

REDACTED



FINAL INTERNAL AUDIT REPORT

ST OLAVE'S GRAMMAR SCHOOL

AUDIT REFERENCE: PEO/09/2023

29 SEPTEMBER 2023

Auditor	Principal Auditor Principal Auditor
Reviewer	Head of Audit and Assurance

Distribution list

Headteacher
Director of Finance and IT
Chair of Governors (Final only)
Director of Education (Final only)
Head of Finance, Children Education and Families (Final only)

Executive Summary

Audit Objective	The objective of this audit was to review the adequacy and effectiveness of 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.
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Assurance Level		Findings by Priority Rating		
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.	Priority 1	Priority 2	Priority 3
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Key Findings
<p>We completed a site visit to the school on the 5th and 6th July. We found that controls are in place and working well for financial reporting , committee reports and minutes, scheme of delegation, asset management, bank reconciliation, VAT returns and management of the purchasing cards.</p> <p>The school should consider the key findings summarised below:</p> <p>Income and Lettings (Priority 2) - Invoices had not been raised before the let which is contrary to the schools lettings policy. Lettings forms were incomplete and had not been approved by the Head teacher. See Recommendation 1.</p> <p>Expenditure process (Priority 2) – 2 out of 20 payments sampled had not been paid within 30 days and, in 5 instances out of those 20 payments, purchase orders had not been raised in advance of payments being made. See Recommendation 2.</p> <p>Compliance with IR35 (Priority 2) - In two instances sampled the status of an individual had not been established when they were engaged to provide a service. In one instance payment was made before all parts of a service had been received. See Recommendation 3.</p> <p>Contracts and leases (Priority 2) – The contracts register was not up to date with details of all current contracts and leases. We were unable to ascertain from our examination of the Resources Committee minutes for the last twelve months when the contracts register had been presented to and approved by Governors. See Recommendation 4.</p> <p>Governors Pecuniary Interest Forms (PI) (Priority 2) – PI forms for 3 governors had not been completed and for another three governors the PI forms were for the previous academic year. See Recommendation 5.</p> <p>Our findings and management comments are detailed in Appendix A Definitions of our assurance opinions and priority ratings are in Appendix B. The scope of our audit is set out in Appendix C.</p>

Appendix A - Management Action Plan

1. Income and Lettings

Finding

The school are now hiring out their all weather pitch and will be expanding the letting activity to the school hall and sports hall. We reviewed the lettings policy and a sample of lettings. The main issues arising are:-

- Invoices are raised after the hire, although the lettings policy clearly states that payment is 7 days in advance or a term in advance for ongoing books.
- The Lettings Policy had not been reviewed in the last year
- The hirers agreement sets out the cancellation terms which differ to the “Conditions of Hire” document

We selected 4 clubs that are currently hiring the all weather pitch. The main issues arising were that:-

- One invoice was for the wrong amount £42 and should have been £46
- The information included one of the invoices in our sample was incomplete. Clubs with multiple sessions and days had not been specified on the invoice.
- The Premises Manager e-mails actual usage to allow Finance to raise an invoice – (see comment above regarding payment in advance). These emails did not state the reason for any cancelled sessions to apply the cancellation policy.
- The hire forms for our selected sample were incomplete as details of booked sessions were not entered and referred to previous e-mails or schedules.
- The Hire form is approved by the Premises Manager but given he is liaising with the clubs and initiating the let, it should be approved by another authorising officer.
- Hire form relates to “using the schools insurance cover” but this needs to be confirmed with the school’s insurers or removed.
- The lettings folder included a hire form that subsequently did not take place and should have been marked as such.
- There was no formal procedure to identify debt, escalate and recover.

Risk

Loss of income

Income collected may not agree to approved fees and charges.

