

Contains Confidential or Exempt Information	No
Title	Audit & Fraud Update
Responsible Officer	Ross Brown, Chief Finance Officer (s151 Officer) Mike Pinder, Assistant Director, Audit & Investigation
Author	Mike Pinder, Assistant Director, Audit & Investigation, pinderm@ealing.gov.uk
Portfolio	Cllr Bassam Mahfouz- Finance and Leisure
For Consideration By	Ealing Schools Forum
Date to be considered	24 June 2020
Implementation Date if Not Called In	N/A
Affected Wards	All
Keywords/Index	Internal Audit, Counter Fraud, Intelligence and Investigation

Purpose of Report:

The attached report provides an update to the Schools Forum on the outcomes of the Internal Audit activities during 2019/20. It provides details of the types of fraud risks faced by schools and suggested areas of work that can be undertaken by the Counter Fraud team in the prevention and detection of fraud within schools.

1. Recommendation

- 1.1 That the Schools Forum note the summary results of the 2019/20 audit programme.

2. Reason for Decision and Options Considered

- 2.1 This report is for information.

3. Key Implications

3.1 Introduction

- 3.1.1 The internal audit work for schools is undertaken by the in-house internal audit team. The team also operates as a shared service with Hounslow. This report is intended to help schools with lessons learnt to help ensure process are more robust. The report also covers some fraud trends that readers should be aware of.

3.2 Summary of 2019/20 Internal Audit Activity

3.2.1 At the time of drafting eight audit reports have been finalised one with limited, six with reasonable and one with substantial assurance. Four reports are currently out in draft. Three draft reports are in progress. Follow-up work will be undertaken on a risk basis to confirm that issues identified are addressed.

3.2.2 The next section sets out some common themes from our audit work.

3.3 Common Themes

3.3.1 This section sets out a number of common themes and issues that have been identified during this year's audit programme. Paragraph 3.3.1 sets out new issues not previously raised at the forum. Paragraph 3.3.2 sets out issues previously raised at the forum; which are, however, still being identified. Schools are recommended to review these matters and take action to address them.

3.3.1 New areas identified during 2019/20:

- **Business Continuity Plan** - As part of DfE/SFVS requirements the school should have a Business Continuity/Disaster Recovery Plan setting out how the school would cope if some disaster happened. Whilst most schools make reference to the business continuity element within their Critical Incident Plan. Such plans, inclusive of the school's asset register should be reviewed and updated on an annual basis by the Senior Leadership Team and The Governing Body as well as ensuring the plan is tested annually. Plans should include:
 - What steps they would take should something happen.
 - Option if the school's own premises became unavailable for an extended period.
 - An asset register of items in the school that need to be recorded for insurance purposes (maintained where it would not be vulnerable to a disaster in the school).
 - Saily backing up off-site of the school's important IT systems.
 - Contingencies for significant simultaneous absence of staff.
- **Staff Gifts & Events** – Audit visits have highlighted that a number of schools have been using School Procurement/Purchase cards and cash to purchase gifts (*including alcohol*) for members of staff or pay for staff events i.e. Summer and Christmas parties with no evidence of reimbursement from staff contributions when reviewing bank statements or school financial systems. School funds official or unofficial must not be used to pay for staff events or gifts. Such purchases are considered 'gratuitous' and inappropriate use of school funds; it would be prudent for these transactions to occur directly between staff and to avoid the school accounts. This also reduces the opportunity for fraudulent or erroneous transactions taking place.

- **Chair of the Governing Body chairing Finance Committees** - Having the chair or vice-chairs perform the same role on the committees will concentrate responsibility in a small minority of governing board members, reducing the governing body's collective ability to hold senior leaders to account.
- **Benchmarking the Senior Leadership Team** - The new SFVS guidance states that understanding how the size of an SLT compares with similar schools can help to identify if the staffing structure is top-heavy and the whether there is potential to direct more resource from the SLT into the classroom. Benchmarking the staffing structures, including the size of the SLT can help create a cycle of continuous improvement and develop a culture where it is easier to question the norm and make changes.

