

Internal Audit Report

MENORAH HIGH SCHOOL FOR GIRLS

13 July 2017

To: Chair of Governors
Headteacher

Copied to: Education and Skills Director
Commissioning Director (Children and Young People)
School Finance Services Manager (Finance Service)
Local Authority Appointed Governor
Clerk to Governors

We would like to thank management and staff of Menorah High School for Girls for their time and co-operation during the course of the internal audit.

Executive Summary

Assurance level and Direction of Travel	Number of actions by risk category				
Limited	Critical	High	Medium	Low	Advisory
	-	1	8	1	-

Background and Scope

The audit of Menorah High School for Girls was carried out as part of the planned School audits for 2017-18. The audit review covered the period April 2016 to June 2017.

Menorah High School for Girls is a Voluntary Aided school with 247 pupils on role aged between 11 and 18 years of age. The School budgeted expenditure for 2017/18 is £1,957,145 with employee costs of £1,659,360 (85% of budgeted expenditure).

The School entered the state sector in April 2016. Prior to this it was an independent school. It has not been inspected by Ofsted.

This is the first audit by the Local Authority.

The aim of the audit is to provide assurance on key areas of financial management. The review covered all major systems within the school to ensure compliance with the Scheme for Financing Schools and the Barnet Financial Guide for Schools, including Barnet Contract Standing Orders for Schools.

The scope of the audit included assessment of the following:-

- 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.

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.

Summary of findings

The table provided in Appendix 2 lists the areas audited and the number of recommendations in each area. Definitions of audit assurance levels and risk ratings for the issues identified are provided in Appendix 1.

As part of the audit we were able to give '**Limited**' Assurance to the school, noting one high, eight medium priority, and one low priority issue as part of the audit:

- Governance– The financial management policy and procedures document should be updated and approved by Governors to include delegated financial responsibilities, agreed procedure when using of the school credit card, and reference to Barnet's Contract Standing Orders for Schools. (Finding one, medium rated);
- Governance– The website should be updated to comply with the requirement to publish Governor Details and the Register of interests. (Finding two, medium rated);
- 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. Committed expenses should be included on Budget monitoring reports. (Finding three, medium rated);
- Purchasing– Purchase order forms were not completed for all relevant expenses. These costs are not recorded as a committed expense, and this procedure has not been agreed by the Governors. Procedures when using the school credit card should be reviewed, documented and agreed by Governors to ensure a complete audit trail, separation of duties and proof of receipt of goods. Delivery notes should always be signed. (Finding four, high rated);
- Contracts– A signed contract was not available for the security contract. There was no evidence of review of the cleaning contract. Contract specification details for the cleaning contract were not available in school for referral where necessary for contract monitoring purposes. (Finding five, medium rated);
- Banking and Petty cash– The school has entered into a finance contract. This is not allowed in the Scheme for financing schools. The school should seek approval for the credit card. Identified posting errors on the bank reconciliation should be cleared on a timely basis. (Finding six, medium rated);
- Taxation–The school should seek advice to confirm the correct treatment of VAT. (Finding seven, medium rated);
- Assets– The IT inventory was not found to be complete. No dates of purchase, supplier or cost of purchase were noted on the inventory. (Finding eight, medium rated).
- Pupil Premium– Pupil premium income and expenditure was not accurately reported and disclosed. (Finding nine, medium rated);

Following our 'Schools Financial Values Standard' (SFVS) self – assessment review we were able to confirm that there were no major discrepancies in judgements noted, however, although the School has responded with 'Yes' or 'N/A', in the areas outlined below, it is the opinion of audit that this area has either not been met, or met 'In-Part' (refer also to Appendix 3 below):

A5: Are business interests of governing body members and staff properly registered and taken into account so as to avoid conflicts of interest? - The school has answered 'Yes', but there was no evidence of review of business interests of staff.

D21: Are there adequate arrangements in place to guard against fraud and theft by staff, contractors and suppliers? - The school has answered 'Yes', but refer to Findings (Purchasing/Assets), which should be addressed to ensure procedures are as robust as possible.

D23: Does the school have an accounting system that is adequate and properly run and delivers accurate reports? - The school has answered 'Yes', but refer to audit findings (purchasing) where it is noted that purchase orders are not entered as a committed expense.

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', but the asset register was not found to be complete.

