

REDACTED



FINAL INTERNAL AUDIT REPORT

EDUCATION DEPARTMENT

REVIEW OF POVEREST PRIMARY SCHOOL

Issued to: Mrs S Weeks, Headteacher,
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REVIEW OF POVEREST PRIMARY SCHOOL 2020/21

INTRODUCTION

1. This report sets out the results of our audit of Poverest Primary School. The audit was carried out as part of the work specified in the 2020-21 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 review was completed remotely to comply with Government Covid 19 restriction guidelines to work from home where possible. The information required for audit examination was scanned and e-mailed by the Finance Manager (FM). The standard Internal Audit Questionnaire has been revised for 2020/21 to include the impact and response to COVID-19. The questionnaire forms part of the audit review as a self-assessment. As such the questionnaire, completed by the Finance Manager was certified by the Headteacher and the Chair of Governors to give an adequate assurance that the return was representative of current working arrangements; the certification was independent of the Finance function.
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 1st December 2020.
5. The key risks in the areas set are below were examined during the audit review: -
 - **Financial Management Information** including budget monitoring, financial reports and returns to London Borough of Bromley
 - **Primary accounting documentation** including payments, income, contracts, voluntary funds and bank reconciliations
 - **Asset control**
 - **Governance arrangements** including financial delegation, governor minutes, budget approval and business interests

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AUDIT OPINION

6. 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	3

SUMMARY OF FINDINGS

7. The audit review has found evidence to conclude that the controls are in place and working well for Financial Management, Expenditure, Income, Asset Management and Information to Governors. However, the school should consider the findings summarised as follows: -
- The current authorising signatories list with specimen signatures was not available. For 1/10 payments the lowest quote was not accepted, this was due to the fact that costs, net of VAT, had not been considered. It should be remembered that VAT is recoverable so net values should be compared for quote/tender evaluation. A Declaration of Interest had not been signed at the time of award to document that a member of staff had previously worked for the contractor.

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- Online HMRC questionnaires had not been completed for the 8 off payroll (IR35) payments to individuals. 4/8 payments checked had submitted a company invoice. A declaration of Interest was signed by an officer after the payment had been made to a family member.
- Procedures for the finance function to ensure business continuity and clarify roles and responsibilities were not available.
- The cash flow statement set as a budget report for 2020/21 was not available. However, it is acknowledged that the current pandemic has impacted on budgeting and financial planning. The control account for aged creditors is not routinely run.
- The contract register was a comprehensive list of all contracts and subscriptions but needed updating and completion of expiry dates for some of the contracts. The register should be reported and approved by Governors annually.
- The Lettings policy still shows the Council as being the Insurer however this transferred on 1/4/20.
- The Financial Delegation, which is used to support the Scheme of Delegation is dated 2014/15. Governors approval of the Scheme of Delegation was not evidenced.
- The school do not have a risk register.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

8. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified and the recommendations to management are detailed in Appendix A.

1. Expenditure	
<p>Finding</p> <p>From the bank history 10 payments were selected for audit examination the main issues arising were:</p> <ul style="list-style-type: none"> • The school did not have a current authorising signatories list with specimen signatures and initials. • For 1/10 payments the lowest quote was not accepted for refurbishment works, when costs are compared net of VAT. It was noted on the project summary that a member of staff had worked for one of the contractors; a declaration of Interest has now been signed but it was not at the time of the award. Detailed finding reported at Appendix C. <p>Risk</p> <p>Unauthorised sign off of the purchase orders, invoices and /or cheques. Challenge from a competing contractor for the award of procured work.</p>	
<p>Recommendation</p> <p>The bank mandate should be updated to reflect officers, authorised to sign cheques from the school account</p> <p>The authorised Signatories list should be developed to show signatures and initials for all officers authorised as part of the expenditure process with financial limits as set out in the agreed Scheme of Delegation.</p> <p>For tendered work the lowest quote should be accepted. Care should be taken to remember that recoverable VAT should be excluded when comparing to contractors who are not registered for VAT. If the evaluation identifies other factors to be considered the Headteacher and Chair of Governors should sign a waiver to evidence. All staff with financial responsibilities and/or input to procurement decisions should sign a declaration of interest.</p>	<p>Rating</p> <div style="border: 1px solid black; background-color: #ffc107; padding: 5px; text-align: center; width: fit-content; margin: 0 auto;">Priority 2</div>
<p>Management Response and Accountable Officer</p> <p>Updated authorised signatories list is now available.</p> <p>We will ensure going forward that if the lowest tender is not accepted, the reasoning behind the recommendation that is sent to governors for their decision is detailed in the document.</p> <p>Pecuniary interest's forms have now been signed by the relevant staff members. Going forward a pecuniary interest form will be completed by any staff who may have an interest in a company or individual that is to be paid by the school, Declaration forms will be completed prior to said company/individual working for the school.</p>	<p>Agreed timescale</p> <p>ongoing</p> <p>ongoing</p>