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><u>Recommendation</u></p> <p>The cancellation terms and conditions are set out in the current policy and should be applied. The school is concerned that payment in advance would not be financially viable for small clubs. The school need to evidence a balanced risk assessment of debt, cash flow and utilisation of the facility. The lettings policy should be reviewed and updated, referencing the two recommendations above, but specifically the condition that all income is due before the letting takes place; any revision to the policy will need to be approved by Governors. The process to check and agree completed application forms needs to be improved; applications to be authorised by an officer outside of the Premises team. Information passed to the finance team and included on the invoice should be complete and accurate. The school should contact their insurers, RPA and clarify the insurance cover regarding lettings. The lettings diary will need to be developed to accommodate multiple lettings on the shared pitch area and increasing the facilities available. The school should utilise the financial system reports to develop and formalise a procedure for the recovery of debt.</p>	<p><u>Rating</u></p> <p style="text-align: center;">Priority 2</p>
<p><u>Management Response and Accountable Manager</u></p> <ul style="list-style-type: none"> • Lettings Policy has been revised to say that Payment Terms will be agreed at time of booking – this gives us flexibility to charge in advance or 1 month in arrears • The Lettings Policy was last reviewed at Resources Committee meeting on May 26th 2022 (prior to any bookings taking place. It was not reviewed at the Resources Committee June 7th 2023 as that agenda was dedicated to reviewing year end and the budget, as well as the extensive summer works schedule. The policy will next be reviewed at Resources Committee in November 2023 • Invoices will be amended to include all the dates and sessions (although number of fields in the financial system is limited in which case supporting schedule with the specific sessions will be sent with the invoices). Invoices will also include the reasons and details for a cancellation charge relative to the cancellation policy • Hire Forms will be completed for all new agreements with clubs detailing the agreed dates/times for hire and include an email back up agreement between both parties • Hire Forms will now be signed by Premises Manager and the Headteacher • Public Liability Insurance is required for all affiliated clubs letting the facilities. • Our RPA stipulates that it will cover for individuals or groups that would not be expected to have their indemnity insurance. it would not be the intention of the RPA to provide cover for liabilities of large groups or organisations who are hiring the premises such as a football/swimming club who should provide evidence of such insurances to the school. • As part of month end checklist, Aged Debtor report will be run monthly against the Trial Balance to ensure there is no risk of loss of income to the school. “Credit Control” to chase any bad debt will be added to Finance Assistant roles and responsibilities. 	<p><u>Agreed timescale</u></p> <p>Director of Finance Premises Manager 30 September 2023</p>

2. Expenditure process

Finding

All invoices in our sample had been authorised correctly, had been paid for the correct amounts and the VAT had been calculated and paid correctly. The on-line payment system (Commercial Banking) had been set up with limited access, separation of duties, an appropriate approval and payment process, an audit trail of payments (authorisation has to be made in the system by two of the five members of the senior leadership team).

2 out of 20 payments sampled had not been paid within 30 days and 5 out of 20 payments had no accompanying purchase order.

Risk

Payments may not be made in compliance with Financial Regulations and the school's own procedures. Where purchase orders are not raised, commitment and authorisation requirements are bypassed. This may lead to the risk of purchases of inappropriate or unnecessary goods or services. Where invoices are not paid timely, there is a risk that the school may be subject to interest on those payments under the Late Payment of Commercial Debts (Interest) Act 1998.

<p><u>Recommendation</u></p> <p>The school should ensure that:</p> <ul style="list-style-type: none"> (a) Payments to suppliers are made within 30 days, (b) Purchase orders are raised in advance of payments being made. 	<p><u>Rating</u></p> <div style="border: 1px solid black; background-color: yellow; padding: 5px; display: inline-block;"> <p>Priority 2</p> </div>
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<p><u>Management Response and Accountable Manager</u></p> <p>Payments > 30 days</p> <ul style="list-style-type: none"> • 'Company A' invoice for Science Flooring dated 25/04/22 which is after the works were completed in Easter hols (phase 1). Invoice date stamp says Finance received on 23/06/22 and was paid 08/07/22 • Invoice for printing of Olavian Magazine dated 30/04/22, received by Finance on 14/06/22 and paid 24/06/22 <p>Both above can be explained by the school's legacy purchasing process which was heavily paper based. Suppliers were encouraged to post their invoices to school which meant they could sometimes go missing as they were not addressed specifically to Finance. Once invoices were received, they were stamped and put in pigeonholes for GRN and 2 approvers. Once</p>	<p><u>Agreed timescale</u></p> <p>Director of Finance 30 September 2023</p>
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approved, a cheque was printed and sent out for 2 further cheque signatories. The process from receiving invoice to paying supplier could take 2 weeks.

