

# **Internal Audit Report**

## **FRITH MANOR SCHOOL**

### **3 February 2021**


**To:** Chair of Governors  
Headteacher

**Copied to:** Education and Skills Director  
Executive Director (Children's Services)  
Senior Finance Business Partner (Children's Services)  
Local Authority Appointed Governor  
Clerk to Governors

**Contact:** Schools Auditor, Internal Audit

We would like to thank management and staff of Frith Manor School for their time and co-operation during the internal audit.

## Executive Summary

Assurance level and Direction of Travel	Number of actions by risk category				
<b>Limited</b> 	<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Advisory</b>
	-	1	6	1	-

### Background and Scope

The audit of Frith Manor School was carried out as part of the planned School audits for 2020-21. The audit review covered the period April 2019 to October 2020

Frith Manor School is a Community school with 538 pupils on role aged between 3 and 11 years of age. The School budgeted expenditure for 2020/21 is £3,209,130 with employee costs of £2,541,390 (79% of budgeted expenditure).

The School was assessed as 'Good' by OFSTED in June 2019.

A review of the three recommendations reported in the previous audit report dated 20 October 2016 found that one recommendation had been partially repeated (Assets).

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.

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

- Financial Planning– The school was unable to set a balanced budget for 2020/21. The school also had a brought forward deficit at 1 April 2020 of £135,947. As at October 2020, the school has a forecast deficit of £85,384 for 2020/21 and will require a cash advance from the local authority to enable all committed expenditure to be paid in the year. The school has been unable to produce a forecast that shows that the school is able to repay the forecast school deficit of £221,331 and present a balanced budget in the next three years. (High rated);
- Governance– The Governing Body minutes for the period February 2020 to July 2020 did not include enough information on Governor appointments and resignations, or confirmation of the 20/21 budget submitted for the school. The register of Business Interests was not found to be up to date. The notice of Authorised Signatories did not include enough signatures for each area to allow for possible staff absence. (Medium rated);
- Contracts– An up to date contract could not be found in school for services provided by Atlas cleaning. (Medium rated);
- Income–The school has been accepting Childcare vouchers from parents in payment for school trips and music lessons. Per HM Revenue and Customs – childcare vouchers can only be used for childcare. (Medium rated);
- Banking– The Bank account administered by the Local authority but holding school funds has not been reimbursed for salary payments incurred by the school from March 2018 to April 2019. (Medium rated);
- Assets– The inventory spreadsheet did not contain a cost and date of purchase for all IT assets. Annual review was not consistently completed and marked on the spreadsheet. Governors had not been asked to authorise asset disposals. (Medium rated)
- Single Central Record– There was missing information on the record for a School Governor and a member of staff which should be corrected, and school data inserted. (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 'In Part', 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):

**A4:** 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 current business interest forms were not available for Governors and Governing Body meeting minutes did not state business interests.

**B8:** 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.

**F23:** Is the governing body sure that there are no outstanding matters from audit reports, internal audit reports or from previous consideration of weaknesses by the governing body? - The school has answered 'Yes', but one finding from the previous audit has been repeated (Assets)

**F25:** 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 (Assets), which should be addressed to ensure procedures are as robust as possible.

**G29:** Have the results of the dashboard been carefully considered and potential follow-up actions identified? The school has answered 'In part', but the proposed discussion of results was not documented for review.