2. HMRC – IR35 payments	
<p>Finding</p> <p>From the bank history a sample of 8 payments to named individuals was selected to evidence compliance to IR35 regulations. The main issue arising were:-</p> <ul style="list-style-type: none"> • Online HMRC questionnaires had not been completed for the 8 off payroll (IR35) payments. • For 4/8 payments the provider had requested payment to themselves although the invoice stated the name of a company and this should have been the preferred method of payment. • A declaration of Interest was signed by an officer after the payment had been made to a family member. <p>Risk</p> <p>Financial penalty charged to the Governing Body for noncompliance to HMRC Regulations (IR35) Challenge from a third party relating to the award of procured work</p>	
<p>Recommendation</p> <p>For any payments to named individuals the school should complete the online questionnaire on the HMRC website to establish payroll /self-employment status. New regulations effective from April 2021 state that this assessment must be given to the individual to be engaged. For school purposes the assessment should be retained, dated and certified to support payment to a named individual.</p> <p>In all circumstances where the company name is available on the submitted invoice this should be used to make payment rather than the named individual.</p>	<p>Rating</p> <div style="border: 1px solid black; background-color: yellow; padding: 5px; display: inline-block; margin: 10px 0;"> Priority 2 </div>
<p>Management Response and Accountable Officer</p> <p>We are now completing HMRC IR35 questionnaires. The completed questionnaire have/will be sent to the company or individuals for their records.</p> <p>All completed questionnaires are now filed in a folder in a locked cupboard in the Finance Manager’s office</p>	<p>Agreed timescale</p> <p>ongoing</p>

3. Financial Procedures	
<p>Finding</p> <p>The school evidenced financial procedures for all staff raising a purchase order that were comprehensive and highlighted control and authorisation issues. There were no procedures available for the finance function to clarify roles and responsibilities and to ensure business continuity if officers are absent.</p> <p>Risk</p> <p>Key financial procedures may not be sustained during periods of absence. Business continuity may be compromised when key officers leave the school</p>	
<p>Recommendation</p> <p>The school should consider the processes undertaken by finance and administrative officer and draft procedure notes to support these tasks. The procedure notes should include recurring events, assign roles and responsibilities, suggested substitutions and a review date to ensure procedures are kept up to date.</p>	<p>Rating</p> <div style="border: 1px solid black; background-color: #90EE90; padding: 5px; display: inline-block; margin: 10px auto;">Priority 3</div>
<p>Management Response and Accountable Officer</p> <p>Our business continuity plan was approved by the governing body. It is due for renewal in June 2021. Finance is covered under the administration section</p> <p>As we have now moved to hosted FMS (financial system) the system can be used by up to 10 users who can access this from any computer (there is a two-level log in system for safety). If in the event of a critical incident which meant we weren't allow access to the school the financial system could be accessed from outside. The school is now training a admin member of staff on the FMS system to ensure if the finance manager was absent, the finance work can continue uninterrupted.</p>	<p>Agreed timescale</p> <p>End of May 2021</p> <p>ongoing</p>

4. Financial Reporting	
<p>Finding</p> <p>The cash flow statement set as a budget report for 2020/21 was not available, although the monthly cash flow reports showing actual values was evidenced signed and certified. It is acknowledged that the current pandemic has impacted on budgeting and financial planning.</p> <p>The aged creditors report for 1.12.20 identified two invoices outstanding for over 91 days. Both payments were satisfactorily explained but this does indicate that the control accounts, debtors and creditors, if routinely run, will identify any payments or debtors invoices that need action and resolution.</p> <p>Risk</p> <p>The school may not be aware of their ability to meet all liabilities</p> <p>Timely remedial action may not be taken to recover debts due to the school and invoices for payment may exceed 30 days</p>	
<p>Recommendation</p> <p>The school should produce a budget cash flow report for 2021/22.</p> <p>Control accounts, aged creditors and debtors should be run regularly and retained as part of the month end procedures.</p>	<p>Rating</p> <div style="border: 1px solid black; background-color: #90EE90; padding: 5px; display: inline-block; margin: 10px 0;">Priority 3</div>
<p>Management Response and Accountable Officer</p> <p>A budget cash flow report will now be done for 2021/22 to be continued going forward</p> <p>Aged debtors reports were run 6 times a year when reporting to the governors.</p> <p>From now aged creditors and debtors will be run on a monthly basis.</p>	<p>Agreed timescale</p> <p>End of May & on going</p> <p>On going</p>