The school now asks all suppliers to email invoices. Invoices are emailed to PO originator for a GRN and Finance process a weekly BACS run meaning all invoices are now paid within 30 days

Non Order Invoices

- 'Company B' preparing energy input for Master Plan. Price quoted for engineers was a day rate and they did not scope and extent of works involved therefore no PO was raised
- 'Company C' – ongoing subscription to a very good resource used by staff and Governors
- 'Company D' – ongoing maintenance contract for alarms. Going forward if invoice is sent for year ahead, we will send a PO and ask they quote PO number
- 'Company E' – price is not determined until company come on site to assess
- 'Company F' – an oversight by Head PA

Director of Finance will continue to reinforce message to all staff about the requirement for a PO to be raised before we commit to expenditure on behalf of school in line with Financial Regulations

3. Compliance with IR35 requirements

Finding

From a sample of payments to individuals selected from the bank history, we confirmed that an IR35 check had been carried out for three out of five individuals sampled.

For the other two other payments, which had been made to 'Individual A' and 'Individual B', the individual had been set up on the system and paid, instead of the company name quoted on the invoice. In these two cases no IR35 check had been carried out and it was unclear if the company or the individual should have been paid.

We also noted that for the payment made to 'Individual C' for a series of career interviews undertaken in July 2022, it was made before the final two interviews had been carried out. An IR35 check had been completed, but it had been carried out in Oct 2022, after they had been engaged in July 2022 (they had also carried out interviews in Sept 2022). The email accompanying the invoice had the website address of their company, so it is unclear if they needed to be paid as an individual and the IR35 completed.

Risk

Non-compliance with HMRC regulations resulting in a financial penalty.

Recommendation

The school should ensure that:

- (a) The status of an individual should be established when first engaging them to provide a service and, if required, an IR35 check should be carried out at that time, and
- (b) payment is only made after the services have been received.

Rating

Priority 2

Management Response and Accountable Manager

'Individual A' is a lawyer who facilitates the Year 7 appeals process. We have subsequently carried out IR35 check to confirm she is self employed

'Individual B' is self employed and helped the school with Careers Interviews

'Individual C' we acknowledge should have had IR 35 check prior to being paid

The former Finance Assistant who has now left did not check /question the invoices/bank payee names were different

Going forward the new Finance Assistant will be trained to check/question all invoices that are paid direct to an individual rather than a company and to carry out an IR 35 check.

Agreed timescale

31 December 2023

4. Contracts register and leases

Finding

The contracts register is comprehensive in format with details of start and end dates, annual costs, payment schedules and relevant notes for contract and leases. It does however have an entry for six contracts or leases which have an end date between March 2022 and April 2023.

It does not contain details of the lease for 'Company G' for the promethean IT panels.

We were unable to ascertain from our examination of the Resources Committee minutes for the last twelve months when the contracts register had been presented to and approved by Governors.

Risk

The school may not be aware of its contractual agreements and payment liabilities.

Recommendation

The contracts register should be updated to include details of all current contracts and leases and then referred to Governors for approval.

Rating

Priority 2

Management Response and Accountable Manager

The Leases are managed as part of the ICT 5 year rolling expenditure analysis. ICT 5 year expenditure is reviewed and approved by Resources Committee annually. This, along with the contracts register, will be reviewed by Governors at the next Resources Committee meeting in November.

ICT expenditure and leasing costs are managed directly by the Finance Director.

Agreed timescale

30 November 2023

5. Governors Pecuniary Interest Forms (PI)

Finding

The PIs for governors are managed by the Clerk of Governors and not held on site. The school requested a scanned copy of all current PIs for our inspection. As at 10th July 2023 3 PIs had not been completed by current governors and three were dated for the 2021/22 academic year (17/11/21 X 2 and 15/9/21).

Risk

Biased procurement or tendering.

