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FINAL INTERNAL AUDIT REPORT

EDUCATION DEPARTMENT

REVIEW OF EDGEBURY PRIMARY SCHOOL

Issued to: Headteacher
School Business Manager
Chair of Governors (Final report only)
Director of Education (Final report only)
Head of Finance, Children Education and Families (Final report only)

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Reviewed by: Principal Auditor
Head of Audit and Assurance

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INTRODUCTION

1. This report sets out the results of our audit of Edgebury Primary School. The audit was carried out as part of the work specified in the six-monthly Internal Audit Plan for 2022-23, agreed by the Audit and Risk Management 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 Pre-Audit Questionnaire filled by the School Business Manager (SBM) forms part of the audit review as a self-assessment. As such the questionnaire, completed by the SBM, was certified by the Headteacher and the Chair of Governors to give adequate assurance that the return was representative of current working arrangements.
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. We examined the key risks in the areas set out below:
 - **Financial Management Information** including budget monitoring, financial reports and returns to London Borough of Bromley
 - **Primary accounting documentation** including payments, contracts, voluntary funds and bank reconciliations
 - **Asset control**
 - **Governance arrangements** including financial delegation, governor minutes, budget approval and business interests
6. The fieldwork was undertaken during a two-day visit to the school.

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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
1	3	2

SUMMARY OF FINDINGS

8. We found that controls are in place and working well for utilisation of reports from the Financial Management System (FMS) to support the financial management of school, management of purchasing card and governance arrangements including budget approval. However, the school should consider the key findings summarised below and set out in detail in Appendix A:

- 16 IT assets were missing at the time of the audit. The School Business Manager (SBM) informed us that these assets were taken by staff without signing a loan card during covid and have not been returned, and the school is unable to locate these assets.
- Audit testing of 20 payments from the bank history identified issues related to raising purchase orders, checking invoices, authorisation in the payment process, sourcing quotations for expenditure over £5,000 and use of school funds.
- IR35 assessments had not been completed for the payments made to individuals that we sampled.

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- Declaration of interest forms completed by the Governors and staff with financial/ procurement responsibility had not been completed for the academic year 2021/22.
9. We did not review the procedures to collect income and banking arrangements at this audit.
 10. Although the responsibility for cyber security and backup of school systems 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. The school needs to be aware of cyber security threat, assign a school lead to be responsible and ensure that the risks are effectively managed. We have sent a cyber security self- assessment questionnaire to the school to focus a discussion on these issues.
 11. We would like to thank all staff at the school for their help and cooperation during the audit.
 12. 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>Missing IT assets</u>	
<p><u>Finding</u></p> <p>The school had 16 missing IT assets - 10 laptops (1 HP, 1 Dell, 7 Lenovo, 1 Tactus Geobook), 5 ipad minis and 1 ipad. As recorded in the school’s IT asset register, the total value of 13 of the missing devices was £4213, excluding the cost of replacing 3 devices (1 Apple iPad, 1 Tactus Geobook and 1 Dell laptop) which were originally received for free from DfE.</p> <p>The school has a process of loaning devices to staff whereby they are expected to sign a loan (orange) card before taking the device.</p> <p>The School Business Manager (SBM) informed us that staff took these devices without signing a loan (orange) card during covid and have not returned them. These devices were identified as missing during the school review of the IT asset register on 24 June 2021.</p> <p>The SBM stated that “the school did amnesty and checked with the existing and former staff but could not locate these devices. These devices were disabled by the school’s IT Contract Technician in November 2021 to ensure they were blocked for use outside and have agreed to be written off by the Governors at the finance committee meeting held on 6th July 2022.”</p> <p><u>Risk</u></p> <p>Financial loss to school.</p> <p>Unauthorized access and misuse of the school’s and students’ personal information which can have significant personal, financial and reputational consequences.</p>	
<p><u>Recommendation</u></p> <p>The school should follow its procedure of issuing a loan (orange) card when loaning assets to staff in all circumstances and keep a record of all loans.</p> <p>The school should remove any future missing IT assets from the system immediately, after reasonable initial enquiries.</p> <p>The school should review its procedure for securing its IT assets, restricting the access to designated officers. These officers should then issue IT assets and keep a record of them.</p>	<p><u>Rating</u></p> <div style="border: 1px solid black; background-color: red; color: white; padding: 5px; text-align: center; width: fit-content; margin: 0 auto;">Priority 1</div>