5. Contracts Register	
<p>Finding</p> <p>The contract register was a comprehensive list of all contracts and subscriptions but needed updating and completion of expiry dates for some of the contracts. The register should be reported to Governors annually to allow scrutiny and challenge as contracts are rolled over and extended. The contract register was reported to Resources Committee in March 2021 for Governor review.</p> <p>Risk</p> <p>Contracts may not be reviewed in a timely manner to allow scrutiny and review for the contract to be terminated, extended or retendered. Financial commitment for contracts and agreements may not be identified</p>	
<p>Recommendation</p> <p>The contracts register is a “live “document and as such should be regularly reviewed and updated. It is a useful planning tool to identify expiry dates for contracts to allow adequate time to evaluate options to terminate, extend or re tender. Governors should review the contract register annually to scrutinise and challenge “rolled over” contracts for performance and value for money.</p>	<p>Rating</p> <div style="border: 1px solid black; background-color: #90EE90; padding: 5px; display: inline-block; margin: 10px auto;"> <p>Priority 3</p> </div>
<p>Management Response and Accountable Officer</p> <p>The governors received a copy of the live document at each Resources meeting. Approval to be minuted at next Resources meeting and SLT to review and discuss quarterly.</p> <p>This document was last reviewed at the Resources March meeting where a question was raised and answered regarding the finance package. The appointed Finance Manager no longer needed the additional support that came with the gold package and therefore enabled the school to opt for the cheaper bronze package.</p>	<p>Agreed timescale</p> <p>May 2021 ongoing ongoing</p>

6. Lettings Policy	
<p>Findings</p> <p>The Lettings policy evidenced at the start of the audit still shows the Council as being the school’s Insurers. The school transferred to an alternative provider with effect from 1/4/20 and this should be updated in the Lettings policy. Given the school are now insured with a new provider and not the Council insurance policies, the school should seek advice from their insurance provider relating to any queries about Public Liability. Previously, and still shown on the lettings application form a hirer can pay 10% of the hire fee to be covered by the Council’s Insurers. As the school are no longer insured under the Council’s insurance policies the school should seek clarification from their current insurance provider regarding hirers cover under their Public Liability policy.</p> <p>The fees and charges embedded in the policy are for April 2018 to 2020 and will need to be reviewed and the schedule updated for 2021 onwards.</p> <p>Risk</p> <p>The school may be inadequately insured, the school may not have adequate insurance cover for any claim that is received in respect of Public Liability. Income collected may not agree to approved fees and charges</p>	
<p>Recommendation</p> <p>The school should review the insurance status of all current lettings to confirm that the hirer has their own Public Liability insurance and that the school has a copy to evidence that the insurance cover is current. The school should contact their insurers and clarify the insurance cover regarding lettings if a hirer does not have Public Liability cover, the application form needs to be revised in line with this advice.</p> <p>The lettings policy, and application form needs to remove any reference to the Council’s Insurers as this is out of date information and inaccurate.</p> <p>The Fees and Charges need to be reviewed and the schedule extended beyond April 2020.</p>	<p>Rating</p> <div style="border: 1px solid black; background-color: yellow; padding: 5px; text-align: center; width: fit-content; margin: 10px auto;"> <p>Priority 2</p> </div>
<p>Management Response and Accountable Officer</p> <p>The lettings application form is being updated to remove the reference regarding the Council’s Insurers, if we have any hirers prior to the lettings form being updated the section relating to the Council’s Insurers will be crossed through.</p> <p>We do not hire out the premises to anyone who does not have their own public liability insurance. Copies of public liability certificate are received and stored with the letting application prior to the letting taking place.</p>	<p>Agreed timescale</p> <p>End of May 2021</p> <p>ongoing</p>