## 2. Findings, Recommendations and Action Plan

Ref	Finding	Risks	Risk category	Agreed action(s)
1.	<p><b>Financial Planning</b></p> <p><b>Objective</b> – To ensure that the school carries out adequate financial planning to reflect the School’s prioritised educational objectives.</p> <p><b>Finding</b> – The school did not set a balanced budget in 2020/21. The amount of the shortfall at budget setting in May 2020 was £334,744 for 2020/21. The school also had a brought forward deficit as at 1 April 2020 of £135,947.</p> <p>The school has made savings from May to October 2020 and the predicted shortfall for 2020/21 at the date of the audit was £85,384. With the brought forward amount advanced – the amount to repay could be £221,331.</p> <p>The school will require a cash advance from the local authority to enable all committed expenditure to be paid in the year. The school has been unable to produce a forecast that shows that the school is able to repay the school deficit and present a balanced budget in the next three years.</p> <p>The school has notified the local authority that the budget shortfall has arisen as a result of reduced pupil numbers which is outside the control of the Headteacher and Governors.</p> <p>The school is consulting on staff redundancies to reduce ongoing payroll costs.</p>	<p>There is a risk that the local authority will issue a Notice of Concern and place more stringent restrictions on the day to day financial management of the school. This could compromise the education service.</p> <p>There is a risk that the local authority will apply for a suspension of delegated powers if Scheme requirements for licensed deficits are not met.</p> <p>There is a risk that funds will not be available to meet obligations if the shortfall amount is not received from the local authority.</p>	<p><b>High</b></p>	<p><b>Actions:</b></p> <p>The school will comply with the scheme for financing schools section 4 (The treatment of surplus and deficit balances arising in relation to budget shares).</p> <p>The school will continue to work towards an agreed recovery plan and submit tracking evidence of recovery plans to the local authority as requested.</p> <p><b>Responsible officer:</b></p> <p>School Business Manager/ Headteacher/Governing Body</p> <p><b>Target date:</b></p> <p>30 June 2021</p>









Ref	Finding	Risks	Risk category	Agreed action(s)
2.	<p><b><u>Governance</u></b></p> <p><b>Objective</b> – 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><b>Finding</b> - A review of the Governing Body minutes from 6 February 2020 to 2 July 2020 revealed that the minutes did not give a clear record of the Governing Body decisions. The appointment and resignation of several Governors was not documented. The 2020/21 budget was not formally presented to the Governors. The record of confidential and non-confidential parts of the discussions was not noted.</p> <p>An up to date signed Register of Business Interest form was not available in school for all Governors. It was therefore not possible to confirm that this information had been correctly updated on the school website.</p> <p>The Notice of Authorised signatories was updated in school effective 5 October 2018. Only one member of staff has been included with the authority to authorise Purchase Orders. This would not allow the school to authorise Purchase Orders if that member of staff was absent from school.</p>	<p>There may not be adequate evidence that the Governing Body is appropriately involved in decision making and overseeing the School's finances.</p> <p>If Governors and staff do not publish their register of interests in a transparent manner for wider scrutiny and challenge and update, where appropriate, then there is a risk that they may incorrectly take part in decisions in which they have a personal interest leading to decisions that are not in the best interests of the school.</p> <p>The school may not be able to acquire necessary supplies timely to ensure business as usual operation if the sole officer authorised to order is absent.</p>	<b>Medium</b>	<p><b>Actions:</b></p> <p>The school will appoint a new Clerk to the Governing Body who will have the skills to guide the Governing Body and ensure that a correct and complete record of the governing body's decisions is retained.</p> <p>Business Interest forms will be completed by all Governors annually.</p> <p>The school will update the Notice of Authorised Signatories and send to the Local authority.</p> <p><b>Responsible officer:</b></p> <p>School Business Manager/ Headteacher/Governing Body</p> <p><b>Target date:</b></p> <p>31 March 2021</p>
3.	<p><b><u>Contracts</u></b></p> <p><b>Objective</b> – To ensure that the School's purchasing, tendering and contracting arrangements achieve value for money</p> <p><b>Finding</b> – Paperwork could not be found in school at the audit to confirm the contract with Atlas cleaning. Budgeted cleaning cost for 20/21 is £55,000.</p>	<p>The school may be unable to prove that systems are in place to manage and monitor contracts, where a current contract is not available in school.</p> <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>	<b>Medium</b>	<p><b>Actions:</b></p> <p>Current contracts for goods/services will be held in school for referral where necessary.</p> <p><b>Responsible officer:</b></p> <p>School Business Manager/ Headteacher</p> <p><b>Target date:</b></p> <p>31 March 2021</p>

