

London Borough of Hammersmith & Fulham

Final Internal Audit Report

Cambridge Special School

Audit Job Ref: 2020 - 29

March 2021



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This report ("Report") was prepared by Mazars LLP at the request of the London Borough of Hammersmith and Fulham (LBHF) 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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1 Introduction

This audit was undertaken as part of the 2020/21 audit plan. The programme is designed to audit the main areas of governance and financial control. The programme's standards are based on legislation, the Scheme for Financing Schools and accepted best practice. The purpose of the audit was to help schools establish and maintain robust financial systems.

The executive summary provides the overall view of the system which is supported by RAG (Red/Amber/Green) ratings for the activities covered by the audit. The remainder of the report is by exception only to highlight areas for improvement.

2 Executive Summary

2.1 Assurance Opinion

	Nil	Limited	Satisfactory	Substantial
Audit Opinion				

2.2 Recommendations Summary

The following table highlights the number and categories of recommendations made.

Area of Scope	Adequacy	Effectiveness	Recommendations Raised		
			High	Medium	Low
Governance and Leadership			0	0	1
Financial Management			0	0	0
Procurement			0	0	1
Staff Expenses & Petty Cash			0	1	0
Income			0	0	0
Payroll			1	0	0
Head Teachers Pay			0	0	0
Assets and Inventory			0	0	0
Unofficial Funds			0	0	0
Total			1	1	2

Please refer to Appendix 1 for recommendations and Appendix 2 for a definition of the audit opinions and recommendation priorities.

3 Summary of Findings

In Internal Audit's opinion, **Limited Assurance** can be given to the Governing Body that the controls relied upon at the time of the audit were suitably designed, consistently applied and effective in their application.

The limited assurance opinion is based on inappropriate loans being made to staff which has resulted in a high priority recommendation being raised.

Design of and compliance with controls to address the key risks identified

Governance and Leadership

- The Governing Body and the Finance and Premises Committee meet at least three times a year, as per the Terms of Reference.
- All governors and staff with financial responsibilities had completed a declaration of interests form within the last 12 months.
- A Governor Skills Audit has been completed for current governors, there is no overall skills matrix in place identifying areas that could be strengthened (**Recommendation 1**).
- A Whistleblowing Policy in place, which is made available to all staff via the staff handbook and the school intranet page. A copy is also held in the staff room.
- A School Development Plan (SDP) is in place for 2020/21. Our review confirmed that the School had considered longer term objectives when putting together the plan. We confirmed that the SDP included estimated costs and resources required for each objective.
- Examination of the Governing Body and Finance and Premises Committee meeting minutes found that an annual review of School expenditure including staff expense claims and overtime claims had been undertaken.

Financial Management

- A budget plan for the 2020/21 is in place and was approved by the Governing body on 3rd June 2020 meeting. The budget is monitored on a monthly basis by the School Business Manager (SBM) and is signed off by the Head Teacher (HT). This was confirmed for a sample of three budget monitoring reports for October, November and December 2020. One of the key findings was that the majority of overspend has been on agency staff due to the pandemic.
- Bank reconciliations are completed by the SBM. Testing of October, November and December 2020 bank reconciliations identified that these were reviewed and signed off by the HT.
- The School Financial Value Standards (SFVS) was approved by Governing Body on 4th March 2020 and submitted to the Council on 31st March 2020 within the deadline.

Procurement

- A sample 15 payments made to suppliers were selected from the Schools bank history covering a 12 month period to check that orders were authorised in line with the Scheme of Delegation, and that payments had been made within 30 days of receipt of the invoice. Testing found in one case the invoice had not been paid within 30 days of the invoice date. (**Recommendation 2**).
- As at January 2021 the School has in place a total of 39 contracts with an annual value of spend totalling £199,113.50 There have been no contracts that had gone to tender for the financial period 2020/21, however review of the ICT contract that is in place confirmed that three quotes had been obtained and that the cheapest was selected. Another contract (Firefly) for the provision of Online Platform was procured by the Local Authority.

- We confirmed through discussion with the SBM there are no procurement cards in use.

Staff Expenses and Petty Cash

- Sample of five staff expenses from the past 12 months was chosen for testing, and the following was noted:
 - All five claims were submitted within one month of being incurred;
 - Four claims were authorised and supported by a receipt. The remaining one claim had not been authorised; and
 - All five claims were reasonable.

(Recommendation 3).
- Sample testing of five petty cash claims from the past 12 months found that all had been authorised with a clear segregation of duties; signed by the claimant to acknowledge receipt of funds; supported by proof of purchase and was deemed reasonable.
- We obtained copies of petty cash reconciliations for November, December 2020 and January 2021 and confirmed that these are prepared by the SBM and authorised by the HT.

Income

- Testing a sample of three sources of income confirmed that there was an adequate audit trail in place from receipt of income to banking.
- Testing of free school meal provision confirmed that supporting documentation was obtained in all cases to evidence eligibility.

