



FINAL INTERNAL AUDIT REPORT
EDUCATION, CARE AND HEALTH SERVICES

REVIEW OF EDGEBURY PRIMARY SCHOOL AUDIT FOR 2015-16

Issued to: Mrs. J Box, Head Teacher

Cc: Mr D Aylott, Chair of Governors (final report only)
Schools Finance Team, (final report only)

Prepared by: Principal Auditor

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REVIEW OF EDGEBURY PRIMARY SCHOOL AUDIT FOR 2015-6

INTRODUCTION

1. This report sets out the results of our systems based audit of Edgebury Primary School Audit for 2015-16. The audit was carried out in quarter 3 as part of the programmed work specified in the 2015-16 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee.
2. The controls we expect to see in place are designed to minimise the school's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be corrected to assist overall effective operations.
3. The original scope of the audit was outlined in the Terms of Reference issued on 16/11/15. The period covered by this report is from December 2014 to November 2015.

AUDIT SCOPE

4. The scope of the audit is detailed in the Terms of Reference.

MANAGEMENT SUMMARY

5. Controls were in place and working well in the areas of financial management, safeguarding assets, governance arrangements and for the primary accounting, voluntary funds, bank reconciliation, DBS checks and school meals. However there were issues arising as follows:-
 - Payments not supported by a purchase order or adequate supporting documentation; separation of duties to be reviewed
 - Purchase card transactions not formally authorised prior to commitment

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- A contract register for all SLA's and contracts, detailing start and end dates, is not formally reported to Governors annually to agree rolling year on year contracts.
- Petty cash is not independently reconciled annually
- Debtor invoices are not raised for all income to be collected; lettings are not supported by an authorised application form; the application form available for use at the school did not include reference to public liability.
- Formula error on the budget cash flow statement.

SIGNIFICANT FINDINGS (PRIORITY 1)

6. None

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

7. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised at Appendix B.

AUDIT OPINION

8. Overall, the conclusion of this audit was that substantial assurance can be placed on the effectiveness of the overall controls. Opinion definitions are given in Appendix C.

ACKNOWLEDGEMENT

9. We would like to thank all staff contacted during this review for their help and co-operation.

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
1	<p>Four officers have been nominated on the authorised signatories list. The Headteacher (HT) signs both the purchase order and initials the invoice. The Finance Officer (FO) checks the invoices but this is not evidenced by a signature. The FO and Admin Officer sign the cheques. The Deputy Head is the fourth signature but was not routinely part of the expenditure process.</p> <p>A sample of 20 payments was selected for audit examination. The main issues arising were:-</p> <ul style="list-style-type: none"> • 1/20 (Supplier A - £7204.74) no evidence of competitive quotes; as a specialist supplier the Chair of Governors should counter sign the order to evidence the waiver of competitive quotes • 4/20 payments were not supported by an authorised purchase order or adequate supporting documentation: - i) Supplier B, £2280 - e-mail to HT regarding trial period, notation on invoice to purchase 3 year licence for software not evidenced as authorised. Cost and terms not specified and had to be confirmed with supplier on receipt of invoice, ii)Supplier C £1,134 - e-mail to school 	<p>Payments may not be made in compliance with Financial Regulations and the Schools own procedures.</p>	<p>The school should develop an expenditure process that ensures separation of duties.</p> <p>The Chair of Governors should endorse any payment where financial regulations have been waived; this may be for reasons of cost or performance.</p> <p>An authorised purchase order should be raised as expenditure is committed and prior to the invoice being received.</p>