3.1.6 Issues previously raised, but still being identified:

- **Headteacher's Pay** – Governors must make sure that they minute decisions made regarding headteacher's pay ensuring transparency and that they comply with statutory provisions set out in the School Teachers Pay and Conditions Document.
- **Declarations of Interests** – Business interests must be a standing agenda item at all Governing body and Sub-committee meetings. Governors, Senior Leadership Teams and staff that deal with school finances (inclusive of the Site Manager/Caretakers) must complete a Declaration of Interest form on an annual basis and copies of which must be retained onsite at school.
- **Cash Handling & Safe Management** – Whilst most schools have adopted a cashless operation by way of ParentPay, Wisepay or Scopay; where cash is still being received, the establishment of strong internal controls for cash collection is necessary to prevent mishandling of funds and to safeguard against loss. Strong internal controls are designed to protect employees from inappropriate charges of mishandling funds by defining responsibilities in the cash handling process.
- **Purchase/Procurement Card Reconciliations** –These should be undertaken on a monthly basis and signed off by the preparer (e.g. Schools Business Manager, Finance Officer and/or Bursar) and checked and signed by the reviewer (Headteacher/Deputy Headteacher). This helps ensure that all expenditure has been recorded and reconciled for accuracy thus preventing fraudulent or erroneous transactions occurring. Where the card holder is the Headteacher review/oversight should normally be by the Chair of Governors.
- **Purchase orders** - Should be raised in advance on FMS. This helps budgeting, by identifying and recording committed spend, whilst also confirming terms and conditions. The findings are profiled to values and this has confirmed it is not just for the low value orders.

- **Bank reconciliations** - Should be undertaken at least monthly and signed off by the preparer (e.g. Schools Business Manager, Finance Officer and/or Bursar) and checked and signed by the reviewer (Headteacher/Deputy Headteacher). This helps ensure that all income and expenditure has been recorded and reconciled to CFR etc for accuracy.
- **Final payroll reports** – Should always be checked and signed off by the Headteacher to evidence the check, to confirm accuracy and completeness.
- **Governors Skills matrix** – Should be completed and retained at the School. This helps demonstrate the robustness of the Governing Body skillset to fulfil the support needed by the school.
- **Governors Schools Financial Training** – Ensuring all governors have some financial training enables understanding and challenge at all levels. There is a risk that other governors will not understand the financial reports enough to identify mistakes, challenge and properly scrutinise information presented to them.
- **School Development/Improvement plans** – Should be one-year in detail and two-year outline as per LB Ealing’s School Finance Handbook and SFVS requirements. There is a risk that the school will not be able to demonstrate, or evidence forward planning to link to their strategic vision for the school and demonstrate the direction of travel to the Governing Body around standards and quality of the school.
- **Asset Registers/ Inventories** – Need to be completed and submitted for Insurance and probity purposes. This means ensuring all details are complete including serial numbers, asset numbers, replacement costs, location of asset and acquisition dates are logged on register. Also ensure that all assets are security marked.
- **Benchmarking** - Financial information analysis may be beneficial to the school as it will allow them to improve financial efficiency, compare expenditure, performance and staffing structures with other similar schools. It can also inform their school development process.

3.2 **Fraud Performance**

- 3.2.1 During the financial year 2019/20 two cases were under investigation by the Audit & Investigation team.
- 3.2.2 One related to financial mismanagement of school funds and resulted in the dismissal of an employee.

3.2.3 The second involves the theft of PTA funds. This matter is at court, but now delayed by the current health crisis.

3.2.4 Please do contact us if you have any concerns, the Internal Audit and Investigations team can often help you manage the process.

3.3 **Fraud Risks**

3.3.1 Audit and Investigations horizon scan for key fraud risks in the sector. This section sets out some of the key fraud risks that schools are exposed to, both emerging (para 3.3.2) and existing (paras 3.3.3 to 3.3.6). Generally, the reason frauds arise is because controls in systems erode. There is a risk of fraud at all levels, head teachers, teachers, support staff and governors. The need for appropriate scrutiny at all levels is reiterated in order to help mitigate these risks. A representative of Audit and Investigation is happy to attend briefing sessions at other forums to assist schools.

Emerging Fraud Risk

Schools are urged to consider the following fraud risk:

3.3.2 Cheque Fraud. Banking processes have changed. Banks are now accepting scanned cheques. This increases the risk of manipulation of cheques. As such, schools should also review security of cheque books/pre-printed cheques. These need to be stored securely to prevent unauthorised access. In addition, regular bank reconciliations are recommended to help identify.

Other Fraud Risks

3.3.3 Schools are also reminded of the following fraud risks, which were also reported to the forum last year.

3.3.4 Mandate Fraud

Mandate fraud attempts continue, but schools have responded well. A reminder this is where fraudsters write to the school pretending to be the company but provide their own bank details. You should ensure they always confirm the change of bank details with the company directly making the change, being mindful not to use the contact details on the letter requesting the change.

