

REDACTED



## FINAL INTERNAL AUDIT REPORT

### EDUCATION DEPARTMENT

#### REVIEW OF DOWNE PRIMARY SCHOOL

**Issued to:** Headteacher  
Senior Administrative Officer  
Chair of Governors (Final report only)  
Director of Education (Final report only)

**Prepared by:** Trainee Auditor

**Reviewed by:** Principal Auditor, Head of Audit and Assurance

**Date of Issue:** 25 January 2022

**Report No.:** PEO/08/2021

## REVIEW OF DOWNE PRIMARY SCHOOL

### INTRODUCTION

1. This report sets out the results of our audit of Downe Primary School. The audit was carried out as part of the work specified in the 2021-22 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 School Administrative Officer (SAO). The standard Internal Audit Questionnaire has been revised for 2021/22 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 SAO, 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.
5. The key risks in the areas set 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                                        | 3          | 4          |

SUMMARY OF FINDINGS

7. The audit review has found evidence to conclude that the controls are in place and working well for budget monitoring, utilisation of reports from the FMS (financial system) to support the financial management of school, asset management and governance arrangements such as financial delegation, budget approval and business interests. However, the school should consider the findings summarised as follows:

- Audit testing of 10 payments from the bank history identified one sample had a purchase order raised retrospectively and two purchase orders were not authorised.
- Audit testing of 23 payments made to six individuals identified that online HMRC assessments had not been completed for the engagement of these six individuals. Three of these payments were made directly to the individual but the company’s name was detailed on the invoice and should have been used. Purchase orders had not been raised for payments to these six individuals, one invoice was not authorised and one invoice was price checked and authorised by the same officer.

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- The interim arrangements for ordering goods and services during Covid-19 were agreed verbally between the SAO and the Headteacher and were not recorded and authorised formally.
  - Audit testing showed that seven laptops were purchased using a member of staff's personal bank card. The school does not hold a purchasing card. We have advised the school to contact LBB's Head of Finance, Children, Education and Families to arrange a Purchasing card for an appropriate officer nominated by the school. This will allow school to purchase items that are required urgently and reduce the number of reimbursements claims where staff members had to use their personal bank cards.
  - We examined three contracts; the school did not hold a signed copy of one of these on site. Further, the Contract Register does not detail the whole life value of the contract and only shows the annual value.
  - Monthly VAT returns to the Council's Principal Accountant were not submitted in a timely manner. Section 9 of Financial Regulations for Schools sets out the timetable for the monthly return.
  - Although there is currently no external hiring, the Lettings Policy, last updated in September 2017 and the Lettings Form need to be updated as the Council is no longer the school's insurer.
  - The Aged Debtors Report identified one debt that has been outstanding since 14 July 2020 and where further action is required.
8. We requested a copy of the Risk Register; however, this is currently a work in progress which the SAO and the Head teacher are preparing.
9. The responses to the Internal Audit Questionnaire state that the school's IT provider is responsible for back up and protection of systems. This is done remotely and error emails are sent through to notify the school of any problem with the backup. Although the responsibility has been passed to the IT provider, the risk remains with the school and given recent ransomware attacks on education establishments the threat is topical and should be reviewed as a priority. We have issued a cyber security awareness self-assessment for the school to complete. The questionnaire should prompt discussion with staff and governors to assign roles and responsibilities and ensure that there is adequate protection should the school be subject to a cyber-attack. This should include any specific insurance cover, including cyber security.
10. The school does not have a formal asset disposal process or policy in place. The school has confirmed that they have not disposed of any IT assets to date but envisage disposing of IT assets in the future. We advised the school to have a policy in place for disposing of old assets and to ensure that they are aware of their responsibilities related to information security and GDPR when disposing of the assets.
11. The school currently has three authorised signatories for the payment process. Although this fulfils the Financial Regulations requirement to have at least three officers evidenced in the expenditure process, it is advisable to have four authorised signatories to cover for any absence

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or long-term illnesses. We noted that on occasions initials were used to authorise the invoices rather than the full signature as evidenced on the Authorised Signatories List. We suggest that a new column is added to the Authorised Signatories List to record the initials/ short signatures for verification purposes.

12. Responses to the Internal Audit Questionnaire set out the arrangements to account for COVID expenditure and funding. Although this was not reviewed during this audit, we noted that the school had put in interim arrangements for paper handling such as email and telephone or quarantining the paper documents for 72 hours, and since the start of the Autumn Term 2021 the school had resumed normal activity.
13. We would like to thank all staff at the school for their help and cooperation during the audit.
14. The Management Action Plan is set out in Appendix A and Appendix B defines the audit opinion and recommendation rating.

