

Committee:	Date:
Audit and Risk Management Committee of the Board of Governors of the Guildhall School of Music and Drama Board	3rd November 2014
Subject:	Public
Internal Audit Update Report	
Report of:	For Decision
Head of Internal Audit	

Summary

This report has been prepared in accordance with the HEFCE Code of Practice for Accountability and Audit It provides your committee with details of the Internal Audit work undertaken at the School during the academic year ended 31st July 2014 with the intention of providing you with an opinion on the adequacy and effectiveness of risk management, control and governance, economy, efficiency and effectiveness.

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.

Delivery of the 2013/14 audit plan is on-going and work is underway to ensure that all outstanding reviews will be completed by the end of December 2014. A full audit of Professors' Contracts was finalised in June 2014 and received a substantial assurance rating with two recommendations made: An amber priority recommendation was made to enhance control over the authorisation process for changes made to the data in the VT system (used to record hours worked and calculate payments of salary). A green priority recommendation was made to seek agreement that the restrictive clauses within professors' contracts of employment, relating to their work for external bodies and self-employed tuition and performance work, should be removed. Both recommendations were agreed for implementation by the end of August 2014; Planning is underway in respect of the remaining full audit review from 2013/14: Temporary Staff and Professional Fees.

Work is progressing in respect of the 2014/15 plan, which is scheduled to be delivered in full by the end of March 2015.

A mini-assurance review of Sundial Court Income and Expenditure has recently been finalised. One amber priority and two green priority commendations have been made to strengthen controls in respect of the procedures associated with exempting VAT from letting fees, the setting of fees and charges, and the raising purchase orders in a timely manner.

Recommendation

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

Main Report

Background

1. 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, the School's Principal and his management team on perceived risk, any areas of concern and by a rigorous follow-up audit regime.
2. The Internal Audit Section operates, in all aspects, in accordance with the Public Sector Internal Audit Standards, published in April 2013. The work of Internal Audit is relied upon by the HEFCE's Audit Service, and informs the work of the City of London Corporation's external auditors.
3. 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.
4. The School's main accounting and payroll systems are provided by the City of London Corporation (CBIS and Trent). These systems are subject to regular 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.
5. This report includes a summary of audit findings for reviews undertaken during the Academic Year 1st September 2013 to 31st July 2014.

Current Position

Internal Audit Plan 2013/14 Completions

6. There were two full internal audit reviews scheduled for completion in 2013/14: Professors' Contracts and Temporary Staff and Professional Fees, as well as two mini-assurance reviews related to Annual Enrolment and the Procurement of Goods and Services. Four planned spot checks for 2013/14 include Petty Cash, Asset Management, Debt Management and the Student Bar.
7. The review of Professors' Contracts was finalised in June 2014. Planning in respect of the remaining full audit review has commenced, a draft Terms of Reference Document has been prepared and it is anticipated that the review will be completed by 31st December 2014.

8. The mini-assurance reviews have not been initiated but are anticipated to be completed by 31st December 2014. Fieldwork in respect of the spot check of debt management arrangements is in progress and the finalised review is anticipated to be reported to the next meeting of this Committee.
9. Details of progress in completing 2013/14 planned work are included in Appendix 1. Whilst there has been a delay in the completion of the 2013/14 planned work, reliance has been placed on previous internal audit work, and the full implementation of previously agreed recommendations at arriving at the overall audit opinion.

Professors' Contracts (15 days)

10. The School provides in the region of 43,000 hours of principal study tuition in music within an academic year. Of those hours some 10,750 (25%) were previously taught by approximately 30 professors on fractional contracts, that is, contracts that are expressed as a proportion of a full-time post and are therefore not easily variable from year to year.
11. Prior to the 13/14 academic year and in consultation with the professors concerned, these contracts were replaced with annual variable contracts allocations expressed as hours per year. Professors' basic pay for 2013/14 was in the region of £3million.
12. This review ascertained whether payments to teaching staff are made in accordance with contracts of employment. It also identified and examined the controls over time recording.
13. Testing indicated that there are satisfactory controls in operation by the School over the management of Professors' contracts. Sample testing of payments to professors established that the correct rates of pay had been applied, in accordance with contracts.
14. The HR Dept. manage the VT system which is used to record all the hours worked by each professor and calculate payments of salary for the Chamberlain's Payroll Section to process. The need was identified to enhance the control of the authorisation process for changes made to the data in the VT system. An amber priority recommendation was raised to ensure that changes are supported by independent evidence of changes to contracted hours; this was agreed for implementation by the end of August 2014. It is understood that HR / Payroll are currently agreeing a process for authorising changes to the VT system with Music Administration and this will be implemented for the November 2014 payroll.
15. Access to the School and teaching facilities is controlled by security passes. Students are required to swipe in at the main building and both students and staff can only access Milton Court via security pass activated turnstiles. A report of staff and pupils who have accessed Milton

Court can be obtained. Additionally the room booking and management system ASIMUT provides display screens in public areas so that the location of professors and their students can be monitored.

