



M A Z A R S

CROYDON

Final Internal Audit Report

St Andrew's C of E High School

June 2019

Distribution: Head Teacher
Chair of Governors
Executive Director, Children, Families and Education (Final Only)
Director of Education and Youth Engagement
Director of Finance, Investment and Risk (Final Only)

Assurance Level		Recommendations Made	
Limited Assurance	Direction of Travel from previous audit: No change from Limited.	Priority 1	1
		Priority 2	3
		Priority 3	1

Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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Executive Summary

1. Introduction

- 1.1. St Andrew's C of E High School is an Anglican voluntary aided school in Central Croydon, Greater London. The School is part of the educational provision of the Diocese of Southwark and the London Borough of Croydon. It has an expenditure budget of approximately £3.497m for the financial year 2018/19.
- 1.2. It has been agreed that the School will be closing over the next two years and consequently pupil numbers have been decreased, which has impacted on the Schools income. The school carried a deficit forward into 2018/19 of £658k and as at February 2019, the School estimated that at year end 2018/19 the deficit would have increased to £1.487m.
- 3.1 The audit was undertaken as part of the agreed Internal Audit Plan for 2018/19 based on a risk assessment. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1. It should be noted that it was intended that the audit focussed on finance and payroll, although some additional areas were also tested at the time of audit.

2. Key Recommendations and Issues

Priority 1 Recommendation

Examination of a sample of 28 transactions established that purchase orders were not available for 16 of the transactions and for a further two, where orders and requisitions were held, the transaction values exceeded the delegated limit of the person authorising the transactions, **(Issue 2)**.

Priority 2 Recommendations

The Head Teacher's performance appraisal and salary increase had not been ratified by the full Governing Body as required, **(Issue 1)**.

A number of transactions included on the 'Bank reconciliation – Unreconciled items' were over 6 months old, **(Issue 3)**.

A signed lettings agreement was not available for the 'virtual school' letting, **(Issue 4)**.

The priority 3 recommendation is included under item 4 below.

Acknowledgement

We would like to thank the Director of Business & Financial Management for her time and contribution to this audit.

Detailed Report

3. Actions and Key Findings/Rationale

Audit Area: Payroll

Priority	Recommendation 1	Detailed Finding/Rationale
2	The recommendation arising from the Head Teacher's performance review meeting should be formally ratified by the Governing Body.	<p>Expected Control</p> <p>The Education (School Teachers' Appraisal) (England) Regulations 2012 set out the requirements for the Head Teachers appraisal, including the following, '7. — (1) The governing body of a school must appraise the performance of the head teacher in respect of each appraisal period applying in relation to that head teacher. (2) In appraising the performance of the head teacher, the governing body of a school must consult the external adviser appointed under regulation 4.'</p> <p>Issue/Finding</p> <p>It was confirmed that the Head Teacher's performance was appraised on 11 December 2018 and that the School had appropriately consulted with an external advisor as required. However, while governors were aware of the Head Teacher's performance review meeting and the recommendation arising from this, as reported to the Monitoring Group meeting held on 10 January 2019, the result of the Head Teachers performance review was not formally ratified by the full Governing Body as required.</p> <p>Risk</p> <p>Where the recommendation arising from the Head Teacher's performance review meeting is not formally agreed by the Governing Body, there is a risk that it is not valid.</p>
Management Response		
	The Headteacher's Performance Management will be ratified in the May 2019 Governor's meeting.	<p>Agreed/Disagreed</p> <p>Agreed</p> <p>Responsible Officer</p> <p>Chair of Governing Body</p> <p>Deadline</p> <p>May 2019</p>