Priority 1
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1 cont	<p>confirming quoted price and notation on invoice to confirm date to service the audio equipment, iii) Supplier D - £805.43 - order raised by PE lead officer, (notation on the e-mail trail "confirmed by JB"), iv) Supplier E - £299 - issues arose with the supplier when the school was invoiced for the total value, despite £249 having been paid when booked. Although the FO identified the error the expenditure process needs to be robust to rely on system controls rather than individual officers.</p> <ul style="list-style-type: none"> • 1/20 (Supplier F- £870) not supported by an order, e-mail from the HT confirming dates but not rates. Submitted invoice did not detail a unique invoice number. The payment to the individual was supported by a declaration regarding responsibility to pay tax and national insurance but the UTR number had not been quoted. • 1/20 (- £758.39) payment related to reimbursement of expenses incurred by an officer on personal credit card. Emergency replacement of the school kitchen fridge/freezer and school purchase card had insufficient funds for this transaction. Payment was authorised by 		<p>Any payments to individuals should be supported by the UTR number and a signed declaration that the supplier will pay their own tax and NI.</p> <p><i>However it should be noted that payment to this type of supplier via invoice rather than payroll is currently under review following an HMRC audit in 2015 and guidance will be issued to all schools in due course</i></p>

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1 cont	<p>FO which is not covered in the scheme of delegation. The £80 payment for collection and disposal of the old fridge was not supported, although noted by FO as a quote.</p> <p>As a general finding, the FO keeps all supporting documentation, e-mails, quotes, notes of telephone calls and delivery notes filed with the order and invoice to provide an audit trail however when there is a change in the order, goods received or service to be delivered the notation completed by the FO is not signed and dated by the HT.</p>		<p>All payments should be supported by adequate documentation; for example agreed dates and rates. Any changes should be supported, signed and dated by the authorising officer.</p> <p>[Priority 2]</p>

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2	<p>The school have one purchase card, issued to the HT, which is secured in the safe.</p> <p>The card statement for October 2015 was selected for audit examination; 6 transactions, total value £718.85. Payment was supported by a requisition form, invoice and delivery note.</p> <p>The main issues arising were:-</p> <ul style="list-style-type: none"> • 2/6 not authorised before expenditure committed in accordance with expenditure procedures • 1/6 no separation of duties as payment initiated and approved by the HT • Requisition form requires "verbal agreement form the HT"; this is not possible to verify. 	<p>Payments may not be made in compliance with Financial Regulations and the Schools own procedures.</p>	<p>The school should evidence adequate separation of duties for the purchase card.</p> <p>HT to sign authorisation on the requisition prior to the purchase.</p> <p>Although the documentation evidences the FO's notes on decisions or changes, this has limited value as an audit trail if it is neither signed nor dated by the authorising officer.</p> <p>[Priority 2]</p>

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3	<p>There is a list of service level agreements and contracts used for budget purposes; this document shows that contracts are rolled over annually. This list is not taken to Governors for information, discussion and approval of year on year contracts.</p> <p>There was good control evidenced for the delivery of services as the Finance Officer (FO) maintains a diarised spreadsheet of all scheduled visits to update as each visit is completed.</p>	<p>Contracts may be let without following proper procedures and/or rolled over without proper approval.</p>	<p>The school should extend the existing list of contracts and service level agreements to include a start and end date and nominate a lead officer to be the contract owner, responsible for monitoring.</p> <p>The contracts register should be reported to Governors annually to approve, specifically the rollover of annual contracts.</p> <p>The school should periodically market test service areas to ensure rolled over contracts still offer value for money. Any performance issues,</p>

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3 cont			<p>derived from monitoring, should be included in the annual review.</p> <p>[Priority 2]</p>
4	<p>The scheme of delegation details £100 petty cash, to be limited to £30 per transaction. Petty cash held by the FO. Each transaction was supported by the receipt and a claim voucher signed by issuing and claiming officer. The H/T authorises the monthly petty cash statement generated from the system.</p> <p>Petty cash is held on the system; £100 reimbursed regularly. FO agrees the cash held to the cash value shown on the system report but this is not independently verified at the end of the year.</p> <p>The October 2015 claim satisfactorily checked 8 transactions, however the petty cash transaction report identified a claim for £90 on 16.11.15, exceeding the £30 limit.</p>	<p>Petty cash may not be properly operated.</p>	<p>The imprest account should be independently reconciled and certified as correct as at 31st March each year.</p> <p>The petty cash transactions should be limited to £30 to comply with the schools scheme of delegation; an agreed exception should be authorised at an appropriate level.</p> <p>[Priority 3]</p>