16. The standard contract for employing professors includes a clause that they cannot undertake work other than at the School without expressed permission. It is appreciated that this is an unreasonable requirement which, due to the nature of their work cannot be enforced. A green priority recommendation was agreed to the effect that the standard contracts should be revised accordingly. It is understood that this recommendation has since been implemented and the restrictive clause removed
17. A satisfactory process for matching student numbers and income to professors' salary payments is performed by the School's Finance Section.
18. It is not possible to make a like-for-like comparison on CBIS to the Schools Financial Statements due to a number of adjustments for accruals and project work not directly posted to CBIS, as well as the difference between financial and academic year endings. It was noted that the School was forecasting a £30k deficit at year end.
19. Fieldwork was completed in April 2014, and the draft report issued at the end of May 2014. The management response was received in June 2014 and the final report was issued in the same month.

Internal Audit Plan 2014/15

20. There are four full reviews, one mini-assurance reviews and three spot check reviews scheduled for completion during 2014/15 and work is in progress to deliver these. Details of the scope of full reviews and mini-assurance reviews are shown below.

Student Awards, Bursaries and Scholarships (10 days)

21. The School manages a variety of funds that have been made available for the purpose of assisting the payment of school fees and other costs for gifted students. This review is focused on examination of compliance with the requirements of funds when making awards and bursaries as well as the overall management of fund reserves. Fieldwork in respect of this review is in progress and the finalised review is anticipated to be reported to the next meeting of this Committee.

Milton Court Income (20 days)

22. The Milton Court building opened in September 2013. Facilities are open to hire from external organisations in order to maximise income and make best use of these facilities. This review will examine the process for setting fees, maximising bookings to compliment School tuition and concert activities, and recoup catering costs. At the prior request of the

Committee this review will include consideration of Commercial and Music Centre operations. This review is anticipated to be completed by 31st March 2015.

Sundial Court Income and Expenditure (5 days)

23. This mini-assurance review has recently been finalised. The scope of the review was to evaluate the arrangements in place for the safeguarding of income from summer (non-term) accommodation lettings at Sundial Court, as well as controls in place to ensure that related goods / services procedures represent value for money.
24. It was noted that lettings during the summer period generate income of approximately £250k per annum, comprising a mixture of students attending summer courses and accommodation bookings by the general public. The main expenditure incurred from keeping Sundial Court open during the summer period was found to relate to cleaning, catering and security in respect of the 39 flats containing 177 bedrooms.
25. Testing indicated that controls to safeguard the income received from summer accommodation lettings at Sundial Court are in general operating effectively. Appropriate steps are being taken to ensuring that services procured to keep Sundial Court open during the summer period represent value for money. Nonetheless, opportunities for improvement were identified in respect of the application of VAT exemptions, the setting of fees/charges, and raising purchase orders in a timely manner. One amber priority recommendation and two green priority recommendations have been made to strengthen controls in these areas respectively.
26. The amber priority recommendation relates to VAT exemption arrangements. It is understood from the Chamberlain's VAT, Technical and Research Team that lettings to students are exempt from VAT but all other lettings should be subject to VAT. A review of a sample of income from Sundial Court where VAT has been exempt identified a number of instances where GSMD failed to charge VAT on taxable sales. In particular, there is no evidence that some of the bookings in our sample relate to students. Where lettings are incorrectly treated as VAT exempt, income received will be treated as VAT inclusive hence the net income for GSMD will be reduced by the VAT element (i.e. 20%).
27. All three recommendations were agreed by the Principal and implementation has been proposed by the end of November 2014 at the latest.
28. There are also two spot check reviews scheduled for completion during the year: SITS Maintenance and Access Controls, and Procurement Cards. Both of these reviews are anticipated to be completed by the 31st December 2014. Details of progress in completing 2014/15 planned work are included in Appendix 2.

Audit recommendation follow-up reviews

29. On the basis of follow-up enquiries undertaken within the year Internal Audit is satisfied that the School's management has taken proactive action to implement and monitor the implementation of agreed audit recommendations.
30. One formal follow-up review of School Income has been undertaken in 2013/14. As per the table below it was established that all eight recommendations had been implemented.

Audit Review	Recommendations				Implemented
	Red	Amber	Green	Total	
Reconciliation	0	0	1	1	1
Debt Management	0	1	6	7	7
Total	0	1	7	8	8

31. Additional enquiries related to the implementation of recommendations made, for example those arising from the review of Professors' Contracts, indicated that good progress has been made towards full implementation.

Conclusion

32. The Internal Audit Section completed one full assurance review in 2013/14, one mini-assurance review has been completed in 2014/15 to date and a number of pieces of work from both audit plan years are in progress.
33. Finalised reviews identified a number of areas where improvement was found to be required in order to enhance the control environment. Guildhall School staff continue to be very helpful and cooperative during the progress of Internal Audit review work.
34. Where recommendations have been made, the Principal has agreed to implement these within a reasonable timescale and recent enquiries in respect of Professors' Contracts recommendations indicate that these have been addressed on a reasonably timely basis.

Appendices

- Appendix 1 – Schedule of Internal Audit Planned Work 2013/14
- Appendix 2 - Schedule of Internal Audit Planned Work 2014/15

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