

Committee(s):	Date(s):
Audit and Risk Management Committee of the Board of Governors of the Guildhall School of Music and Drama Board	4 th November 2013
Subject: Internal Audit Update Report	Public
Report of: The Chamberlain	For Information

Summary

This report has been prepared in accordance with the HEFCE Code of Practice for Accountability and Audit (paragraph 14). It provides your committee with details of the Internal Audit work undertaken at the School during the academic year ended 31st July 2013 with the intention of providing you with an opinion on the adequacy and effectiveness of risk management, control and governance, economy, efficiency and effectiveness.

Internal Audit plays a role in providing the required assurance on internal controls through its comprehensive risk-based audit of all auditable areas within the five-year planning cycle – with key areas being reviewed annually. This is reinforced by consultation with the Audit and Risk Management Committee Chairman, the School's Principal and his management team on perceived risk, any areas of concern and by a rigorous follow-up audit regime.

The Committee receives reports from the Head of Audit on the extent that the School can rely on its systems of internal control and to provide reasonable assurance that the School's objectives will be achieved efficiently. These reports are provided annually as well as a separate report in March detailing the planned work for the following financial year, the Five Year Cyclical Plan and the scope of audit coverage across all aspects of the School's operations.

The School's main accounting and payroll systems are provided by the City of London Corporation (CBIS and Trent). These systems are subject to annual review by the Internal Audit Section and are considered by both Internal Audit and the City's external auditors to provide a high level of internal control.

It is the Head of Audit's opinion that the School's systems of internal control are generally robust and can be reasonably relied upon to ensure that objectives are achieved efficiently. Internal audit report summaries are circulated to Members when main audit reviews are finalised and management action plans agreed.

The Internal Audit Section operates, in all aspects, in accordance with the Local Government Internal Audit Standards as laid down in the CIPFA Code of Practice.

The work of Internal Audit is relied upon by the HEFCE's Audit Service, as well as

the City of London Corporation's External Auditors.

There were two full internal audit reviews scheduled for completion in 2012/13: School Income (including fees); and Professors' Contracts. The School Income review was completed and provided a 'Green' Substantial Assurance. School Income: Income performance at the time of reporting was above target (107% of the local risk income budget). Adequate internal control is operated for the collection, security and banking of income, and data security measures. There is, however, scope for improvement within the School's arrears management. The reports submitted to Members do not provide sufficient detail and there is inadequate separation of duties between chasing, monitoring and reporting of certain debts. In addition, monthly reconciliations are not always conducted promptly.

The Professors' Contracts review was deferred at the request of the Principal to the 2013/14 academic year so that all revised professors' contracts were in place before the start of the review (see the Schedule of Internal Audit Projects 2012/13 Appendix 1).

Work has now started on the 2013/14 annual internal audit plan. There are four full reviews: Temporary Staff and Professional Fees; Annual Enrolment; Procurement of Goods and Services; and Assurance Mapping;. There are also four spot check reviews scheduled for completion during the year. Details of the scope of full reviews are shown in paragraph 12 of this report. In addition, the Professors' Contracts review will also be completed (see the Schedule of Internal Audit Projects 2013/14 Appendix 2).

Recommendation

- Members are asked to note the work that internal audit have undertaken and offer any observations.

Main Report

Background

1. This report includes a summary of audit findings for reviews undertaken during the Academic Year 1st September 2012 to 31st July 2013.

Current Position

Internal Audit Plan 2012/13 Completions

2. There were two full reviews scheduled for completion during 2012/13: Income – including School Fees (20 days), the final report was issued in August 2013. Details of the outcome of this review are included in paragraphs 4 to 12 below. The remaining review: Professor's Contracts – Including Productive Hour Management (20 days) was postponed at the request of the Principal due to the on-going negotiations with professors

concerning changes in their contracts of employment. These negotiations have now been completed and the fieldwork on this review has been started.

3. A review of Value for Money Initiatives (5 days) was cancelled because it was agreed with the Principal that the on-going work associated with Milton Court demonstrated that School's commitment to value for money and has been subject to a high level of scrutiny. The audit man day allocation has been carried forward into 2013/14 and will be used to undertake an assurance mapping exercise. Details of progress in completing 2012/13 planned work are included in Appendix 1.