<p><u>Recommendation</u></p> <p>The Clerk to Governors will need to ensure all PIs are completed by new governors and annually by all governors before attending and voting at a committee meeting. The school should verify that this has been completed. The school should consider an electronic version of the PI that would simplify the process and improve accessibility for the school.</p>	<p><u>Rating</u></p> <p style="text-align: center;">Priority 2</p>
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<p><u>Management Response and Accountable Manager</u></p> <p>All Governors declare any conflict of interests at start of every committee meeting. This is minuted by the Clerk. Going forward an electronic PI form will be created that can be sent for e-signature to existing and new Governors once a year and filed electronically. Clerk will send to school and HR will follow up to ensure that all forms are completed (like she does for all staff). All PI forms are now signed and attached for your information.</p>	<p><u>Agreed timescale</u></p> <p>Clerk 30 September 2023</p>
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6. Control Accounts and Cash Flow Reports

Finding

The Aged Debtor and Creditor reports were run on the 5/7/23 whilst we were on site. Two debtors were identified, one of which had been outstanding for more than 60 days, the other a correction to a previous invoice.

Eighteen payments were listed on the creditors report that could not initially be explained by the finance team as the report included several legacy entries that had been cleared at year end. The finance system provider was contacted but was unable to explain this “glitch”.

We acknowledge that this is a new finance system and the team are still developing reports to support the finance function.

Since transferring to a new financial system the school have not utilised a cash flow report. The Finance Manager cited time pressures at year end and reduced finance resources that had limited the development of new reports. The Director of Finance and IT was satisfied that completion of the monthly bank reconciliation, regular checking of the bank balance, Consistent Financial Reporting and the expenditure controls offered by the new finance system negates the need for a cash flow report. However, we have reported that 5/20 payments checked were not supported by a purchase order and would not then be shown in the financial system as committed expenditure and a cash flow report is a requirement under the Scheme for Financing Schools 2020.

Risk

Loss of income from bad debts.

The Financial System does not accurately reflect the finance position of the school to support sound decision making.

School fund balances may not be adequate to meet committed expenditure and the school account is overdrawn.

Recommendation

Regularly run the aged debtors and aged creditors reports to verify the information held in the system, investigate any anomalies, identify outstanding invoices and support income collection.

Develop cash flow reporting for the school account.

Rating

Priority 3

Management Response and Accountable Manager

Monthly Aged Debtors & Aged Creditors to be run as part of month end process

“Credit Control” added to Finance Assistant job description

Cash Flow reporting to local authority (which is done retrospectively anyway so a little bit pointless) can't be done in this financial year as Finance manager did not calendarize the full year budget.

Agreed timescale

31 October 2023

Cash Flow is managed on a daily basis informally by Director of Finance – monitors bank account with upcoming pay lists and DD to ensure there is zero risk of going over drawn at bank.	
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7. Loans Book

Finding

The only loans book on site is held by the Head of Art. As at the 6 July 10 items are out on loan, 6 of them relating to 2022. There was no evidence that this record is independently checked and verified as accurate.

Risk

Financial loss to the school

Recommendation

The loans book should be periodically checked by an independent officer to ensure that the assets are still on loan, that loans are recovered when a pupil leaves and that the loans book is accurate and current.

Rating

Priority 3

Management Response and Accountable Manager

Art department have clarified that the 10 items are still out on loan
Going forward, Finance will perform periodic checks of the loan book to validate all items are indeed on loan and not lost

Agreed timescale

Director of Finance
30 September 2023

Appendix B - Assurance and Priority Ratings

Assurance Levels

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.

Action Priority 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.

Appendix C – Audit Scope

Audit Scope
<p>We reviewed the adequacy and effectiveness of controls over the following risks:</p> <ul style="list-style-type: none">• Robust governance arrangements are not in place to oversee the financial management of the school or to ensure value for money• Decision making is not effective, as decisions are based on inaccurate financial information• The school pays for goods/services not received• Income due to the school is not collected• Loss or theft of assets <p>The audit review considered the following areas of financial management:</p> <ul style="list-style-type: none">• 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• Safeguarding Assets• Governance arrangements including financial delegation, governor minutes, budget approval and business interests <p>Whilst on site for two days, we examined the controls in place to mitigate the impact of the key risk areas. Our audit included a review of relevant documentation, interviews with key officers and sample testing of related procedures and processes.</p>