3.3.5 Phishing

Particularly “Chief Officer fraud” has also continued to be an issue for the sector. This is where an email is received, purporting to be from a senior officer asking for urgent assistance/payments. Simple advice is don’t make the payment, if you reply to try and validate the information it is generally going back to the fraudster.

3.3.6 Procurement

When undertaking procurements, schools should consider the following fraud risks. The need for transparency is key, to help prevent fraud, but it also helps to protect staff involved in the process.

- Buying from a contractor known personally to a member of staff without declaring a conflict of interest.
- Colluding with a supplier/contractor in order to obtain an advantage over their competitors, sometimes in return for an inducement.
- Purchase of school equipment for personal use.
- Split invoicing to avoid getting quotes or carrying out a tender process.
- Bid rigging at the pre-contract stage.
- False invoicing at the post contract stage.

3.3.7 Income

Misappropriation of income is a risk, particularly where cash payments are involved. Consider the following fraud risks:

- Unauthorised use of school facilities, resulting in a loss of income to the school.
- Redirecting school funds into a third-party account.
- Theft of money generated through fund raising events.

3.3.8 Payroll

- Wages and overtime claimed fraudulently.
- Ghost employees set up, with the intention of diverting funds to a third-party account.
- False overtime claims submitted.
- False claims for expenses.

3.3.9 Recruitment

- No right to work in the UK.
- Concealed employment history.
- False professional memberships and qualifications.
- Undeclared employment of friends and family.

Many of these risks can be mitigated through compliance with key controls. Advice is available from Schools Finance, Bursarial and the Audit and Investigation team should you have any concerns.

3.4 Responding to an incident of fraud

If you suspect fraud or bribery in any of a school's activities, committed by the public, teachers, support staff or school governors, you have a duty to inform Audit & Investigation.

You should make a note of your concerns and report them immediately; this will help to limit financial and reputational damage and ensure a detailed and proper investigation is carried out by trained Fraud Investigation Officers. The following methods can be used to report fraud.

- Fraud Hotline 0800 328 6453
- Email fraud@ealing.gov.uk

Audit and Investigations will investigate cases with a view to prosecution through the courts and/or assist in internal disciplinary action. If offenders have benefited from their criminal conduct, the team will seek recovery under the Proceeds of Crime Act (POCA).

4 Financial

- 4.1 All audit and fraud activity covered in this report will be delivered within the current Audit & Investigation budget.

5 Legal

- 5.1. Counter Fraud work is carried out in compliance with criminal and civil law and criminal investigation procedures relevant to investigation work including: the Police and Criminal Evidence Act (PACE) 1984, the Criminal Procedure and Investigations Act (CPIA) 1996, the Social Security Administration Act 1992 (as amended), the Human Rights Act 1998, the Regulation of Investigatory Powers Act (RIPA) 2000, the Anti-Terrorism Crime and Security Act 2001, the Public Interest Disclosure Act 1998 and relevant Employment Law.

6 Value For Money

- 6.1 Compliance with best practice guidance ensures that the requirements of the Accounts and Audit Regulations 2011 will be met.

7 Sustainability Impact Appraisal

- 7.1 Not applicable

8 Risk Management

- 8.1 Strong corporate governance including counter fraud and corruption should minimise officer distraction from key corporate objectives as a result of governance failure(s).

9 Community Safety

- 9.1 Not applicable.

10 Links to Strategic Objectives

- 10.1 The issues outlined in this report have a particular focus on the Council's objectives in ensuring it protects public funds and provides value for money.

11 Equalities and Community Cohesion

- 11.1 An initial Equalities Impact assessment has been conducted and approved in relation to the Counter Fraud and Corruption Policy.

12 Staffing/Workforce and Accommodation implications:

- 12.1 Not applicable.

13 Property and Asset

- 13.1 Not applicable

14 Any other implications:

- 14.1 None.

15 Consultation

- 15.1 As per attached table.

16 Appendices

None

Consultation

Name of consultee	Department	Date sent to consultee	Date response received from consultee	Comments appear in report para:
Ross Brown	Chief Finance Officer (s151 Officer)	5 June 2020		Throughout.

Tamara Quinn	AD Planning, Resources & Service Development	5 June 2020		Throughout.
Cllr Bassam Mahfouz	Portfolio Holder – Finance and Leisure	For Info		

Report History

Decision type:	Urgency item?
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For information	No
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Authorised by Cabinet member:	Date report drafted:	Report deadline:	Date report sent:
Report no.:		Report author and contact for queries:	
		Mike Pinder, Assistant Director Audit & investigation. Ext 5792	