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<u>Management Response and Accountable Manager</u>	<u>Agreed timescale</u>
<p>The school has started an asset loan book within the business office (loan book managed by the Office Manager, KM and SBM, KP.)</p> <p>Any extra assets borrowed will need to be requested via the business office and where authorised: signed for and a return date set at time of borrowing</p> <p>The Office Manager and SBM will monitor the asset loan book and return dates</p> <p>The Head Teacher has advised all staff of the asset loan book protocol and that all assets are issued via the school business office</p> <p>Missing assets will be removed promptly (after initial enquiries) and the action dated and authorised by HT/DHT so that audit trail can be maintained</p>	<p>Now operational</p>

<u>2. Expenditure process</u>
<p><u>Finding</u></p> <p>We reviewed a sample of twenty payments made between 1 May 2021 and 31 May 2022 and identified the following issues:</p> <ul style="list-style-type: none"> • For six payments, a purchase order was not raised. • For five payments, three officers were not involved in the purchase process. Only two officers authorised the order and invoice. • One invoice had the date printed incorrectly as the previous year's date. • One invoice did not have a VAT registration however VAT had been charged and paid. • For three payments over £5,000, three quotes were not obtained and there were no associated waivers to justify this. The school offered an explanation advising that for two of these samples they had used the regular supplier for the school trip and the reading scheme; and for the third

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sample, they used a supplier they had engaged with before who was offering a discount. None of these were reported to the finance committee as set out in the Financial Regulations for Schools 2020 and the school's Finance Policy.

The Financial Regulations for Schools 2020 section 5.5.3 sets out: "In order to ensure best value, at least three competitive quotes must be obtained in writing or via authorised e-mail where costs exceed £5,000. Where this is not practical to do so, the reasons must be submitted to the Finance Committee and/or governing body, in writing."

- There was no authorised signatory list. On occasions, initials were used to authorise the invoices or BACS payments.
- The bank mandate had not been dated.
- For weekly BACS payments for the suppliers, the SBM uses her login to upload pending payments on the banking portal and sends the printout to the Assistant Head Teacher (AHT) for authorisation. Once it has been authorised by the AHT, the SBM uses the AHT's login to authorise these payments online. We discussed the associated risks with the school, who has agreed to address it.

School funds of £129.07 were used to purchase food items for a staff leaving party.

Risk

Unauthorised expenditure may be incurred by the school.

The school may not be able to reclaim VAT, resulting into financial loss.

Shared logins increase the risk of unauthorised access and loss/ misuse of associated data as transparency and accountability are reduced.

Misuse of the money received from the government for pupils learning and development and reputational damage to the school.

Recommendation

Purchase orders should be raised as the expenditure is committed and should be authorised timely.

Rating

Priority 2

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<p>At least three authorised signatories should be involved in the purchasing process. Separation of duties should be evidenced for the expenditure process including checking and authorising the invoices.</p> <p>Invoices should be checked for any errors or inaccuracies before payment.</p> <p>The school should pay VAT invoices only if the VAT registration is printed on them. The school cannot reclaim the VAT in the absence of a valid VAT invoice.</p> <p>Three competitive quotes must be obtained for expenses exceeding £5,000. Any alternative arrangements and deviation from the agreed process should be formally recorded and submitted to the Finance Committee and/or governing body, in writing.</p> <p>An authorised signatories list should be prepared including the initials/ short signatures for verification purposes.</p> <p>Bank mandate should be dated to allow authorisation in the relevant timeframe.</p> <p>Officers should not share logins and passwords amongst the members of staff. Segregation of duties evidence accountability and ownership, accurate representation of actions taken and helps in avoiding fraudulent payments.</p> <p>School funds should only be used for educational purposes.</p>	
<p><u>Management Response and Accountable Manager</u></p> <p>A new School Business Manager is in place. Office and Finance Staff have been reminded of following the ordering protocol which will involve three officers</p> <p>There are now three staff involved in the purchasing process:</p> <ul style="list-style-type: none"> Requisition / Order Goods received and invoice checked Payment <p>An authorised signatory list will be created</p> <p>The SBM and Head Teacher recognise the need for three quotes as stated in the Finance Handbook</p> <p>Financial trans-actors have been directed to only use their own log ins for BACS and other finance actions</p> <p>Staff have been directed to ensure VAT registration number is present on invoice where VAT is requested</p> <p>Bank mandate is to be dated</p>	<p><u>Agreed timescale</u></p> <p>Now operational</p>

