

Internal Audit Report
MENORAH FOUNDATION SCHOOL
February 2016

Report circulated to:

Chair of Governors
Head Teacher
Education & Skills Director
Commissioning Director (Children & Young People)
Schools Finance Services Manager (Finance Service)
Local Authority Appointed Governor
Clerk to Governors

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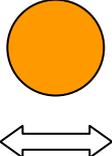
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1. Executive Summary

<p>Introduction</p>	<p>The audit of Menorah Foundation School was carried out as part of the planned School audits for 2015-16. The audit review covered the period April 2014 to January 2016.</p> <p>The aim of the audit is to provide assurance on key areas of financial management and is conducted in line with the “Keeping your Balance” document developed jointly by the Office for Standards in Education (OFSTED) and the Audit Commission (AC) and to ensure compliance with Barnet’s Scheme for Financing Schools and related Financial Guide for Schools.</p> <p>The scope of the audit included assessment of the following:-</p> <ul style="list-style-type: none"> ▪ adequacy of accounting, financial and other controls; ▪ compliance with established plans and procedures; ▪ the integrity and reliability of financial and other information; ▪ whether assets and other interests of the Council are properly safeguarded; and ▪ whether the use of resources achieves value for money. <p>In addition to the above, a review of the ‘Schools Financial Values Standard’ (SFVS) self assessment was conducted to ensure that the self assessment has been completed in line with requirements. The standard has been designed to assist schools in managing their finances and to give assurance that they have secure financial management in place.</p>
<p>Background</p>	<p>Menorah Foundation School is a Voluntary Aided school with places for 362 pupils aged between 3 and 11 years of age. The School budget for 2015/16 is £1,671,378 with employee costs of £1,205,772 (72% of the delegated budget).</p>
<p>Previous Audits</p>	<p>The School was assessed as ‘Good’ by OFSTED in May 2015.</p> <p>A review of the nine recommendations reported in the previous audit report dated 24 April 2012 found that four recommendations have been repeated (Governance, Banking, Unofficial funds, Assets)</p>

	None	Limited	Satisfactory	Substantial
<p>Audit Opinion and Direction of Travel Last audit: Limited Assurance April 2012</p>				

Key Findings

As part of the audit we were able to give '**Limited**' assurance to the school, noting three high and four medium priority issues as part of the audit (in order of priority):

- Banking – Payments are made by one individual using HSBC online banking. This does not comply with the authorised signatories list. Petty cash procedures should allow for separation of duties. (Priority 1);
- Purchasing – Purchase order forms are not recorded as a committed expense, and accurate budget monitoring is not possible. Lack of separation of duties (Priority 1);
- Voluntary funds – The previous audit report refers to an Amenities and lunch account. No accounting records for these accounts could be found at the time of the audit visit. (Priority 1);
- Governance – The 'Notice of Authorised Signatories' and financial management policy and procedures document should be revised and approved by Governors to reflect current procedures in school;
- Budget Monitoring - The school should set a well-informed and balanced budget each year, including income from Governors if appropriate to reimburse the school funds for costs incurred in the provision of Jewish studies;
- Assets –The Inventory is incomplete. No documented annual review or authorisation of disposals;

Following our 'Schools Financial Values Standard' (SFVS) self – assessment review we noted that although the School has responded with 'Yes', in the areas outlined below, it is the opinion of audit that this area has either not been met, has only been met 'In-Part', or there was no evidence available to support the response (refer also to appendix C below):

A9: Has the use of professional independent advice informed part of the pay decision process in relation to the headteacher?

- The school has answered 'Yes', but evidence of the independent advice was not included within the SFVS evidence prepared for audit. This question is a new part of the SFVS return introduced in June 2015 which was signed on behalf of the Governing body in January 2016

B11: Does the school make a forward projection of budget, including both revenue and capital funds, for at least three years, using the best available information?

- The school has answered 'Yes' but there was no evidence that the three year budget forecast had been reviewed by Governors

B13: Is end year outturn in line with budget projections, or if not, is the governing body alerted to significant variations in a timely manner, and do they result from explicitly planned changes or from genuinely unforeseeable circumstances?

- The school has answered 'Yes' but there was no evidence that the outturn had been reviewed and questioned by Governors

D20: Is the governing body sure that there are no outstanding matters from audit reports or from previous consideration of weaknesses by the governing body?