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APPENDIX A

DETAILED FINDINGS AND ACTION PLAN

| 1. <u>Expenditure process</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                   |
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| <p><b><u>Finding</u></b></p> <p>We reviewed a sample of ten payments made between October 2020 and October 2021. There were revised arrangements for ordering goods and services until Autumn term 2021 due to Covid 19 and responsible officers stated in the Internal Audit Questionnaire that it was not always possible to raise purchase orders due to remote working during that period. Our testing identified the following issues:</p> <ul style="list-style-type: none"> <li>• For 1/10 payments, the purchase order was raised retrospectively.</li> <li>• 2/10 payments did not have an authorised purchase order.</li> </ul> <p>The interim arrangements for ordering goods and services during Covid-19 were agreed verbally between the SAO and the Headteacher and were not recorded and authorised formally.</p> <p>On occasions initials were used to authorise the invoices, which did not match the sample signatures recorded on the Authorised Signatories List.</p> <p><b><u>Risk</u></b></p> <p>Unauthorised expenditure may be incurred by the school.</p> |                                                                                                                                                   |
| <p><b><u>Recommendation</u></b></p> <p>Purchase orders should be raised as the expenditure is committed and should be authorised timely.<br/>Any alternative arrangements and deviation from the agreed process should be formally recorded and authorised by an appropriate officer or Governor.<br/>A new column on the Authorised Signatories List should be added to record the initials/ short signatures for verification purposes.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <p><b><u>Rating</u></b></p> <div style="border: 1px solid black; background-color: yellow; padding: 2px; display: inline-block;">Priority 2</div> |

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| <u>Management Response and Accountable Manager</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | <u>Agreed timescale</u> |
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| <p>We will continue to try as much as possible to raise orders on FMS prior to purchases being made and any alternative arrangements will be formally recorded and authorised.</p> <p>Please note, if payments are by direct debit, orders cannot be raised within FMS. Manual journals are done within FMS at the time of the direct debit transaction.</p> <p>A new column has been added to the signatories list to record any shorter signatures and a fourth member of staff has been added to the signatories list.</p> | <p>In place</p>         |

| <u>2. Payment to individuals &amp; HMRC regulations (IR35)</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
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| <p><b><u>Finding</u></b></p> <p>Between October 2020 and October 2021, 79 payments were made to individuals. The SAO confirmed that 56 of these payments were for expense claims by staff and therefore excluded from this audit review.</p> <p>For the remaining 23 payments related to 6 supply teachers, we found that:</p> <ul style="list-style-type: none"> <li>• online HMRC assessments had not been completed for any of the 6 individuals who had been paid directly for services delivered.</li> <li>• 3 of these payments were made directly to the individual but the company's name was detailed on the invoice</li> <li>• purchase orders were not raised for the 6 individuals engaged.</li> </ul> |

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- for 1/23 payments, the invoice had not been authorised.
- for 1/23 payments, the price check and invoice authorisation were done by the same officer and given there was no purchase order, separation of duties was not achieved.

**Risk**

Financial penalty for non-compliance with HMRC Regulations (IR35), non-compliance with Financial Regulations.

**Recommendation**

The procedure to engage off payroll staff must be implemented to ensure compliance with IR35 regulations for all current and future procurement and payments. 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.  
 A purchase order should be raised for payments made to named individuals to evidence committed expenditure and it also forms a contractual agreement to confirm terms and conditions including hourly rates.  
 Separation of duties should be evidenced for the expenditure process including checking and authorising the invoices.

**Rating**

Priority 2

**Management Response and Accountable Manager**

We are in the process of carrying out the online HMRC questionnaires and therefore payment is pending to these individuals. -  
 Head teacher

An order will be raised in advance of invoice received for these individuals evidencing committed expenditure.