Audit Area: Procurement

Detailed Finding/Rationale	
<p>Priority</p> <p>Recommendation 2</p> <p>1 For all cases, where costs relating to transactions can be identified in advance, management should ensure that purchase orders are raised and appropriately certified in advance of purchases being initiated. Where costs cannot be properly determined, evidence of order approval in advance should still be maintained.</p>	<p>Expected Control</p> <p>The School's Finance Policy & Procedures 2018/19 details under 'D8: Use of written pre-numbered order forms' that, 'Official, pre-numbered orders from the school's accounting system must be used for all goods and services except utilities, rents, rates and petty cash payments. Where urgency requires a verbal order these must be confirmed by a written order.'</p> <p>Issue/Finding</p> <p>Examination of a sample of 28 transactions established that for sixteen purchases copies of the orders were not available. In one case, although an order was held, this was not certified and for a further two, where orders and requisitions were held, the transaction values exceeded the delegated limit of the person authorising the transactions.</p> <p>Risk</p> <p>Where the School does not raise purchase orders in advance, there is a risk that the authorisation and commitment processes are by-passed, which may result in inappropriate purchases and poor budgetary control.</p>
Management Response	
<p>Significant improvements have been made to the School's systems and processes to ensure the budget is accurately monitored. All purchases are agreed in advance by the Headteacher and regular reminders are given to Budget Holders about the ordering process.</p> <p>A comment received by the Auditor confirmed that there was elements of great practice with some orders which include the use or requisition forms, job authorisation forms for the Chair of Governors authorisation etc.</p>	<p>Agreed/Disagreed</p> <p>Agreed</p> <p>Responsible Officer</p> <p>Head Teacher / Director of Business & Financial Management</p> <p>Deadline</p> <p>Immediately</p>

During the 2018/19 financial year, there has been a significant change in staff, which means constant up skilling, information giving etc, to ensure staff are working in line with expectations.

The budget is clearly managed well and has stabilised in the past year.

Notwithstanding the above, the school will do the following to improve its practice further:

1. A notice to all staff in the Weekly Standard (weekly communication to staff from the Headteacher) advising that all future purchases have to be made by completing a requisition form (see email attached)
2. Include a target for the Finance Officer's 2019/20 appraisal to ensure all Purchase Orders are checked against the Scheme of Delegation to ensure they are signed by Budget Holders and only to their delegated amounts
3. Introduce an informal policy that all Purchase Orders are signed by the Headteacher
4. Re-issue the Finance Policy to all Budget Holders by the end of April.

Audit Area: Bank Accounts

Priority	Recommendation 3	Detailed Finding/Rationale
2	<p>Management controls should be established to ensure that unreconciled payments and receipts shown on the accounting system are periodically reviewed and cleared when over six months old.</p> <p>The items currently shown on the 'Unreconciled Items Listing' should be investigated and, where appropriate, cancelled.</p>	<p>Expected Control</p> <p>It is banking practice that banks will only honour a cheque payment into a bank account if the item is less than six months old. In performing bank reconciliations, accounting standards recommend that all unreconciled items over six months old should be investigated and cleared off the system.</p> <p>Issue/Finding</p> <p>Examination of the 'Bank reconciliation – Unreconciled items' dated 6 March 2019 identified a number of transactions over 6 months old, as follows:</p> <ul style="list-style-type: none"> - 12 June 2017 for £90.40 - 18 July 2017 for £336.00 - 10 October 2017 for £50.00 - 1 December 2017 for £35.97 - 13 December 2017 for £82.35 - 24 January 2018 for £388.89 - 7 February 2018 for £30.52 - 7 March 2018 for £294.80 - 28 March 2018 £396.66 - 16 May 2018 for £200,214.45 - 22 May 2018 for -£38.88 - 23 May 2018 for £463.58 - ?? May 2018 for -£203,429.37 - 19 June 2018 for £13,299.84 - 2 July 2018 for -£600.00 - 18 July 2018 for £497.40 - 20 July 2018 for £275.00 <p>It was explained that the two largest items for £200,214.45 and -£203,429.37 respectively, were errors and need to be corrected.</p> <p>Risk</p>

			Where unreconciled items are not removed from the system, there is a risk that the School's financial position may appear distorted and that there is non-compliance with accounting regulations.
Management Response	Agreed/Disagreed	Responsible Officer	Deadline
<p>It was explained to the Auditor that all items would be cleared in the Easter holidays as part of the 18/19 Year-End process. Evidence from the Finance Consultant and Business Manager was provided that confirmed this. Some unreconciled items belong to previous members of staff who the school had been in contact with.</p> <p>Due to the School's budget management processes the figures were never distorted. As part of the monthly Bank Reconciliation and budget monitoring process, the difference of just over £12k (the amounts when they are all added up) was accounted for accordingly and used as an additional buffer.</p> <p>The School's management process was clearly identified, as work on the historic unreconciled items were indeed completed as part of the Year End process.</p>	Agreed	Director of Business & Financial Management	Immediately