- The school has answered 'Yes', but four findings from the previous audit have been repeated (Governance/Banking/Unofficial funds/Assets)

D21: Are there adequate arrangements in place to guard against fraud and theft by staff, contractors and suppliers (please note any instance of fraud or theft detected in the last 12 months)?

- The school has answered 'Yes' but refer to audit Findings/Recommendations; (Governance/Purchasing/Banking/Voluntary funds/Assets), which should be addressed to

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ensure procedures are as robust as possible

D24: Does the school have adequate arrangements for audit of voluntary funds?

- The school has answered 'Yes', however the Amenities account and Lunch account were not audited on an annual basis

D25: Does the school have an appropriate business continuity or disaster recovery plan, including an up-to-date asset register and adequate insurance?

-The school has answered 'Yes', however the asset register was not found to be complete

Area of Scope	Adequacy of Controls	Effectiveness of Controls	Number of Recommendations Raised		
			Priority 1	Priority 2	Priority 3
Governance				1	
Financial Planning					
Budget Monitoring				1	
Purchasing			1		
Contracts					
Income					
Lettings					
Banking & Petty Cash			1		
Payroll					
Tax					
Voluntary Funds			1		
Assets				1	
Insurance					
Data Security					
Schools Financial Values Standard				1	

Acknowledgement

The auditors would like to thank the Headteacher and staff of Menorah Foundation School for their help and co-operation during the audit, which was greatly appreciated.

2. Findings and Recommendations

P	Audit Objective & Detailed finding	Risk	Recommendation
M	<p><u>1. Governance</u> Objective - To ensure the responsibilities of the governing body, its committees, the head teacher and staff are clearly defined and limits of delegated authority established; and that management, organisation and arrangements are adequate and effective leading to sound financial decisions.</p> <p><u>Finding:</u></p> <p>a) A review of the current Finance Policy awaiting approval by the Governing Body found that it does not reflect the following:</p> <ul style="list-style-type: none"> -The use of a debit card in school, and the procedures in place to prevent loss through fraud or mis-use. -The use of HSBC online banking to make payments without the authorisation of two independent authorised signatories. -The documentation of systems, procedures, duties and responsibilities relating to petty cash in school that ensures more than one person is involved. <p>b) The 'Notice of Authorised Signatories' in use in the school has recently been updated, however it does not include the Head of Jewish studies who signs cheques on a regular basis. The Schools Accountancy section had not recorded receipt of a revised Notice of Authorised Signatories since February 2014, despite changes in staff.</p>	<p>There is a risk to the effective financial management of the School if, in the absence of an up to date Financial Management and Procedures Policy, Governing Body members and key staff are not able to fulfil their responsibilities consistently.</p>	<p>The School should review and update (as required) its Financial Management Policy and Procedures document ensuring that its contents are up to date incorporating detailed procedures for all areas of financial management in the School, including those outlined within the London Borough of Barnet Scheme of Financing Schools, Finance Guide, Contract Standing Orders and 'Keeping Your Balance' documents.</p> <p>The most up to date 'Notice of Authorised Signatories' should be completed, approved by Governors and submitted to the Chief Finance Officer.</p>

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Management Response	Responsible Officer	Implementation By
Petty Cash – Procedure changed, finance assistant distributes petty cash and SBM reconciles. Financial procedure updated	School Business Manager	8 April 2016
The changes needed to Notice of Authorised Signatories and HSBC online access will be agreed by new Head Teacher who starts on 4 April	School Business Manager	8 April 2016

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P	Audit Objective & Detailed finding	Risk	Recommendation	
M	<p><u>2. Budget Monitoring</u> Objective - To ensure that the School carries out regular monitoring of income and expenditure against agreed budgets, providing effective financial management.</p> <p><u>Finding:</u> Included in the 2015/16 budget under I13 'Governors contributions' is a figure £133,543 – representing reimbursements to the school account for costs incurred in the provision of Jewish studies, or for reimbursement of costs incurred running a part-time nursery provision where income was banked to Governors funds. The amount received from April 2015 to January 2016 was £48,463. There was no information available to confirm the basis of calculation of amounts to be reimbursed by governors, and no confirmation of how actual costs should be reimbursed and paid on a regular basis.</p>	<p>There is a risk that funds will not be available to meet obligations if the budgeted amount from the Governor's funds is not received.</p>	<p>The School should set a well-informed and balanced budget each year, including income from the Governors if appropriate to reimburse the school funds for costs incurred in the provision of Jewish studies, or additional staff costs approved by the Governors. These amounts should be quantified and authorised.</p> <p>Where contributions are significant the school should ensure they are received evenly across the year to avoid any negative impact on cashflow. The school needs to assure the Council that all sources of income are reliable when balancing their budget.</p>	
Management Response			Responsible Officer	Implementation By
Governors to discuss at next meeting on 5 April 2016			Chair of Governors	5 April 2016