School Income (Including Fees) (20 days)

4. The School receives income from various sources including tuition, non-government grants, facilities, donations and student accommodation. Total local risk income received in 2012/13 was £5,922,823 (107% of the local risk income budget).
5. The purpose of this audit was to review key income controls, including the procedures in place to monitor and report against approved targets, security arrangements for the collection and banking of cash and cheque income and arrears management. The adequacy of reconciliations, the security of data stored on SITS (the School Student Management Information system) and compliance with the City's Financial Regulations were also considered. The registration process, tuition fees, certain system requirements (such as password complexity, encryption and session timeout policies) and Sundial Bar income have been excluded from this review owing to other audit work reviews having been completed previously.
6. Internal Audit reported Substantial Green Assurance rating for this review owing to the fact that most of the areas reviewed were satisfactory. It was noted that there was scope for improvement within the School's arrears management. Debtors' reports to the School's Board of Governors do not fully convey the age of some of the debts: debts over three years are reported as 'over 90 days'. In addition, the debtors' position for the Centre for Young Musicians (CYM) should be included within the debt reports to Members and information concerning any write offs, such as the amount, reason and the bad debt provision, should also be added.
7. An amber recommendation has been agreed with senior management to improve the reporting of arrears management to the Board which was implemented by 1st October 2013.. A further six green recommendations have been agreed to resolve inadequate separation of duties between monitoring and reporting of arrears for the CYM and CBIS debts, to document the arrears management processes, to write off or credit old debts requiring departmental action and to ensure debtors' reports are always included within the quarterly Finance Reviews.

8. The approval, monitoring and reporting of budgets is well controlled. Income performance against budget over the past five years was assessed to identify any adverse trends; budgetary performance was considered satisfactory and budgets sufficiently challenging.

9. The collection, security and banking of cash and cheques received, to mitigate the risk of loss or misappropriation, were considered adequate. Cash and cheque income is minimal with the vast majority of income collected through electronic bank transfers. Audit trails of income are satisfactory and access to tills and safes is sufficient. Cash insurance limits, segregation of duties in cash handling and frequency of banking are all considered to be satisfactory.

10. Accounting adjustments identified as necessary through reconciliations between the CBIS and SITS systems had not been completed fully owing to resources being directed to support changes as a result of the introduction of the new centralised Accounts Payable processes. A green priority recommendation was agreed to ensure that accounting adjustments are undertaken promptly following the completion of system reconciliations.

11. Accounting for income on CBIS is also satisfactory. Journal updates from SITS to CBIS are conducted on a daily basis and all invoices are raised, recorded and monitored through either of the two systems. The use of subjectives is adequate so that the School's management accounting can accurately discern between the various income streams. The controls in place to limit access to information held on the SITS and CBIS AR systems were reviewed and considered satisfactory.

12. The draft report was issued in June 2013. The management response was received in July and the final report was issued in August 2013.

Recommendations	Red	Amber	Green	Total
Number Made:	0	1	8	9
Accepted	0	1	8	9

Internal Audit Plan 2013/14

13. There are four full reviews and four spot check reviews scheduled for completion during 2013/14. Details of the scope of full reviews are shown below.

Temporary Staff and Professional Fees (10 days)

This review will examine the procurement arrangements for the employment of temporary staff, both teaching and support staff, as well as expenditure on professional fees such as consultants and professional advice. Compliance with corporate guidance will also be examined.

Annual Enrolment (4 days)

This is an annual review which examines the controls exercised over the process for enrolling students.

Procurement of Good and Services (5 days)

The creation of the City of London Procurement Service (CLPS) will affect the way in which the School source goods and services as well as process orders and payments. This review will look at those revised arrangements and seek assurance on the sustained integrity of the internal control environment.

Assurance Mapping (5 days)

In an environment of scarce and limited resources a series of reviews across the City have been planned which will look at how risks to the achievement of strategic and operational objectives, processes and systems are mitigated. This review will identify what respective roles management governance and assurance, third party review processes (e.g. HEFCE), and Internal Audit plan coverage play in the governance of these activities. Any areas of potential weakness will be identified which will inform subsequent Internal Audit assurance planning and resource allocation.

Audit recommendation follow-up reviews

14. There is one amber rated recommendation outstanding; this relates to enhancing debt management information presented to the School Board which was implemented 1st October 2013 when a report concerning debt management was drafted. There are eight green rated recommendations which will be followed up by the end of March 2014.
15. Any other outstanding amber or green recommendations. Check MK recs tracking

Conclusion

16. The Internal Audit Section completed one review in 2012/13 and one deferred review of Professors' Contracts is currently work in progress. There were a number of areas where improvement was found to be required in order to enhance the control environment. Guildhall School staff were very helpful and cooperative during the progress of Internal Audit review work. The Principal has agreed to implement all recommendations made within reasonable timescales.

Appendices

- Appendix 1 – Schedule of Internal Audit Planned Work 2012/13
- Appendix 2 - Schedule of Internal Audit Planned Work 2013/14

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