2. Findings, Recommendations and Action Plan

Ref	Finding	Risks	Risk category	Agreed action(s)
1.	<p><u>Governance</u></p> <p>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>Finding - A review of the current Financial Management Policy and Procedures document found that it does not fully reflect the following:</p> <p>The Governing Body is required to consider the extent to which it wishes to delegate its financial powers to committees, Headteacher and staff. The details of the financial responsibilities and procedures must be set out in the Financial Management Policy;</p> <p>The Governing Body must authorise specific posts to examine, verify and certify invoices and any other payment vouchers or accounts and make them responsible for this having regard to the necessary separation of duties in the ordering and payments process;</p> <p>The Financial Management Policy should state that the school abides by the authority's Contract Standing Orders for Schools;</p> <p>The Financial Management Policy should refer to the school credit card policy, and the current procedures in place to prevent loss through fraud or misuse;</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>Medium</p>	<p>Actions:</p> <p>The Financial Management Policy and Credit card policy will be reviewed and updated with reference to the Barnet Schools Financial Guide. Procedures in school will be reviewed to ensure that the separation of duties is embedded in processes.</p> <p>Responsible officer:</p> <p>School Business Manager</p> <p>Target date:</p> <p>Spring 2017/2018</p>

Ref	Finding	Risks	Risk category	Agreed action(s)
2.	<p><u>Governance</u></p> <p>Objective – To ensure the Governors have complied with statutory disclosure requirements.</p> <p>Finding – Governors have a statutory duty to publish on their website their register of interests. The register should set out the relevant business interests of governors and details of any other educational establishments they govern. The register should also set out any relationships between governors and members of the school staff including spouses, partners and relatives. Information on Governors on the website should also include the term of office and the body which appoints them.</p> <p>Although Governors were listed on the website, insufficient information was included to comply with the statutory requirement.</p>	<p>If Governors do not publish their register of interests on their website in a transparent manner for wider scrutiny and challenge, where appropriate, then there is a risk that inaccuracies in registers, if applicable, may not be identified and corrected and Governors may incorrectly take part in decisions in which they have a personal interest.</p> <p>Governing bodies should make it clear in their code of conduct that this information will be published on their governors and, where applicable, their associate members. Any governor failing to reveal information to enable the governing body to fulfil their responsibilities may be in breach of the code of conduct and as a result be bringing the governing body into disrepute. In such cases the governing body should consider suspending the governor.</p>	<p>Medium</p>	<p>Actions:</p> <p>The Governor Details and Register of Interest will be updated on the school website.</p> <p>Responsible officer:</p> <p>School Business Manager</p> <p>Target date:</p> <p>Autumn 2017/2018</p>
3.	<p><u>Budget Monitoring</u></p> <p>Objective – To ensure that the School carries out regular monitoring of income and expenditure against agreed budgets, providing effective financial management.</p> <p>Finding – Included in the 2016/17 budget under I13 'Governor income' is a figure of £413,470. The school teaches Jewish Studies within the school timetable. Direct staff costs are met by the Foundation Trust, but this contribution to the school budget assumes that an element of the cost of administrative and premises staff, premises costs, administrative supplies, and professional services</p>	<p>The budget may not be adequately controlled and monitored resulting in budget overspends or fraud going undetected. The Governing Body may not be able to discharge its responsibility for effective budget monitoring and control, if accurate and timely information is not provided as required.</p>	<p>Medium</p>	<p>Actions:</p> <p>The School will set a well-informed and balanced budget each year, including income from the Governors if appropriate to reimburse the school funds for full costs incurred in the provision of Jewish studies. These amounts should be quantified and authorised.</p> <p>Committed costs should be included in monitoring reports to allow effective budget monitoring.</p>

Ref	Finding	Risks	Risk category	Agreed action(s)
	<p>are attributable to the delivery of Jewish Studies. 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. No committed expenses were recorded in the budget monitoring report. Evidence was provided at the audit that Budget Vs Actual reports were presented to Finance Governors, however, without committed expenses.</p>			<p>Responsible officer: School Business Manager</p> <p>Target date: Spring 2017/2018</p>
4.	<p><u>Purchasing</u></p> <p>Objective – To ensure that the School’s purchasing, tendering and contracting arrangements achieve value for money</p> <p>Finding – A review of current purchasing arrangements found:</p> <p>a) The school is not preparing purchase order forms for all items ordered in school. These costs are not recorded as a committed expense, and accurate budget monitoring is not possible.</p> <p>b) Purchase orders that have been prepared do not comply with the Barnet Financial Guide for schools in that they do not have unique sequential numbers. No audit trail is available to allow an item to be traced from ordering through to payment of the invoice.</p> <p>c) During our review of paid invoices it was noted that delivery notes had not been signed to confirm quality and quantity of goods received.</p> <p>d) The school has a school credit card issued to the School Business Manager that is used to purchase school supplies online. The card is noted in the Finance Policy, however, written procedures are not sufficiently detailed to comply with the financial guide for schools section 5.5 – and do not include provision for separation of duties between purchasing, authorising and accounting officers.</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) Payments could be made by the School without receiving the goods/services, in the absence of proper verification of receipt;</p>	High	<p>Actions:</p> <p>The school will ensure that 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.</p> <p>The school will introduce a clear separation of duties to ensure that the same officer is not responsible for authorising the purchase order, invoice and bank payment for the same purchase.</p> <p>Delivery notes will be signed to evidence checking of goods received. These will be filed with purchase orders and invoices in a systematic manner.</p> <p>The School will review the credit card policy and use of the school credit cards to ensure that all purchases are reviewed and executed in accordance with requirements as approved within the School’s Financial Management Policy and Procedures document, ensuring at all times that a separation of duties exists between purchase order request, purchase order approval and online payment by credit card, sufficient budget</p>