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P	Audit Objective & Detailed finding	Risk	Recommendation	
H	<p><u>3. Purchasing</u> Objective - To ensure that the school's purchasing, tendering and contracting arrangements achieve value for money.</p> <p><u>Finding:</u> A review of current purchasing arrangements found:</p> <p>a. The school is preparing purchase orders forms for purchases ordered in school, however these are not entered into the accounting system. These costs are therefore not recorded as a committed expense, and accurate budget monitoring is not possible.</p> <p>b. Purchase orders were being signed and bank transfers made for some purchases by the same member of staff who was also responsible for the bank reconciliation in our period of review (Sept 2015-Jan 2016). There was no evidence of separation of duties.</p>	<p>There is a risk:</p> <p>i) That goods and services may be purchased which are not in line with school requirements;</p> <p>ii) To the effectiveness of the budget monitoring process if the school fails to comply with prescribed procedures for recording ordered goods and services within the accounting system as commitments;</p> <p>iii) Fraudulent invoices could be raised (either by a staff member or an external body) and paid, in the absence of a purchase order and any independent verification of goods having been received;</p>	<p>The school should ensure that:</p> <p>a. A purchase order is raised for all relevant goods and services and this is approved by an authorised signatory. This expenditure should then be entered as a commitment to the accounting system, prior to the order being placed. Refer to section D of the 'Keeping Your Balance' document, issued jointly by Ofsted and the Audit Commission.</p> <p>b. The school should ensure that a clear separation of duties is introduced to ensure that the same officer is not responsible for authorising the purchase order, invoice and cheque/payment for the same purchase. Refer to the Barnet Financial Guide for schools, section 4 (Internal Financial Controls) for guidance.</p>	
Management Response			Responsible Officer	Implementation By
All purchase orders will be entered onto RM. Financial procedures will be updated with regard to segregation of duties			School Business Manager	8 April 2016

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P	Audit Objective & Detailed finding	Risk	Recommendation
H	<p><u>4.Banking and Petty cash</u> The audit objective was to ensure that the school has adequate control over its funds, with regular arrangements for reconciling bank and cash balances.</p> <p><u>Finding:</u> A review of current banking and petty cash arrangements found:</p> <p>a. The Notice of authorised signatories requires that all cheques of value above £100 will be signed by two authorised signatories. Although the school business manager is included as a bank signatory, it was noted that in most cases two alternative signatories are sought, as the school business manager is also authorised to sign purchase orders and prepares the school bank reconciliation. Although these rules were followed for cheques – the School Business manager was able to, and did pay invoices using the HSBC online banking facility without independent authorisation. This does not comply with the Notice of authorised signatories or finance policy.</p> <p>b. The finance policy has recently been amended to state that the school business manager is allowed to authorise and make payments from petty cash. This change has not been approved by Governors and does not allow for separation of duties.</p>	<p>There is a risk:</p> <ul style="list-style-type: none"> - Goods and services may be obtained without proper approval, and which are not in accordance with delegated limits; - Possible loss, fraud or misappropriation of funds in the absence of a clear separation of responsibilities; 	<p>The School should:</p> <ul style="list-style-type: none"> - Review and update its current Authorised Signatories mandate ensuring it is consistent with the School’s bank mandate and Financial Management and Procedures Policy; - Ensure that the Authorised Signatories mandate is followed at all times; - Ensure that responsibilities are adequately separated, taking into account likely absences of key staff; <p>Refer to the Barnet Financial Guide for schools, section 1.2 (Delegation of responsibilities and authorised signatories) for guidance.</p>

