



FINAL INTERNAL AUDIT REPORT
EDUCATION, CARE AND HEALTH DEPARTMENT

REVIEW OF RIVERSIDE SCHOOL

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INTRODUCTION

1. This report sets out the results of our audit of Riverside School. The audit was carried out as part of the work specified in the 2019-20 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee. The controls we expect to see in place are designed to minimise the Council's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be addressed by management.
2. The audit reviewed the system of controls surrounding the financial administration of the school, as required by the 1998 School Standards and Framework Act Section 48, paragraph 2(d) and the Authority's Scheme for Financing Schools.
3. We would like to thank all staff contacted during this review for their help and co-operation.

AUDIT SCOPE

4. The original scope of the audit was outlined in the Terms of Reference issued on 28th June 2019.
5. The key risk areas were identified as:-
 - **Financial management information** including budget monitoring, financial reports and returns to London Borough of Bromley
 - **Primary accounting documentation** including payments, income, contracts, voluntary funds, bank reconciliations and payroll.
 - **Asset control**
 - **Governance arrangements** including financial delegation, governor minutes, budget approval and business interests
6. Audit testing was selected from financial transactions for the period June 2018 to June 2019 and the minutes for the previous three Governor meetings for Resources Committee and Full Governing Body were reviewed. Findings were discussed with the School Business Manager during the course of the site visits on the 9th and 11th July and reported to the Headteacher at the end of audit meeting on the 16th July.

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AUDIT OPINION

7. Our overall audit opinion, number and rating of recommendations are as follows.

AUDIT OPINION	
Reasonable Assurance	(Definitions of the audit assurance level and recommendation ratings can be found in Appendix B)

Number of recommendations by risk rating		
Priority 1	Priority 2	Priority 3
0	5	1

SUMMARY OF FINDINGS

8. Overall the controls were in place and working well for financial management and governance. However the following issues arising need to be considered:-

- The school evidenced a satisfactory expenditure process, achieving separation of duties however with only three officers designated to authorise the orders, invoices or cheques there is a concern that the procedures may not offer adequate resilience. The scheme of delegation requires governor sign off for payments over £10K however there was no specimen signature. Similarly a specimen signature should be held for the budget holders as they may sign for the receipt of goods or services. Purchase orders were available for all payments selected for audit testing but in 6/22 cases the order was raised after the invoice. Sample testing identified that the audit trail to evidence decisions should be improved with regard to the date and specification of quotes and the authorisation of additional work. For 1/22 payments the invoice did not specify the VAT registration number although the sales order had.

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- The check on payments to individuals identified three cases that should have been supported by the online HMRC questionnaire to support the self employed status.
 - The contract register was a comprehensive document but was not dated to evidence the latest revision. The document needed updating as contracts detailed had expired. It is acknowledged that the register is not reported to Governors at their request; minutes of the Resources Committee 16/6/16 show that Governors agreed to receive “reports will only contain £10K or more” although it was unclear if that was an annual value or life of the contract.
 - The sample testing on the petty cash identified that not all transactions were supported by the signature of the claimant to evidence receipt of the cash.
 - There are no current lettings however testing on two hiring’s for the hydro pool identified that the agreement had not been signed by the school, the insurance section had not been completed and the VAT had been incorrectly calculated which resulted in a loss to the school.
 - The asset register was generated from the system but was not dated and signed by the SBM; the Headteacher should certify the asset register annually to certify the accuracy of the record. The expenditure testing identified 10 I-Pads and 10 I-Pods that had been added to the asset register and assigned an asset number but the unique serial number had not been detailed on the stock book.
9. It is acknowledged that that the school had experienced issues with a member of the Finance Team during the previous 12 months which has impacted on performance. This has now been resolved but would account for the errors identified with the lettings sample and some of the expenditure findings.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

10. 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, together with management’s responses and timescales for implementation. Appendix B details the definition of the audit assurance and priority ratings.