Ref	Finding	Risks	Risk category	Agreed action(s)
				<p>is available, a record is kept of delivery to the school and that approved purchase orders and credit card order authorisation forms are retained for each purchase for independent review and scrutiny where necessary.</p> <p>Responsible officer: School Business Manager</p> <p>Target date: Autumn 2017/2018</p>
5.	<p><u>Contracts</u></p> <p>Objective – To ensure that the School’s purchasing, tendering and contracting arrangements achieve value for money</p> <p>Finding – A signed contract could not be found in school for the security contract. Annual contract value £50,000.</p> <p>Although a signed ‘Agreement for cleaning services’ was held in school – this referred to a ‘cleaning specification’ which was not available for referral, for example should the school wish to scrutinise and challenge specific delivery. Annual cleaning contract value £29,000.</p>	<p>There is a risk that the school may not be seen to be:</p> <ul style="list-style-type: none"> - Achieving ‘value for money’; - Demonstrating that it has acted in a fair and transparent manner when selecting contracts for works and services. <p>Without a formally signed contract confirming acceptance of terms and conditions by all parties, there is a risk that disputes may not be resolved correctly.</p>	Medium	<p>Actions:</p> <p>Signed contracts will be retained for referral where necessary.</p> <p>For procurement exercises, quotes will be obtained and evaluated in line with ‘Contract standing order for schools.’ Records of quotes and evaluations will be retained for referral and scrutiny. Minutes of meetings will include consideration by governors of quotations for the renewal/procurement of any relevant contract, in order to ensure that there is clear and visible evidence of a fair and transparent selection process.</p> <p>Responsible officer:</p> <p>School Business Manager</p> <p>Target date:</p> <p>Spring 2017/2018</p>
6.	<p><u>Banking and Petty cash</u></p> <p>Objective – To ensure that the school has adequate control over its funds, with regular arrangements for reconciling bank and cash balances.</p> <p>Finding A review of current banking arrangements found:</p> <p>a) The school arranged Insurance and signed a finance</p>	<p>The local authority may issue a notice of concern to the governing body of any school where the school has failed to comply with any provision of the scheme for financing schools.</p>	Medium	<p>Actions:</p> <p>The school will not enter into finance agreements without the appropriate approval from the Secretary of State. The school will apply to the local authority for approval to use a credit card in school. The school will correct errors on the Bank</p>

Ref	Finding	Risks	Risk category	Agreed action(s)
	<p>agreement with Close Brothers Premium Finance to pay the policy with interest in instalments. The Scheme for financing schools section 3.7 states that Governing Bodies may borrow monies, (which includes finance leases) only with the written permission of the Secretary of State. There was no evidence of such permission being granted</p> <p>b) There is a credit card in use in school. To comply with the Financial Guide section 5.5 the school should apply to the local authority for approval to use a credit card in school. There was no evidence of such authorisation being granted. They should approve procedures for use of the card including separation of duties between purchasing, authorising and accounting officers.</p> <p>c) The bank reconciliation signed by the Headteacher and submitted to the local authority contains two unreconciled items which have been on the bank reconciliation for the last 12 months. The school confirmed that these are accounting entries to be reversed, but no attempt has been made to correct the Bank account balance.</p>			<p>reconciliation in accordance with the Scheme for Financing schools.</p> <p>Responsible officer: School Business Manager</p> <p>Target date: Spring 2017/2018</p>
7.	<p>Tax</p> <p>Objective – To ensure that the school has arrangements to comply with the statutory requirement on taxation, including VAT and PAYE.</p> <p>Finding –A review of VAT invoices and returns identified:</p> <p>a) The school posted £31,000 legal fees in the accounting year from April 2016 to March 2017. A review of invoices established that a number of these related to professional fees in connection with the Voluntary Aided application. One of the invoices for £9,810 was dated prior to April 2016 when the school entered the state sector. Audit received confirmation from the Schools Finance Manager that Governors should pay the legal costs in connection with the Voluntary Aided application. This would mean that VAT was not recoverable by the School as the VAT invoices were not in their name.</p> <p>b) The school uses an independent firm of accountants to</p>	<p>There is a risk of penalties by HM Revenue and Customs if the school fails to comply with VAT regulations.</p> <p>The local authority may issue a notice of concern to the governing body of any school where the school has failed to comply with any provision of the scheme for financing schools.</p>	Medium	<p>Actions:</p> <p>Regarding the payment of the legal fees and the related VAT, the school will seek advice from the local authority school finance department and reference to the Barnet Schools Financial Guide, section 8 (Taxation). The appropriate action will be taken to ensure compliance with the relevant statutory requirements.</p> <p>The school will retain VAT invoices as proof of the VAT claimed from HMRC.</p> <p>Responsible officer: School Business Manager</p> <p>Target date: Autumn 2017/2018</p>