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Management Response	Responsible Officer	Implementation By
Authorised Signature list – New headteacher in post on 4 April 2016, list to be updated and submitted to Schools Accountancy Policy to be updated	School Business Manager	8 April 2016

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P	Audit Objective & Detailed finding	Risk	Recommendation	
H	<p><u>5. Voluntary Funds</u> The audit objective was to ensure that voluntary funds are administered as rigorously as public funds.</p> <p><u>Finding:</u> In the previous audit report dated 24th April 2012 it was noted that the school was operating an Amenities fund and a Lunch account. The audit report stated that the funds had not been audited on an annual basis, and the level of accountability and stewardship was not the same standard as for the School's delegated budget.</p> <p>At the current audit, due to changes in staff, no accounting records could be found for these accounts. The current staff found that the bank account named 'Lunches account' was closed on 24th Jan 2014, and the balance was transferred to the main school account. The 'Amenities' bank account could not be identified.</p>	<p>Failure to apply the same standards of financial accounting, which apply to income and expenditure for the school's delegated budget, could lead to misuse of funds and loss of revenue to the school.</p>	<p>The school should review section 10 of the LBB Financial Guide for Schools document and page 19 of the 'Keeping Your Balance' document, issued jointly by Ofsted and the Audit Commission and take appropriate action in order to ensure compliance with regards to the administration its voluntary fund.</p> <p>The school should ensure that the School fund is audited on an annual basis and a report presented to the Governing Body within six months of the end of the account's financial year. The Headteacher should ensure that the audited accounts are copied promptly to the local authority after the governing body has accepted them.</p>	
Management Response			Responsible Officer	Implementation By
To consult with Schools Accountancy to arrange the necessary audits of these funds			School Business Manager	8 April 2016

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P	Audit Objective & Detailed finding	Risk	Recommendation	
M	<p><u>6. Assets</u> The audit objective was to ensure that the school has adequate controls and records to safeguard its valuable/moveable assets and items of inventory.</p> <p><u>Finding:</u> A review of the asset register found entries to be incomplete. No date of purchase had been noted on the ICT register, or cost. Several items were marked as 'missing' or 'disposed' without further information or dates. There was no documented annual review or formal authorisation of disposal of old items by Governors.</p>	<p>Failure to maintain a complete and accurate inventory could result in the School failing to identify possible lost/missing equipment and having insufficient details to provide in the event of an insurance claim.</p>	<p>The inventory records should be maintained up-to-date with sufficient information being recorded to enable items to be easily traced, i.e. the date of acquisition, supplier details etc. The School should review section M of the 'Keeping Your Balance' document, issued jointly by Ofsted and the Audit Commission and take appropriate action in order to ensure the assets of the school are protected.</p>	
Management Response			Responsible Officer	Implementation By
Assets Register to be updated by new deputy head (IT Co-ordinator)			Deputy Head	August 2016

Appendix A: Statement of Responsibility

We take responsibility for this report, which is prepared on the basis of the limitations set out below:

- The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or all improvements that might be made.
- Our recommendations for improvements should be assessed by you 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 the School's responsibilities to ensure the application of sound financial 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 the School 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 key areas of financial management considered to be of greatest risk and significance and as such we rely on the School to provide full access to 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 the School is important for the maintenance of a reliable internal control system.

Appendix B: Guide to assurance and priority

The following is a guide to the assurance levels given:

	Substantial Assurance	The standard of controls operating in the systems audited at the School is robust and provides substantial confidence that the School is protected from loss, waste, fraud or error.
	Satisfactory Assurance	The standard of controls operating gives satisfactory assurance that the School is protected from loss, waste fraud or error but there may be areas which need to be strengthened to provide robust confidence in the system of internal control.
	Limited Assurance	The standard of controls is insufficient to give confidence that the School is protected from loss, waste, fraud or error. Prompt attention needs to be given to strengthening one or more areas of the control system before sufficient confidence is provided.
	No Assurance	The standard of controls is poor and places the School in potential danger of loss from waste, loss, fraud or error. Urgent attention needs to be given by management to addressing weaknesses identified in the audit.