Audit Area: Income

Priority	Recommendation 4	Detailed Finding/Rationale		
2	The School should ensure that a signed lettings agreement is held for the 'virtual school' letting.	<p>Expected Control</p> <p>A letting agreement should be signed and retained for each letting in order to help ensure that the both parties are aware and formally agree to the terms imposed on the letting.</p> <p>Issue/Finding</p> <p>It was established that the School has two lettings, one for a 'Virtual School' and for 'House of Prayer'. While a signed agreement was in place for the 'House of Prayer' a similar agreement for the 'virtual school' could not be located at the time of audit.</p> <p>Risk</p> <p>Where signed lettings agreements are not held, there is an increased risk that liability and responsibility cannot be identified or assigned. This could lead to loss of income for the School and potential reputational damage.</p>		
Management Response		Agreed/Disagreed	Responsible Officer	Deadline
This is a historic lettings agreement that has been in place prior to the employment of the current Business Manager and Headteacher. Contact has been made with the Virtual School to resolve this issue.		Agreed	Head Teacher	June 2019

Priority 3 Recommendation

Recommendation	Findings
<p>1) The School should ensure that all undisputed invoices should be paid in a timely manner (30 days from receipt and within supplier deadlines). (Where invoices are disputed, these should be annotated as such.)</p>	<p>The provisions of the Late Payment of Commercial Debt (Interest) Act 1998 require that all invoices are paid promptly to avoid incurring additional interest. Furthermore, the Audit Commission guidance 'Keeping Your Balance, Standards for Financial Management in Schools' standard D14 states that, "... Payment should be made within time limits specified..."</p> <p>Examination of a sample of 28 transactions identified five instances where invoices had not been paid within 30 days. Explanations provided for these, included the invoices being received during holiday times or by staff not passing these to the office in a timely manner.</p> <p>Where invoices are not paid within thirty days of receipt, there is a risk that additional interest charges may be incurred by the School resulting in financial loss.</p>
<p><u>Management Response</u></p> <p>The Finance Office is not open during the school holidays. As such there will inevitably be delays in the payment of invoices during these periods where invoices are posted or emailed to the School in the holidays.</p> <p>Where staff may not have passed invoices on to the office in a timely manner, this is usually due to additional checks being made on invoices to ensure they are valid for payment and or queries, as per the emails that were forwarded to the Auditor to highlight the queries for the aforementioned invoices.</p> <p>It was also explained to the Auditor, that due to the School having a significant deficit, we have to be particularly mindful of cash flow and as such, we have to time our payments accordingly to prevent the School's account becoming overdrawn.</p>	

AUDIT TERMS OF REFERENCE

St Andrew's School – 2018/19

1. INTRODUCTION & BACKGROUND

- 1.1 This audit is being undertaken as part of the Internal Audit Plan for 2018/19, as agreed by the Council's Audit Committee.

2. AUDIT OBJECTIVES AND METHODOLOGY

- 2.1 To provide an independent and objective opinion on the degree to which the Council's internal control environment supports and promotes the achievement of the Council's objectives. The internal control environment comprises the policies, procedures and operations in place to:

- establish, and monitor the achievement of the service's objectives;
- identify, assess and manage the risks to achieving the services objectives;
- facilitate policy and decision making;
- ensure the economical, effective and efficient use of resources;
- ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations;
- safeguard the service's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption; and
- ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

- 2.2 To confirm that management have controls in place to detect and vigorously, pursue, fraud, corruption, other irregularities, errors and poor value for money.

- 2.3 To confirm that appropriate management action has been taken to implement recommendations for change leading to improvement in performance and/ or control.

3. SCOPE

- 3.2 It is intended that audit focus on finance and payroll, although additional areas were also tested, as follows:





Audit Area	Recommendations Made		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Governance and Leadership	0	0	0
Budgetary Control & Monitoring	0	0	0
Payroll	0	1	0
Procurement	1	0	1
Bank Accounts	0	1	0

Income	0	1	0
School Fund	0	0	0

Definitions for Audit Opinions and Recommendations

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk,
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to recommendations are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

STATEMENT OF RESPONSIBILITY

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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