**Agreed timescale**

By 31<sup>st</sup> January 2022

In place

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| 3. <u>Purchase made by a staff member using personal bank card</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                   |
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| <p><b><u>Finding</u></b></p> <p>Audit testing showed that seven laptops with a total value £3492.97 were purchased for the school using a member of staff's personal bank card. The expense was eventually claimed by the member of staff by filling the personal expense claim form.</p> <p>The school does not hold a purchasing card.</p>                                                                                                                                                                                |                                                                                                                                                   |
| <p><b><u>Risk</u></b></p> <p>Increased risk of unauthorised/ unapproved spend.</p> <p>School may not be able to reclaim VAT if the purchase is made using a personal bank card.</p> <p>The employer may face additional claims if the member of staff goes into debt or is unable to pay their bill due to such expense.</p> <p>In the event that the equipment needs to be returned for a refund, the school will be reliant on the member of staff to return the equipment and repay the reimbursement to the school.</p> |                                                                                                                                                   |
| <p><b><u>Recommendation</u></b></p> <p>School should refrain from using staff members' personal bank cards for purchasing items for the school use.</p> <p>School should contact LBB's Head of Finance, Children, Education and Families to arrange a Purchasing card for an appropriate officer nominated by the school. This will allow school to purchase items that are required urgently and reduce the number of reimbursements claims where staff members had to use their personal bank cards.</p>                  | <p><b><u>Rating</u></b></p> <div style="border: 1px solid black; background-color: yellow; padding: 2px; display: inline-block;">Priority 2</div> |

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| <u>Management Response and Accountable Manager</u>                                                                                                                                                                                                                                                                                                                                                                                                      | <u>Agreed timescale</u> |
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| <p>We have contacted LBB’s Head of Finance, Children, Education and Families on several occasion about this, dating back to 2019 and unfortunately, to date, we are still no further forward, as we have not received a reply.</p> <p>We will continue to pursue this as much as possible as it is an unfair situation for staff to have to use their bankcards to pay for school items, including paying for their training courses in some cases.</p> | <p>Ongoing</p>          |

| 4. <u>Contract Register</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
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| <p><b><u>Finding</u></b></p> <p>We selected 3 contracts from the Contract Register and examined if they are current, signed and were held by the school. We identified that:</p> <ul style="list-style-type: none"> <li>• the school did not hold the signed copy of one of the contracts.</li> <li>• the Contract Register included only the annual values and not the whole life values of the contracts which would support financial management and decision making.</li> </ul> <p><b><u>Risk</u></b></p> <p>The school may not be aware of its contractual agreements and payment liabilities.</p> |

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| <p><b><u>Recommendation</u></b></p> <p>The school should hold a signed contract onsite.</p> <p>The Contract Register should include all contractual and service level agreements with annual and whole life contract values. The school should use the Contract Register to assess if the contract is proving good value for money and a basis to review rolling contracts.</p> | <p><b><u>Rating</u></b></p> <p style="text-align: center;"><b>Priority 3</b></p>    |
| <p><b><u>Management Response and Accountable Manager</u></b></p> <p>We are looking into moving to a new IT provider this year and will ensure that a copy of any new contract is held in school. - Head teacher</p> <p>In the Contract Register going forward, there will be a column to include whole life contract values. - Head teacher</p>                                 | <p><b><u>Agreed timescale</u></b></p> <p>30 September 2022</p> <p>30 April 2022</p> |

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| <p><b><u>5. Monthly VAT returns</u></b></p>                                                                                                                                                                                                                        |
| <p><b><u>Finding</u></b></p> <p>As at 22 November 2021, VAT returns for September and October 2021 had not been submitted to the Council's Principal Accountant.</p> <p>The SAO confirmed that the outstanding VAT returns were submitted on 13 December 2021.</p> |

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| <p>Financial Regulations for Schools section 9.3.1 sets out that:</p> <p><i>All schools should complete and return their monthly VAT returns to the Chief Executives Department by 15th of each month following the month in question (e.g. April's return due 15th May). In the event of any problem which may cause delay, schools should notify Schools Finance Team or the Chief Executives Department as soon as possible.</i></p> <p>The timetable allows refunded VAT to be issued to the school the following month, delays therefore impact on the school's cashflow.</p> <p><b><u>Risk</u></b></p> <p>The school may not have an accurate projection of the cash flow. VAT cannot be recovered after four years from the HMRC.</p> |                                                          |
| <p><b><u>Recommendation</u></b></p> <p>School should submit the VAT return timely, in line with Financial Regulations to recover the VAT payment and have an accurate projection of the cash flow.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <p><b><u>Rating</u></b></p> <p>Priority 3</p>            |
| <p><b><u>Management Response and Accountable Manager</u></b></p> <p>Mostly, VAT returns are sent to the LA within the monthly timeframe.</p> <p>From November 2020 to July 2021 and some of the Autumn Term 2021 sickness and then restricted working practices once the officer returned from sick leave delayed processing.</p>                                                                                                                                                                                                                                                                                                                                                                                                            | <p><b><u>Agreed timescale</u></b></p> <p>Implemented</p> |