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The spending comment regarding non-education purposes is acknowledged	
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3. <u>Payment to individuals & HMRC regulations (IR35)</u>	
<p><u>Finding</u></p> <p>Eleven payments were made to three individuals between 1 May 2021 and 31 May 2022, who were not members of staff. An online HMRC assessment (IR35) had not been completed for any of the three individuals.</p> <p><u>Risk</u></p> <p>Financial penalty for non-compliance with HMRC Regulations (IR35).</p>	
<p><u>Recommendation</u></p> <p>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. Since April 2021, 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><u>Rating</u></p> <p style="text-align: center;">Priority 2</p>
<p><u>Management Response and Accountable Manager</u></p> <p>SBM will complete online questionnaire (HMRC) to assess external providers before the individual is engaged.</p>	<p><u>Agreed timescale</u></p> <p>As required</p>

4. <u>Declarations of interest</u>	
<u>Finding</u>	
<p>We reviewed the declaration of interest signed by the Head Teacher on 11 March 2021 at the time of joining the school, however there were no other declaration of interests on site for the governors and staff with financial/ procurement responsibility.</p> <p>The SBM informed us that the clerk has now circulated the declaration of interest forms after the finance committee meeting on 6th July 2022 for completion by the governors and staff with financial/ procurement responsibility.</p>	
<u>Risk</u>	
Biased procurement or tendering.	
<u>Recommendation</u>	<u>Rating</u>
All governors and staff with procurement and financial responsibility should sign a declaration of interest annually. The school should retain these declarations on site.	Priority 2
<u>Management Response and Accountable Manager</u>	<u>Agreed timescale</u>
Declaration of Interest Forms where needed are signed at time of employment start and have been issued where needed to existing staff. All governors and staff with procurement and financial responsibility will sign a declaration annually. The declarations will be stored on school site.	Now operational

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5. <u>Contract Register</u>	
<p><u>Finding</u></p> <p>The contract register was a comprehensive document and included the annual cost, contract term, expiry/ review date and PO date. We selected a sample of four contracts from the contract register and examined if they are current, signed and were held by the school. We identified the following issues:</p> <ul style="list-style-type: none"> • The school did not hold a signed copy of the contract and service level agreement with the IT contractor. • The contract register only contains the annual value of the contract and not does not show the whole life value of the contract which would support financial management and decision making. <p><u>Risk</u></p> <p>The school may not be aware of its contractual agreements and payment liabilities.</p>	
<p><u>Recommendation</u></p> <p>The school should hold a copy of signed contracts or service level agreements onsite. The contract register should include all contractual and service level agreements with whole life contract values.</p>	<p><u>Rating</u></p> <div style="border: 1px solid black; background-color: #90EE90; padding: 5px; display: inline-block;">Priority 3</div>
<p><u>Management Response and Accountable Manager</u></p> <p>The school will retain signed copies of contracts/service level agreements and include whole life values for purpose of financial planning.</p>	<p><u>Agreed timescale</u></p> <p>Now operational</p>

6. <u>Petty cash</u>	
<u>Finding</u> The SBM confirmed that petty cash is no longer in operation and our testing did not identify any movement of funds. The balance of £27.66 in petty cash is held in the school office.	
<u>Risk</u> Loss or theft of cash. Inefficient use of resources to manage a fund that is no longer required.	
<u>Recommendation</u> As the school no longer operates a petty cash system, the cash balance should be paid back to the school fund and the petty cash should be closed down.	<u>Rating</u> Priority 3
<u>Management Response and Accountable Manager</u> The Head Teacher & Governors are considering the petty cash recommendations.	<u>Agreed timescale</u> Ongoing

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.