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5	<p>Debtor invoices are not part of the schools finance system and are raised manually. For the review period only one invoice had been raised in letter format. For lettings, no invoice is raised and the authorised application form serves as the record for requesting and receipting income. Although the current manual system was satisfactory, invoices raised on the system would offer greater control and accountability as the aged debtors report can be used to identify income to be recovered.</p> <p>The FO has requested Schools Finance Team (SFT) to set up the accounts receivable function on SIMS at their next scheduled visit.</p> <p>Lettings policy reviewed and agreed at the 1/12/15 Governors meeting. There was only one external hire available for audit testing. The PSA hire the school for fund raising events, supported by an authorised application and charged according to the agreed schedule of rates.</p> <p>A sample of 7 income transactions was selected for audit examination the following issues arose:-</p>	<p>Income due to the school may not be collected.</p>	<p>Develop the Debtors function on SIMS to improve accountability and control. Utilise the aged debtors report to collect and recover all income due in a timely manner.</p> <p>Raise invoices for all income due.</p>

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5 cont .	<ul style="list-style-type: none"> • No invoices were raised for PSA events; received income is recorded on the application form. • 1 external hire that had been charged an introductory rate agreed by the Head Teacher (HT), although the current fees and charges do not specify HT discretion. • The application form completed by the hirer is now obsolete and has been updated to include the disclaimer regarding public liability insurance. <p>During the site visit it was noted that a sports club advertised for sessions at the school although no application or income was evidenced. The school confirmed that the hirer provided sports coaching as an after school club and a PE session once a week as payment in kind.</p>		<p>If fees and charges are not applied the Chair of Governors should authorise the application to endorse the discretionary charge and/or arrangement.</p> <p>All lettings should be formalised and external hirers should complete an authorised application form.</p> <p>[Priority 2]</p>

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6	<p>The 2015/16 budget cash flow and the actual cash flow for November 2015 was reviewed. The FO prepares the monthly cash flow which is reviewed and certified by the H/T.</p> <p>The November cash flow detailed significant variances between the budget and actual balance, for each month since July. The audit identified a formula error in the spreadsheet calculating total receipts for the budget cash flow statement, which was then a recurring error.</p> <p>Discussed with FO and the spreadsheet will be corrected.</p>	<p>Financial Reports may not accurately reflect financial activity</p>	<p>The cash flow statement enables the school to monitor actual spend and income against projected and is therefore an important report to identify remedial action required and to identify errors. Any variance should be investigated and explained.</p> <p>[Priority 3]</p>

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Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1	<p>The school should develop an expenditure process that ensures separation of duties.</p> <p>The Chair of Governors should endorse any payment where financial regulations have been waived; this may be for reasons of cost or performance.</p> <p>An authorised purchase order should be raised as expenditure is committed and prior to the invoice being received.</p> <p>All payments should be supported by adequate documentation; for example agreed dates and rates. Any changes should be supported,</p>	2	<p>We have amended the authorisation process to include Deputy Head Teacher signing off all invoices.</p> <p>This has been noted and will be documented in future if required.</p> <p>This has been noted and will be adhered to except for utility invoices.</p> <p>This has been noted and we will ensure any updates are documented and 'signed' by the Authorising Officer.</p>	<p>Finance Officer</p> <p>Finance Officer / Head Teacher</p> <p>Finance Officer</p> <p>Finance Officer</p>	<p>Completed</p> <p>Completed</p> <p>Completed</p> <p>Completed</p>