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DETAILED FINDINGS AND ACTION PLAN

APPENDIX A

No	Finding	Risk	Recommendation and Priority *Raised in previous Audit	Management Response	Agreed timescale/ responsible manager
1	<p>Expenditure Process</p> <p>The authorisation process for expenditure identified 3 officers; this may impact on the resilience to achieve separation of duties. Governors are required to authorise expenditure >£10K but there was no specimen signature. A sample of 22 payments selected from the bank history identified that the audit trail to evidence decisions with regard to quotes and additional work should be improved. In 6/22 cases the purchase order had been raised after the invoice and for 1/22 payments had been made against an invoice that did not detail the VAT number.</p> <p>Detailed findings set out in Appendix C on page 10</p>	<p>Unauthorised expenditure may be processed through the school accounts.</p> <p>Payments may not be made in compliance with Financial Regulations and the School's own procedures</p>	<p>The school should:-</p> <p>(i) review and increase the number of officers nominated to authorise the expenditure process</p> <p>(ii) specimen signatures should be available for Governors and budget holders required to sign off documents</p> <p>(iii) purchase orders should be raised when the expenditure is committed</p> <p>iv) additional work or goods should be supported by an authorisation on the purchase order</p> <p>v) for complex projects a summary of tenders would support the decision to award and clarify the comparison of quotes</p> <p>vi) quotes should be collected in the same timeframe and all relate to the procured goods</p> <p>vi) invoices should detail the VAT number.</p> <p style="text-align: center;">Priority 2</p>	<p>(i) Finance officer will be added as authorised signatory.</p> <p>(ii) Staff involved in the processing of orders recognise the signatures so this did not create any risk exposure, however an extended list will be kept for any new staff/auditors.</p> <p>(iii) PO's are raised as soon as practicable and additional efforts will be made to communicate decisions in good time and ensure online/account purchases are processed at the earliest opportunity.</p> <p>(iv) Additional works will be referenced and authorised on the purchase order</p> <p>(v) There were no complex tenders reviewed and the project examined had been fully reported to, and considered by Governors. Comments noted for future projects.</p> <p>(vi) Noted and actioned. Where quotes not possible reasons will be recorded and authorised.</p> <p>(vii) Noted. VAT number was in evidence on other associated paperwork.</p>	<p>September 2019/ SBM</p> <p>September 2019/ SBM</p> <p>Ongoing</p> <p>Ongoing</p> <p>As appropriate</p> <p>Ongoing</p> <p>Ongoing</p>

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2	<p>IR35 – HMRC</p> <p>The bank history for the sample period was used to identify all payments to named individuals.</p> <p>For 2 payments the HMRC online questionnaire should have been completed to support the self employed status of the engagement. A third case was identified during the check on cancelled payments and the cheque reissued to the named individual.</p>	<p>Non-compliance with HMRC regulations resulting in a financial penalty.</p>	<p>The online assessment should be completed in all instances where a payment to an individual is planned. This assessment should be printed out, dated, signed by the authorising officer and retained as supporting documentation with the order and invoice.</p> <p style="text-align: center;">Priority 2</p>	<p>Previously unaware of this requirement unless relating to regular suppliers such as peripatetic music teachers. Requirement now noted and actioned</p>	<p>September 2019/ SBM/Finance Officer</p>

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3	<p>Petty Cash</p> <p>The main petty cash float is held at the St Pauls Cray site with a sub float of £50 at the Beckenham site. The imprest claim for April to June 2019 was checked and identified that the claimant had not signed for the receipt of the cash.</p>	<p>Petty cash transactions may not be completed in accordance with Financial Regulations or the schools own financial procedures</p>	<p>The petty cash claim form is to be completed in full including the signature of the receiving officer to evidence that the transaction is accurate and complete.</p> <p style="text-align: center;">Priority 2</p>	<p>Reminder issued to obtain signature of receiving officer. Re-imburement not to be released without signature.</p>	<p>September 2019/SBM/Finance Officer</p>
4	<p>Lettings</p> <p>There are no current lettings however testing on two previous hiring's of the hydro pool identified that for one the application form had not been authorised by the school and for the other the insurance section had not been completed.</p> <p>The calculation of the charges and VAT for the invoice to the regular hirer was incorrect and led to a loss of income to the school.</p>	<p>Unauthorised use of school premises</p> <p>Loss of income to the school</p>	<p>The letting of any school facility for one off or regular hiring, should be supported by an authorised application form that considers the hirers arrangement for insurance and clearly sets out the agreed charge.</p> <p>The invoice raised to collect the income should be generated by Finance and if necessary double checked by a more senior officer to ensure accuracy.</p> <p style="text-align: center;">Priority 2</p>	<p>New Finance Officer employed and Letting Policy in place. System will be re-examined if any Lettings are approved. No current lettings in operation. Finance Officer qualified to produce invoices but checks can be completed if necessary.</p>	<p>As appropriate.</p>