7. Scheme of Delegation	
<p>Finding</p> <p>The Scheme of Delegation was last reviewed in May 2018 as per the footer date on the submitted document. The Scheme of Delegation was not signed although the document title suggests e-mail approval was available 19.1.17.</p> <p>The Scheme of Delegation should be supported by:-</p> <ul style="list-style-type: none"> • a list of authorised signatories – not available at the start of the audit • the Financial Delegation which is dated 2014/15 and will need to be reviewed and updated <p>Annual approval by the Governing Body not evidenced; minutes of the Resources Committee November 2020 record that FM is to review the financial limits for Scheme of Delegation and this was completed for the March 2021 Resources Committee. The document should reflect the current date, date of any revision and planned review date.</p> <p>Note that Financial Regulations for Schools have been updated and were issued to the schools in January 2021</p> <p>Risk</p> <p>Delegated duties and financial limits agreed by Governors may not be adhered to</p>	
<p>Recommendation</p> <p>The Scheme of Delegation should be reviewed and reported to Governors for approval. The Scheme of Delegation will need to be supported by a reviewed and revised Financial Delegation and the Authorised Signatories list.</p>	<p>Rating</p> <div style="border: 1px solid black; background-color: yellow; padding: 2px; display: inline-block;">Priority 2</div>
<p>Management Response and Accountable Officer</p> <p>The Clerk of Governors has now found an updated version of the Scheme of Delegation, which was actually revised in May 2018, reviewed in November 2018 and then again in 2019. The former Finance Officer had not updated the Scheme of Delegation with these reviews or dates. The Scheme of Delegation is now saved in a shared drive so staff with the appropriate access rights can view the document.</p> <p>The updated Scheme of Delegation is being sent to our Resources meeting on the 26th May 2021 along with the division of duties policy and updated schools' expenditure authorised signatories. Copies of all documents now available.</p>	<p>Agreed timescale</p> <p>End of May 2021</p>

8. Cyber Security and Risk	
<p>Finding</p> <p>The school do not currently have a risk register.</p> <p>There are two registered users on FMS, the FM and one administrative officer, both officers have unique usernames and passwords which are prompted to change regularly. There is currently one FMS licence held on the FM desktop. The school advised that this will be changing as the system is moving to a cloud-based version with up to 10 licences. The system administrator is the FM, the primary user. With additional licences the school could consider assigning the system administrator role to another officer without operational financial responsibilities to achieve a separation of duties.</p> <p>Risk</p> <p>Financial loss from events not adequately identified as a risk and inadequate plans to mitigate against those risks.</p> <p>Manipulation of a financial system may not be detected and the audit trail compromised</p>	
<p>Recommendation</p> <p>The school develop a risk register setting out the controls in place to mitigate those risks and action to be taken if any events set out occur.</p> <p>The school should consider allocating the FMS system administrator role to an officer independent of the primary users.</p>	<p>Rating</p> <div style="border: 1px solid black; background-color: yellow; padding: 5px; text-align: center; width: fit-content; margin: 0 auto;"> <p>Priority 2</p> </div>
<p>Management Response and Accountable Officer</p> <p>We are preparing a risk register, have asked other schools for a copy of theirs, if they have one so we have a template to work from.</p> <p>The system administrator role is difficult to pass to an independent officer as only staff who use it have the ability and skill to be able to issue new users to the system. The Finance Manager is the current system administrator who only signs internal documents. The audit trail on the system shows the current users and what they have done on it.</p>	<p>Agreed timescale</p> <p>End of June 2021</p>

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

The award of contract for the project A was approved by Governors, by e-mail and Resources Committee 9.7.20 but it is not evidenced that the governors saw the quotes or project summary. The contract was awarded to Contractor A who had submitted the lowest tender of £11,500 but this contractor is not registered for VAT and therefore did not quote or charge VAT. When the 20% VAT is deducted from the next lowest tender, this would have been the lowest. To comply with Financial Regulations and deliver value for money the lowest tenderer should have been awarded the contract unless there are factors relating to performance, recommendations, specialist work or availability that need to be considered and if necessary a waiver signed by the Headteacher and Chair of Governors to not select the lowest cost quote. In this case neither contractor had worked at the school so past performance was not part of the evaluation.

It was noted on the project summary that a member of staff had worked for one of the contractors. Although a declaration of Interest has now been signed it was not at the time of the award. It has now been confirmed that the member of staff is also related to the contractor.

It is acknowledged that obtaining quotes during COVID would have been difficult and as such the audit findings relate to an awareness of cost comparisons, value for money, information presented to governors and transparency with regard to pecuniary interests for all procurement going forward.