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| <p>In addition, FMS is very temperamental and when IT issues arise, there is always a setback to timeframes. This has been the case on two occasions at least since September 2021 and we currently have errors within FMS causing us delays.</p> <p>The school's bank was unable to respond to us and the LA Finance Team were unable to help when the August and September Bank Statement numbers were incorrectly issued. This caused several weeks of delay to our processes before knowing how to correctly move forward. To date, the school received no help with this and so we moved forward in the best way we could by adjusting the statement numbers manually, however not ideally. This allowed us to deal with the delay in sending any late returns to the LA.</p> |  |
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| <p><b>6. <u>Lettings Policy</u></b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <p><b><u>Finding</u></b></p> <p>The school's Lettings Policy was last updated in September 2017. The Lettings Policy incorrectly states that Council is the school's insurer. This will need to be updated to show the current insurers and confirm the insurance cover regarding lettings if a hirer does not have their own policy for Public Liability.</p> <p>Whilst there are currently no external hirings, the Lettings Form will need to be updated with current insurance arrangements before any lettings are accepted.</p> <p><b><u>Risk</u></b></p> <p>The school may be inadequately insured and may not have adequate insurance cover for any claim that is received in respect of Public Liability. This may lead to legal challenge and significant unexpected expenditure in the event that a claim is made.</p> <p>Income collected may not agree to approved fees and charges.</p> |

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| <p><b><u>Recommendation</u></b></p> <p>The school should contact their insurers and clarify the insurance cover regarding lettings if a hirer does not have Public Liability cover. The Lettings Form needs to be revised in line with this advice.</p> <p>The Lettings Policy, and Lettings Form need to remove any reference to the Council’s Insurers as this is out of date information and inaccurate.</p> | <p><b><u>Rating</u></b></p> <p style="text-align: center;"><b>Priority 3</b></p> |
| <p><b><u>Management Response and Accountable Manager</u></b></p> <p>Confirmation of the school’s cover was confirmed on 23<sup>rd</sup> November.</p>                                                                                                                                                                                                                                                           | <p><b><u>Agreed timescale</u></b></p> <p>Implemented</p>                         |

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| <p><b><u>7. Aged Debtors and Creditors Reports</u></b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <p><b><u>Finding</u></b></p> <p>The Aged Debtors Report identified two debts outstanding for more than 91 days. One debt of £150 was for a cancelled service, which needed to be cleared by the school. The second debt was £1550. This invoice has been outstanding since 14 July 2020. The SAO had attempted recovery by e-mail to the contacts on the 14/07/2020, 10/11/2020 and 11/11/2021 but there had been no response and no escalation had been actioned by the school.</p> <p>The aged debtors and creditors report is run annually by the SAO.</p> <p><b><u>Risk</u></b></p> <p>Income may not be recovered in a timely manner which may impact the cash flow.</p> |

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| <p><b><u>Recommendation</u></b></p> <p>The school should regularly (we suggest termly) run aged debtors and creditors control reports to identify outstanding debts and payments and action recovery.<br/>         School should have a process in place for chasing any outstanding debts.</p> <p>The school should follow up on the outstanding debt of £1550.</p>                                      | <p><b><u>Rating</u></b></p> <p>Priority 3</p>         |
| <p><b><u>Management Response and Accountable Manager</u></b></p> <p>The school does already have a process in place, which is to regularly visit the Age Debtor Report and chase outstanding payments. Unfortunately, on this occasion, the response has been very slow to any emails / phone calls when chased about £1,550 outstanding. I can now confirm that payment has been made to the school.</p> | <p><b><u>Agreed timescale</u></b></p> <p>In place</p> |

**Assurance Level**

| Assurance Level              | Definition                                                                                                                                                                                                                                   |
|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Substantial Assurance</b> | 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.                                                                  |
| <b>Reasonable Assurance</b>  | 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.                                                                 |
| <b>Limited Assurance</b>     | 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.                  |
| <b>No Assurance</b>          | 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                                                                                                                                                                                                                                                      |
|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Priority 1</b> | 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. |
| <b>Priority 2</b> | 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.                                   |
| <b>Priority 3</b> | 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.                                                                     |