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1 cont.	<p>signed and dated by the authorising officer.</p> <p>Any payments to individuals should be supported by the UTR number and a signed declaration that the supplier will pay their own tax and NI.</p> <p><i>However, it should be noted that payment to this type of supplier via invoice rather than payroll is currently under review following an HMRC audit in 2015 and guidance will be issued to all schools in due course</i></p>		<p>The Finance Officer has reviewed all individuals paid directly and obtained signed declaration and UTR details.</p> <p>Finance Officer to attend School Finance Forum on 1/3/16 for further guidance.</p>	<p>Finance Officer</p> <p>Finance Officer</p>	<p>Completed</p> <p>1 month</p>

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2	<p>The school should evidence adequate separation of duties for the purchase card.</p> <p>HT to sign authorisation on the requisition prior to the purchase.</p> <p>Although the documentation evidences the FO's notes on decisions or changes, this has limited value as an audit trail if it is neither signed nor dated by the authorising officer</p>	2	<p>In future 'order forms' will be signed by Head Teacher prior to purchase, and card monthly statement will be signed by Deputy Head Teacher.</p> <p>All future updates will be signed by Authorising Officer in future.</p>	<p>Finance Officer</p> <p>Finance Officer</p>	<p>Completed</p> <p>Completed</p>

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3	The school should extend the existing list of contracts and service level agreements to include a start and end date and nominate a lead officer to be the contract owner, responsible for monitoring.	2	The Finance Officer has organised a new 'Service Contracts List' which will be used to ensure all contracts are reviewed prior to expiry and this will be discussed at Resources meeting each September.	Finance Officer	Completed
	The contracts register should be reported to Governors annually to approve, specifically the rollover of annual contracts.		As above.	Finance Officer / Head Teacher	Completed
	The school should periodically market test service areas to ensure rolled over contracts still offer value for money. Any performance issues, derived from monitoring, should be included in the annual review.		These contracts will be discussed and reviewed as and when required.	Finance Officer / Head Teacher	Completed

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4	<p>The imprest account should be independently reconciled and certified as correct as at 31st March each year.</p> <p>The petty cash transactions should be limited to £30 to comply with the schools scheme of delegation; an agreed exception should be authorised at an appropriate level.</p>	3	<p>This will be actioned with the March bank reconciliation each year.</p> <p>This has been noted.</p>	<p>Finance Officer / Head Teacher</p> <p>Finance Officer</p>	<p>Completed</p> <p>Completed</p>

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5	<p>Develop the Debtors function on SIMS to improve accountability and control. Utilise the aged debtors report to collect and recover all income due in a timely manner.</p> <p>Raise invoices for all income due.</p> <p>If fees and charges are not applied the Chair of Governors should authorise the application to endorse the discretionary charge and/or arrangement.</p> <p>All lettings should be formalised and external hirers should complete an authorised application form.</p>	2	<p>Finance Officer has requested this facility to be set up by SFT on their next visit.</p> <p>As above.</p> <p>This has been noted and any discretionary reductions will be authorised by Governors in future.</p> <p>Letting policy has been reviewed and new application forms introduced.</p>	<p>Finance Officer</p> <p>Finance Officer</p> <p>Finance Officer / Head Teacher</p> <p>Finance Officer</p>	<p>2 months</p> <p>As above</p> <p>Completed</p> <p>Completed</p>

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6	The cash flow statement enables the school to monitor actual spend and income against projected and is therefore an important report to identify remedial action required and to identify errors. Any variance should be investigated and explained	3	The Excel formula error has been amended, and future variances will be investigated and explained.	Finance Officer / Head Teacher	Completed

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SCHOOLS OPINION DEFINITIONS

As a result of their audit work auditors should form an overall opinion on the extent that actual controls within the school provide reasonable assurance that significant risks are being managed. They grade the control system accordingly. Absolute assurance cannot be given as internal control systems, no matter how sophisticated, cannot prevent or detect all errors or irregularities.

Assurance Level

Definition

Full Assurance

There is a sound system of control designed to achieve all the system and school procedures objectives tested.

Substantial Assurance

While there is a basically sound system and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the schools finances. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to Governors, material income losses.

Limited Assurance

Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.

No Assurance

Control is generally weak leaving the systems and procedures open to significant error or abuse.