Payroll

- Payroll reports were obtained from the SBM for November, December 2020 and January 2021. We confirmed that they had been checked and signed off by the Head Teacher.
- A sample of 5 new starters were selected. We confirmed for all starters a copy of the letter of appointment, an authorised new starter form and evidence of their right to work in the UK was retained and the DBS check number recorded.
- A sample of 5 leavers were selected. We confirmed for all leavers a notification had been sent to payroll in a timely manner and that no payments had been after their leaving date.
- For a sample of 5 overtime claims, we confirmed in all cases a claim form was submitted which was signed by the claimant and had been authorised by the Head Teacher.
- It was noted that the school had been providing loans to staff, initially in the form of the Cycle to Work scheme. The Cycle to Work scheme is only applicable to Council staff as a staff incentive and is not applicable to school staff. It is understood that there was some misunderstanding by the School in relation to the eligibility of this scheme for school staff and was thus made available to school staff without checking the legitimacy of doing so. Our review of the scheme identified that a total of 13 loans had been issued between January 2017 and July 2020 totalling £10,354.66 with terms of the loan(s) ranging from 12-18 months. Six of the loans were for Cycle to Work scheme and the remaining seven were classed as personal loans unrelated to the Cycle to Work scheme. Loan repayments are done through payroll as monthly deductions, these were seen on the individual's payslips for all those members of staff who had taken a loan. We confirmed that there is one loan that is still yet to be repaid.
- These loans were not accounted for in the school budget report under a separate budget code but rather were included within the salary expenditure code. It was further noted that this loan scheme had not been discussed at the School's Finance Committee nor had the governors been made aware of it. Due to these loans not being separately identified in the

budget reports, the governors were unable to identify and challenge them. There was no evidence from the Finance Committee minutes about the scheme being discussed or queried. The scheme had been suspended, and no further loans administered when it was recognised by the Headteacher in September 2020 that it was not appropriate to provide such loans with eligibility to even the original Cycle to Work scheme being questioned by the Local Authority. (**Recommendation 4**).

Head Teacher Pay

- Observation of the staffing structure confirmed that that the school currently has two members of staff on the leadership scale, the Headteacher and the Deputy. The School provided evidence of the Head Teacher's pay and this was found to be within the provision of the School Teacher Pay and Condition Document (STPCD).

Assets and Inventory

- The school has one asset register which records both IT and non-IT equipment. We were informed that the register would go to governors. However, for the period 20/21 an audit has not yet been done, but assurance was given that a review is due during February half term.
- The school backs up data daily and has a recovery plan in place as per their disaster recovery plan.

Unofficial Funds

- The school does not operate any unofficial funds.

4 Acknowledgement

We would like to thank the following members of staff for their time and assistance during the audit:

- Alan Campbell – Head Teacher
- Rebecca Moore – School Business Manager

Appendix 1: Management Action Plan

1. Governance and Leadership– Governance Skills Audit

Priority	Issue	Risk	Recommendation
Low	Whilst there are comprehensive and current risk matrices for the governors, there was no overall matrix review to show areas that may need strengthening.	Where Governor competencies are not reviewed on a regular basis, there is an increased risk that skills gaps or a lack of balance within the Governing Body may not be identified and addressed.	A review of Governor skills should be undertaken on periodically to identify any potential skills gaps or imbalances in the composition of the Governing Body.
Management Response			
<p>Agreed.</p> <p>The next full Governing body meeting is in June. We will ensure that a training matrix has been completed and is ratified at that meeting. There are current vacancies on the Governing body, we will use this tool to ensure that our recruitment process is targeted to address any deficits in skills and training.</p>			
Responsible Officer			Deadline
Alan Campbell – Head Teacher			30 June 2021

2. Procurement – Compliance with Procurement Procedures

Priority	Issue	Risk	Recommendation
Low	From a sample of 15 purchases tested, we found that one invoice had not been paid within 30 days of the invoice date.	Where payments are not made within 30 days, there is a risk that the School may damage relationships with suppliers. Furthermore, late payment charges may be applied.	All invoices should be paid in a timely manner (within 30 days) and any queries or disputes preventing the invoice being paid in this time should be recorded on the relevant invoice.
Management Response			
<p>Agreed.</p> <p>The audit found most internal processes to be robust, however there have been some issues around efficiency due to key members of staff working remotely. We will ensure regular keep in touch meetings to monitor work load and compliance with financial procedures.</p>			
Responsible Officer			Deadline
Rebecca Moore – Senior Business Manager			30 March 2021