Ref	Finding	Risks	Risk category	Agreed action(s)
	provide payroll services. An annual fee of £6,250 is budgeted for the year, but valid VAT invoices could not be found at the audit to correspond to the monthly amount paid to the accountants.			
8.	<p><u>Assets</u></p> <p>Objective - To ensure that the school has adequate controls and records to safeguard its valuable/moveable assets and items of inventory.</p> <p>Finding - A review of the school's IT inventory found that insufficient details were recorded to comply with the Financial Guide for schools (no note of date of purchase, supplier or cost). There was no evidence of annual review, or Governor authorisation of disposals.</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.	Medium	<p>Actions:</p> <p>The Inventory will be updated with reference to the Barnet Schools Financial Guide, section 4.8 (Control of Assets)</p> <p>Responsible officer:</p> <p>School Business Manager</p> <p>Target date:</p> <p>Spring 2017/2018</p>
9.	<p><u>Pupil Premium</u></p> <p>Objective - To ensure that the school is accurately recording and disclosing the amount of Pupil Premium income and expenditure.</p> <p>Finding – The amount of Pupil Premium income was received was low. We found that this had not been correctly identified in the local authority returns and the relevant disclosure was not made on the school website. The school should publish how the school spends its pupil premium funding and the effect this has had on the attainment of the pupils who attract the funding. Pupil premium income should be separately disclosed on the local authority return.</p>	The school may suffer financial and reputational loss as a result of the pupil premium not being fully collected, recorded and appropriately utilised.	Medium	<p>Actions:</p> <p>The school will seek advice to accurately record and disclose Pupil Premium income. An annual report of expenditure and performance will be available on the school website.</p> <p>Responsible officer:</p> <p>Head of Sen</p> <p>Target date:</p> <p>Autumn 2017/2018</p>

Appendix 1: Definition of risk categories and assurance levels in the Executive Summary

Risk rating	
Critical 	Critical issue where action is considered imperative. Action to be effected immediately.
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.
Medium 	Significant issue where action is considered necessary to avoid exposure to risk. Action to be effected within 3 to 6 months.
Low 	Issue that merits attention/where action is considered desirable. Action usually to be effected within 6 to 12 months.
Level of assurance	
Substantial 	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.
Reasonable 	The standard of controls operating gives reasonable 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 	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 	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.

Appendix 2 – Areas audited and analysis of findings

Area	Summary of Findings				
	Critical	High	Medium	Low	Advisory
Governance			2		
Financial Planning					
Budget Monitoring			1		
Purchasing		1			
Contracts			1		
Income					
Lettings					
Banking & Petty Cash			1		
Payroll					
Tax			1		
Voluntary Funds					
Assets			1		
Insurance					
Data Security					
Pupil Premium			1		
Safeguarding*					
Schools Financial Values Standard				1	

*Scope limited to confirmation as to whether the school has completed a Safeguarding audit tool and whether any issues were noted over its Single Central Record

Timetable					
Audit agreed:	Fieldwork commenced:	Fieldwork completed:	Draft report issued:	Management comments received:	Final report issued:
8 March 2017	26 June 2017	27 June 2017	6 July 2017	13 July 2017	13 July 2017

Appendix 3 – Review of Schools Financial Values Standard 16/17

LIST OF QUESTIONS	SCHOOL RESPONSE	AUDIT CONCLUSION FOLLOWING REVIEW OF COMMENTS AND EVIDENCE
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	In Part – Business Interests forms were not signed by staff
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	Agreed
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	Agreed
12. Does the school set a well-informed and balanced budget each year (with an agreed	Yes	Agreed

and timed plan for eliminating any deficit)?		
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 do they result from explicitly planned changes or from genuinely unforeseeable circumstances?	N/A	Agreed
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?	N/A	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?	N/A	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?	N/A	Agreed
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	Refer to Findings/Recommendations Purchasing/Assets,
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	Purchase orders are not entered onto the system as a committed expense
24. Does the school have adequate arrangements for audit of voluntary funds?	Yes	Agreed
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

Appendix 4 – Internal Audit roles and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of Menorah High School, subject to the limitations outlined below.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.