies shall not introduce new, or amend existing, accounting procedures, systems and instructions without consultation with and the prior approval of the Corporate Director – Strategic Resources.

In carrying out their duties auditors do, of course, have an obligation to safeguard confidentiality.

22.1.5 Objectives

It is the responsibility of Management, i.e. the Governing Body and Head Teacher, to install internal control procedures to ensure efficient and well ordered operations. The objective of Internal Audit is to assist all levels of Management in the effective discharge of this responsibility by carrying out appraisals and analysis and by making recommendations concerning the activities and operating procedures under Managements' control. Meeting this objective places a responsibility on Internal Audit to review, appraise and report upon:-

- a) the soundness, adequacy and application of accounting, financial and other management controls, both existing and proposed;
- b) the level of compliance with established policies, plans and procedures and the consequential financial effects;
- c) the extent to which the organisation's assets and interests are accounted for and safeguard from losses of all kinds arising from:-
 - i. fraud and other offences
 - ii. waste, extravagance and inefficient administration, poor value for money or other cause.
- d) the suitability and reliability of financial and other management data developed within the organisation.

22.1.6 Activities

These can broadly be defined under 4 categories:-

- i. **Systems Audits:** A detailed appraisal to ensure that systems are efficiently designed, contain adequate internal controls and produce sufficient and timely management information.
- ii. **Regularity Audits:** Routine visits are made to council establishments to ensure that good standards of financial management and administration are maintained.
- iii. **Investigations:** Internal Audit is responsible for investigating and reporting upon all instances which may involve fraud or irregularity and for special investigations requested by Management. The procedure to be followed when dealing with financial irregularities is attached as Appendix 1.
- iv. **Advisory:** Some time is spent each year responding to requests from schools, Directorates and Service Units for advice on various aspects of their procedures. In addition, a **Schools Audit Newsletter** is published each term and training courses are made available for governors and school staff.

22.1.7 Audit Programmes

All schools are subject to full audits on a periodic basis. A Risk Assessment Model is used by Veritau to allocate scores to schools and ensure that the best use is made of limited audit resources. Additional visits or visits ahead of schedule can however be made where the assistance of the Internal Audit Service is requested. It should be noted in particular that Veritau can bring forward full audits if a school wishes as a way of ensuring that its financial procedures stand up to Ofsted scrutiny. There may also be occasions for brief visits to be

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made to schools in order to provide assistance with particular aspects of financial systems and ensure that they are understood and complied with.

The timing of the audit visit will normally be agreed between the Headteacher or Business Manager and the auditors between two and four weeks prior to the start of the audit. An Audit Specification will then be issued to the school setting out arrangements for the audit and Veritau will request that a Pre-Audit Questionnaire be completed and returned before the audit to minimise the disruption that may be caused on the day(s) of the visit by asking questions, etc. "Full" audits may involve two auditors and involve preparatory work at County Hall, days "on site" and then further work at County Hall to produce the report and follow it up. All staff will wear identity badges when on school premises.

The broad content of the audit may cover:-

- i. Governance
- ii. Financial Management
- iii. Contracting, Purchasing and Best Value
- iv. Petty Cash
- v. Income
- vi. Capital and Property
- vii. Extended Schools Arrangements
- viii. Human Resources
- ix. Systems Reconciliation
- x. Banking Arrangements
- xi. Catering
- xii. Insurance and Risk Management
- xiii. Protection and Information Technology
- xiv. Pupil Numbers
- xv. Asset Management
- xvi. Voluntary Funds and School Trips

Short 'Health-check' visits may be made to schools periodically in place of a full audit. These will concentrate on the fundamental financial systems of the school.

22.1.8 Reporting Arrangements

In normal circumstances close contact will be maintained throughout the course of an audit with the Head teacher, Business Manager or Bursar and any problems discussed as necessary, together with any internal audit recommendations that may arise. In due course, the report will be sent to the Headteacher for comments and agreement, with a copy to the Corporate Director – Children & Young People's Service.

Reports of full audits will express an opinion on the standards of control at the school. This opinion will fall in one of the following five categories:-

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| High Assurance | Overall, very good management of risk with no significant weaknesses identified. An effective control environment appears to be in operation. |
| Substantial Assurance | Overall, good management of risk with few significant weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified. |

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Moderate Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Where a school's systems fall in either the weak or unsound categories a draft report may be issued to allow the Head teacher to make comments prior to its issue as a final report.