3. Staff Expenses – Authorisation of Claims

Priority	Issue	Risk	Recommendation
Medium	For a sample of five staff expenses, one claim form was not authorised.	Where staff expense claims are not authorised, there is an increased risk of inappropriate expenses being claimed.	All staff expense claims should be authorised. Payments should not be made where claim forms are not appropriately authorised.
Management Response			
<p>Agreed.</p> <p>The audit found most internal processes to be robust, however there have been some issues around efficiency due to key members of staff working remotely. We will ensure regular keep in touch meetings to monitor work load and compliance with financial procedures.</p>			
Responsible Officer			Deadline
Rebecca Moore – Senior Business Manager			30 March 2021




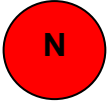
4. Payroll – Loan

Priority	Issue	Risk	Recommendation
<p>High</p>	<p>Prior to this review, we were made aware that the school had been administering Cycle to Work and other personal loans to staff. Upon further investigation and enquiries by the School Business Manager, it transpired that the provision of loans had not been reviewed or approved by the Governing Body.</p> <p>Our review of the scheme identified that a total of 13 loans had been issued totalling £10,354.66 with terms of the loan(s) ranging from 12-18 months.</p> <p>Staff would complete a loan pro-forma detailing need for loan, this would be authorised by the Headteacher including the terms of the loan. In one instance it was found that the proforma with a value of £750 for a bike had not been authorised by the Headteacher.</p> <p>From the 13 loans only six were for the intended Cycle to Work scheme, the others were classed as personal loans unrelated to the Cycle to Work scheme.</p> <p>One loan repayment is still outstanding. In addition, in one other case, the paperwork had not been authorised.</p> <p>It was noted that these loans were not accounted for in the school budget report under a separate budget code but rather were included within the salary expenditure code.</p> <p>Furthermore, there are tax implications with loans to employees. For loans of £10,000 or more per employee, which are either interest free or at an interest rate below the official rate used by HMRC (currently 2.5%), must be declared on a form P11D and will result in tax payable by the employee and class 1A national insurance payable by the employer. Whilst none of the loans made exceeded this threshold for declaration, the threshold for tax implications should be born in mind for any future schemes considered by the School.</p>	<p>Providing unauthorised loans is an improper use of school funds, which can result in loss of future funding, and negative reputation to the School.</p>	<p>The School should monitor the outstanding loan to ensure that it is repaid in full.</p> <p>The School should report to the Governing Body explaining the circumstances of how the scheme came about, that it had not been approved by the Governors, and provide an update on the current situation. This will allow Governors to make decision on actions required and monitor this.</p> <p>Going forward, the School should verify the appropriateness of any future 'schemes' with the Council prior to implementing it. Any decision made to administer such schemes should be discussed and approved by the Governing Body and be accounted for within the budget report under a separate budget code.</p>

Management Response	
<p>Agreed.</p> <p>We will comply with the recommendations of the audit and produce a written report for the governors finance committee explaining the circumstances of how the scheme came about and who the recipients of the loans were, explaining the current situation. Once the report has been discussed at this committee it will go forward to the full governing board on 30th June.</p> <p>The Headteacher will monitor the outstanding loan to ensure that it is repaid in full and report this to Governors.</p> <p>The school will not run any further schemes of this type.</p> <p>The school will ask for a further working party to be created to discuss all payroll functions and to develop a bespoke school pay policy for support staff.</p>	
Responsible Officer	Deadline
Alan Campbell – Head Teacher, Rebecca Moore – Senior Business Manager	30 June 2021

Appendix 2: Definition of Assurance Opinions and Recommendation Priorities

In order to help put the audit opinion and recommendation priority ratings in context the following tables detail the current ratings used by Internal Audit.

Rating	Description
 Su	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and no material errors or weaknesses were found.
 Sa	While there is a basically sound system, there are weaknesses and/or omissions which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
 L	Weaknesses and / or omissions in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
 N	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

Priority	Description
High	Recommendation addresses fundamental weaknesses, which seriously compromise the effective accomplishment of the system's objectives. Risks presented by the control weaknesses could be damaging in the short term. The management action required should be implemented as soon as possible, certainly within 0-3 months.
Medium	Recommendation addresses serious weakness, which affect the reliance to be placed on the system. Risks presented by control weaknesses could be damaging in the medium term. Management action is required within 0-6 months.
Low	Recommendation addresses minor weaknesses, or suggests a desirable improvement. Risks presented by control weaknesses are unlikely and inconsequential. Management action is recommended to address concerns within 0-9 months.

Appendix 3: Timetable and Distribution List

Stage	Date
End of Fieldwork	01/02/2021
Draft Report Issued	18/03/2021
Responses Received	25/03/2021
Final Report Issued	30/03/2021

Audit Team
Kantaben Patel - Client Engagement Manager
Zubair Khan – Senior Auditor
Sana Arshad – Auditor
Staff Consulted
Alan Campbell – Head Teacher
Rebecca Moore – School Business Manager

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Recommendations for improvements should be assessed by management for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

This report is prepared solely for the use of Audit Committee and senior management of the London Borough of Hammersmith and Fulham. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.