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5	<p>Asset Register The asset register evidenced during the audit site visit had been signed by the School Business Manager rather than the Headteacher and was not dated.</p> <p>A delivery of 10 I-pads and 10 I-pods was identified during the expenditure testing and although added to the asset register and allocated asset number, the unique serial number had not been recorded.</p>	<p>The Financial Regulations requirement for the Headteacher to certify the asset register annually may not be achieved</p> <p>Assets lost or stolen may not be easily identified.</p>	<p>The asset register should be printed off annually, pages numbered and dated to allow the Head teacher to sign off the document and certify that the asset register is complete and accurate.</p> <p>All assets received on site should be added the stock register, detailing the unique serial number to allow that item to be identified.</p> <p style="text-align: center;">Priority 2</p>	<p>Asset register will be added to the annual year end closedown paperwork for signature by the HT.</p> <p>System in place for identifying assets that should be recorded. Reminder issued to include all unique details to allow identification.</p>	<p>March 2020. HT/SBM</p> <p>October 2019/SBM/Technician</p>

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6	<p>Contract Register The contract register was a comprehensive document however it should be dated and at the time of the audit required update as some of the contracts had expired.</p> <p>It is acknowledged that the contract register is not reported in full, to Governors annually, at the request of the Resources Committee in June 2016, however it is good practice for the Governors to have an overview of all contracts, the use of rollover contracts and consider changing market forces and opportunities.</p>	<p>Contracts may be let without following proper procedures and/or rolled over without proper approval</p>	<p>The contract register should be updated to show current contracts. The register should be owned and dated. Consideration should be given to report the complete register to Governors annually to allow scrutiny and challenge.</p> <p style="text-align: center;">Priority 3</p>	<p>Will be reviewed as part of discussion with the Resources Committee and an annual summary produced in addition to reviews of specific contracts.</p>	<p>October 2019/SBM</p>

OPINION DEFINITIONS

Assurance Level

Assurance Level	Definition
Substantial Assurance	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
Reasonable Assurance	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
Limited Assurance	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
No Assurance	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

Recommendation ratings

Risk rating	Definition
Priority 1	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
Priority 2	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
Priority 3	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.

Recommendation 1 – detailed findings

A sample of 22 payments was selected from the bank history for the period June 2018 to June 2019. The main issues arising were as follows:-

- All 22 payments were supported by an authorised purchase order but for 6/22 the purchase order was raised after the invoice date.
- At the meeting of the Resources Committee in February 2018, Governors agreed to waive competitive quotes and procure through one supplier given the specialist nature of the purchase (Sample 1 - £33,968). The Headteacher should also approve the decision to waive obtaining quotes and although part of Resources Committee it would offer greater independence if the Headteacher's authorisation was seen as separate and additional to the committee minutes.
- The expenditure testing identified issues with the collection, recording and use of quotes, specifically:-
 - Sample 3 and 11 – £22,426 and £8,225. One invoice was not authorised. Quotes were available for this project from these two companies and a third supplier, however it was difficult to compare like for like. There was a project summary to support tender evaluation but to an independent assessor this was not transparent. The decision to award work to these two providers was confirmed by Resources Committee in June 2018.
 - Sample 7 – £9,830. 3 quotes were evidenced to support the procurement of IT equipment but two of the quotes were online and had not been dated to allow verification that the quotes were obtained at the same time
 - Sample 9 – £9,195. The invoice was based on quotations 316 and 317 dated 15/1/19; whereas the invoice was received on the 3/5/19. The purchase order dated 7/5/19 refers to quotations 329 and 330 which were not provided with the evidence. The Resources Committee minutes refer to online and verbal phone quotes but these were not evidenced. One quotation did not have a price.
 - Sample 10 – £8,511.33. The value of the quote evidenced in March 2018 was not reflected in an increased price charged on the invoice in November 2018. There was no evidence that updated quotes had been sourced.

- Sample 13 – £6,140. Only 2 quotes were evidenced; the quote from this provider was for one make of laptop but the order placed was for an alternative. There was no evidence to support the decision to purchase a different product or obtain additional quotes.
- For two of the payments examined additional work was evidenced on the invoices. The variation should have been authorised on the purchase order. Sample 5 - £10,134 had additional work of £460 and for sample 7 - £9,830 additional equipment agreed in an e-mail trail but not approved by an authorising officer.
- For sample 14 - £7,246.12, the invoice did not detail the VAT registration although the reference had been detailed on the sales order.