All audit recommendations will also be ranked as follows:-

Priority 1	A fundamental system weakness which presents material risk to the system objectives and requires urgent attention by management;
Priority 2	A significant system weakness whose impact or frequency presents an unacceptable risk to the system objectives which needs to be addressed by management;
Priority 3	The system objectives are not exposed to significant risk but the issue merits attention by management.

Following a health-check visit an abbreviated report may be issued.

Once an audit report has been issued the Headteacher will be requested to respond in writing within three weeks to the recommendations made. It should be noted that LMS Financial Procedure Rule 20.5 includes a requirement that Internal Audit reports are given prompt consideration.

Once agreement to the recommendations has been agreed a copy of the audit report will be sent to the Chair of the school's governors informing him/her that an audit has been conducted, and there are no outstanding items. This will include a request that the Chair report the fact that the audit has taken place to the Governing Body. Where an Auditor has concluded that the school's controls offer limited or no assurance the Audit Manager will also offer to attend the Governing Body meeting to present and discuss the report.

At the close of each full audit Veritau will issue a Client Satisfaction Survey to the Headteacher requesting feedback on the manner in which the audit was conducted, the timeliness of the audit, satisfaction with the reporting arrangements, and a number of other key areas.

Throughout their activities the intention of Veritau is to be constructive and helpful. In this way the Service provides a form of protection and security not only to the Council as a whole but individually to all staff, particularly those who have financial responsibilities or who are accountable for assets, stores and similar transactions on behalf of the Council.

If any Headteacher or Governor at any time considers there is a problem within their area of responsibility the Head of Internal Audit, the Customer Relationships Manager or the Audit Manager (Children and Young People's Service) will be pleased to discuss this with them.

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22.2 External Audit

22.2.1 Veritau's responsibility lies through the Corporate Director – Strategic Resources to the Audit Committee and the County Council. External Audit fulfils a statutory duty on behalf of the community. The external auditor to North Yorkshire County Council is required each year to certify:

- i. the accuracy and legality of the accounts.
- ii. that the authority has arrangements which enable it to achieve efficiency, economy and effectiveness.

22.2.2 The objectives and the approach of internal and external audit are therefore somewhat different although there is much common ground. To improve working efficiency and avoid duplication a two-way spirit of co-operation is fostered and developed. Co-operation takes the form of mutual discussions over prospective audit plans and an interchange of audit reports and working papers.

22.3 Whistleblowers' Charter

22.3.1 The County Council has adopted a Whistleblowers' Charter to provide all employees with avenues to raise concerns and receive feedback on any actions taken and also to reassure staff that they will be protected from reprisals or victimisation for whistle blowing in good faith. Copies of the Primary Schools Whistle blowing Policy Statement and the Policy Statement applicable to Secondary Schools and the remainder of the County Council can be found at <http://www.northyorks.gov.uk/index.aspx?articleid=2933>. These documents are also appended to the LMS Scheme (see Chapter 2).

22.3.2 Posters and leaflets detailing the whistleblowers hotline telephone number (01609 760067) are available from Veritau for display on staff notice boards.

22.4 Contacts

22.4.1 Matters arising in connection with an internal audit report should be raised with the person identified at the head of the report. Requests for information and assistance, other than relating to a particular report, should be made to the Head of Internal Audit, the Customer Relationship Manager or the Audit Manager (Children and Young People's Service) as listed in Chapter 1.

CHILDREN & YOUNG PEOPLE'S SERVICE
PROCEDURE FOR DEALING WITH FINANCIAL IRREGULARITIES

Background

The Corporate Director - Strategic Resources has a statutory responsibility to maintain an adequate and effective internal audit of the accounts of the County Council. This is carried out by Veritau Limited as Internal Audit contractors and employers of Veritau may have access to all records that they consider appropriate. The County Council's Finance Procedure Rules require Corporate Directors and Assistant Directors to notify the Corporate Director – Strategic Resources, in practice the Head of Internal Audit at Veritau, immediately of all financial or accounting irregularities or suspected irregularities. In some cases it may also be necessary to involve the Police. This note sets out the procedure to be followed in such cases.