Priorities assigned to recommendations are based on the following criteria:

1. **Priority High** – Fundamental issue where action is considered imperative to ensure that the School is not exposed to high risks, also covers breaches of legislation and policies and procedures. Action to be effected within 1 to 3 months.
2. **Priority Medium** – Significant issue where action is considered necessary to avoid exposure to risk. Action to be effected within 3-6 months.
3. **Priority Low** – Issue that merits attention/where action is considered desirable. Action usually to be effected within 6 months to 1 year.

APPENDIX C: Review of Schools Financial Values Standard 15/16

LIST OF QUESTIONS	SCHOOL RESPONSE (Yes/InPart/No)	AUDIT CONCLUSION FOLLOWING REVIEW OF COMMENTS, EVIDENCE AND PROPOSED ACTIONS
A: The Governing Body and School Staff		
1. In the view of the governing body itself and of senior staff, does the governing body have adequate financial skills among its members to fulfil its role of challenge and support in the field of budget management and value for money?	Yes	Agreed
2. Does the governing body have a finance committee (or equivalent) with clear terms of reference and a knowledgeable and experienced chair?	Yes	Agreed
3. Is there a clear definition of the relative responsibilities of the governing body and the school staff in the financial field?	Yes	Agreed
4. Does the governing body receive clear and concise monitoring reports of the school's budget position at least three times a year?	Yes	Agreed
5. Are business interests of governing body members and staff properly registered and taken into account so as to avoid conflicts of interest?	Yes	Agreed
6. Does the school have access to an adequate level of financial expertise, including when specialist finance staff are absent, eg on sick leave?	Yes	Agreed
7. Does the school review its staffing structure regularly?	Yes	Agreed
8. Have your pay decisions been reached in accordance with a pay policy reflecting clear performance criteria?	Yes	Agreed
9. Has the use of professional independent advice informed part of the pay decision process in relation to the headteacher?	Yes	Evidence of the independent advice was not included within the SFVS evidence prepared for audit
B: Setting the Budget		
10. Is there a clear and demonstrable link between the school's budgeting and its plan for raising standards and attainment?	Yes	Agreed
11. Does the school make a forward projection of budget, including both revenue and capital funds, for at least three years, using the best available information?	Yes	No evidence of review of three year budget from 2015/16
12. Does the school set a well-informed and balanced budget each year (with an agreed and timed plan for eliminating any deficit)?	Yes	Agreed
13. Is end year outturn in line with budget projections, or if not, is the governing body alerted to significant variations in a timely manner, and	Yes	Information not available

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do they result from explicitly planned changes or from genuinely unforeseeable circumstances?		
C: Value for Money		
14. Does the school benchmark its income and expenditure annually against that of similar schools and investigate further where any category appears to be out of line?	Yes	Agreed
15. Does the school have procedures for purchasing goods and services that both meet legal requirements and secure value for money?	Yes	Agreed
16. Are balances at a reasonable level and does the school have a clear plan for using the money it plans to hold in balances at the end of each year?	Yes	Agreed
17. Does the school maintain its premises and other assets to an adequate standard to avoid future urgent need for replacement?	Yes	Agreed
18. Does the school consider collaboration with others, eg on sharing staff or joint purchasing, where that would improve value for money?	Yes	Agreed
19. Can the school give examples of where it has improved the use of resources during the past year?	Yes	Agreed
D: Protecting Public Money		
20. Is the governing body sure that there are no outstanding matters from audit reports or from previous consideration of weaknesses by the governing body?	Yes	IN PART – Four findings from the previous audit have been repeated (Governance, Banking, Unofficial funds, Assets).
21. Are there adequate arrangements in place to guard against fraud and theft by staff, contractors and suppliers (please note any instance of fraud or theft detected in the last 12 months)?	Yes	IN PART – Refer to audit Findings/Recommendations Governance/Purchasing/Banking/Voluntary funds/Assets, which should be addressed to ensure procedures are as robust as possible.
22. Are all staff aware of the school's whistleblowing policy and to whom they should report concerns?	Yes	Agreed
23. Does the school have an accounting system that is adequate and properly run and delivers accurate reports, including the annual Consistent Financial Reporting return?	Yes	Agreed
24. Does the school have adequate arrangements for audit of voluntary funds?	Yes	NO - Voluntary funds were not audited - see recommendation
25. Does the school have an appropriate business continuity or disaster recovery plan, including an up-to-date asset register and adequate insurance?	Yes	IN PART – Asset register is not complete