Application

1. On discovering a financial irregularity, or suspecting one, which may include issues relating to handling cash and other income, stores, property, pay and allowances, payments to and contracts with suppliers etc, Head teachers, Assistant Directors or Corporate Directors should inform the Head of Internal Audit, the Customer Relationship Manager or the Audit Manager (Children and Young People's Service). Head teachers should also inform, where appropriate, relevant Assistant Directors of the nature of the problem.
2. The Head of Internal Audit will assign a Lead Auditor who will investigate the irregularity in as confidential and as sensitive a manner as possible.
3. The relevant Head teacher or Assistant Director, who has line management responsibility for the work area concerned will be asked to nominate an Officer to liaise with the Lead Auditor, who will keep the Liaison Officer fully informed of the progress of the investigation. The Liaison Officer will be expected to keep staff in the Directorate informed on the progress of the investigation. Consideration will also be given to suspending the member of staff concerned during the course of the investigation.
4. In exceptional circumstances, the Head of Internal Audit may agree with the Corporate Director or Assistant Director that the matter may be investigated by Directorate staff. In such cases, the Head of Internal Audit should be kept informed of the progress of the investigation and consulted on any further action felt necessary. At the conclusion of the case, a written report should be sent to the Veritau.
5. Where the Veritau carried out an investigation the usual course of action is as follows:-
 - i. before visiting the establishment concerned the Lead Auditor will arrange to interview the person(s) who has/have made complaints to assess the exact nature of their allegations;
 - ii. no less than two Auditors will then visit the establishment concerned and, where appropriate, hold fact finding interviews with all relevant staff on a confidential basis. If, during the course of an interview it becomes clear to the auditors that a breach of County Council procedures, as opposed to a criminal offence (see paragraph 6 below), has taken place, they will inform the interviewee that that is the case and give them the opportunity to be accompanied by a Trade Union representative or "friend". The interview may be terminated to give the interviewee the opportunity to be represented. Exceptionally, fact finding interviews may also be held with school governors or third parties;
 - iii. the Auditors will also secure all pertinent records for safekeeping. Where records are taken away they will ensure that replacements, such as receipt books and bank paying in books are issued to ensure continuity of service provision;
 - iv. the Auditors will review the results of their fact finding interviews and the records taken from the establishment together with those maintained by the authority and form a view as to whether a further interview is required with the Officer suspected of the irregularity. Should this be required an appointment will be made and it will be

Customer Satisfaction Survey

conducted by two Auditors, at least one of whom shall be the same sex as the subject. The suspect will be given the opportunity of being represented by a Trade Union Official or "friend".

6. Where the Auditors have reason to believe that a criminal offence has been committed, or if the interviewee admits during an interview to having committed an offence they will normally terminate the interview or administer a police caution and continue the interview on that basis. The Lead Auditor will then ask the Liaison Officer to contact the relevant Head teacher, Assistant Director or the Corporate Director who will decide whether or not to refer the matter to the Police. The decision made, which will usually be to call in the Police, must be communicated to the Lead Auditor as quickly as possible.
7. Where it is considered appropriate that staff in another Directorate need to be consulted on the case, i.e. Human Resources or Legal Services staff, this will be undertaken normally by either the Liaison Officer or the Lead Auditor. It is acknowledged that in practice the matter will be discussed with HR staff from the outset.
8. A report will be presented to the relevant Assistant Director, Head teacher or the Corporate Director with a copy to the Liaison Officer once the lead Auditor has concluded investigations in the case. Should the report recommend the consideration of disciplinary action the Auditors will detail specimen charges that may be brought. Any disciplinary action arising from the investigation will be carried out under the Authority's disciplinary rules and procedures. Consideration will be given, in liaison with the relevant Assistant Director and Human Resources, on the timing of the disciplinary action to take place at the earliest opportunity but recognising that in many cases this will not be possible until the outcome of any criminal proceedings. The Auditor(s) involved in the case may well act as witness(es) at any disciplinary hearing.
9. In most circumstances, in addition to reporting on the investigations into the irregularity, Veritau will report on ways in which controls can be improved to prevent further occurrences of the irregularity within the Establishment or Department. The Corporate Director, or an Officer appointed by the Corporate Director, will respond to the recommendations in that report in the same way as to any other Internal Audit Service report.
10. In the event of the absence of the nominated member of senior management, it may still be necessary to progress matters under this procedure as a matter of urgency. In these cases the most appropriate will be contacted.