Ref	Finding	Risks	Risk category	Agreed action(s)
4.	<p><b><u>Income</u></b></p> <p><b>Objective</b> – To ensure that all income due to the school is identified, collected, receipted, recorded and banked promptly and that, administration arrangements are adequate and effective.</p> <p><b>Finding</b> –Records to show income due to the school for trips and music lessons are maintained on Parentpay. Most receipts are made by parent’s debit/credit card and received directly into the school bank account. Parents can pay for extended nursery hours using Childcare vouchers; however, it was noted that three families were using Childcare vouchers to pay for school trips and music lessons. Per HM Revenue and Customs – Childcare vouchers should only be used to pay for Childcare</p>	<p>There is a risk of sanctions from the Local authority or HM Revenue and Customs if the school fails to comply with Childcare voucher rules.</p>	<p><b>Medium</b></p>	<p><b>Actions:</b></p> <p>As an approved childcare provider, the school can accept Childcare vouchers in payment for additional nursery hours. The school will notify parents that they cannot use childcare vouchers for any other amount due to the school.</p> <p><b>Responsible officer:</b></p> <p>Office staff/School Business Manager /Headteacher</p> <p><b>Target date:</b></p> <p>Immediately</p>
5.	<p><b><u>Banking and Petty cash</u></b></p> <p><b>Objective</b> – To ensure that the school has adequate control over its funds, with regular arrangements for reconciling bank and cash balances.</p> <p><b>Finding</b> - The school uses the Local Authority Central Banking facility where £2,114,809 was retained from the school delegated budget in April 2018 to pay Payroll bills monthly as calculated by CAPITA payroll for the twelve months to March 2019. In November 2019 the school was notified that salary expenditure for the period April 2018 to March 2019 of £2,466,822.99 had been paid on behalf of the school from the school Central Banking facility, and that the balance of £352,103.99 was due to the local authority from the local bank account controlled by Frith Manor school.</p> <p>The school had not paid the amount to the Local authority at the date of the audit in November 2020. The monthly bank reconciliation reports presented to the Headteacher for signing did not include the balance due on the Central Bank account or indicate that the bank balance was overstated by the amount of £352,103.99.</p>	<p>Management may not identify errors or omissions in the bank account or the finance system in a timely manner. These errors could go undetected resulting in a financial loss to the School, or an inaccuracy in financial monitoring and reporting.</p>	<p><b>Medium</b></p>	<p><b>Actions:</b></p> <p>The school will complete a reconciliation of amounts paid through the Local Authority Central Banking facility to records recorded on the school accounts. Any differences will be investigated.</p> <p>The balance requested in November 2019 will be paid to the local authority, when this has been reconciled to the school accounts.</p> <p>Going forward the Central account reconciliation will be performed monthly, signed by the person completing the reconciliation and countersigned by the Headteacher. Amounts due for periods after March 2019 will be reconciled and paid without delay.</p> <p><b>Responsible officer:</b></p> <p>School Business Manager/ Headteacher</p> <p><b>Target date:</b> 31 March 2021</p>

Ref	Finding	Risks	Risk category	Agreed action(s)
6.	<p><b><u>Assets</u></b></p> <p><b>Objective</b> - To ensure that the school has adequate controls and records to safeguard its valuable/moveable assets and items of inventory.</p> <p><b>Finding</b> - A review of the school's IT inventory held on a spreadsheet, found that a cost and date of purchase was not recorded for each IT asset.</p> <p>A review of assets took place prior to the audit in November 2020, but there was no evidence that the annual check had been completed in other years. The Chair of Governors had not been asked to authorise school asset disposals forms.</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><b>Medium</b></p>	<p><b>Actions:</b></p> <p>The Inventory will be updated with cost and date of purchase for assets where this is easily available.</p> <p>Annual check will be completed and recorded every year.</p> <p>Governors will be asked to authorise asset disposals.</p> <p><b>Responsible officer:</b></p> <p>IT staff/School Business Manager /Headteacher</p> <p><b>Target date:</b></p> <p>31 March 2021</p>
7.	<p><b><u>Single Central Record</u></b></p> <p><b>Objective</b> - To ensure that the school has an up to date Single Central Record.</p> <p><b>Finding</b> – We selected ten school employees and asked to see their entry within the schools Single Central Record. We found that for 1/10 personnel their name was not included in the Single Central Record and there was no entry for them. We also checked that the seven current Governors listed on the school website were included on the Single Central record. Due to recent changes in school staff, the school were unable to confirm why one Governor was not listed as required by legislation effective 1 April 2016.</p>	<p>There is a risk that if the Single Central Register is not completed fully and in its entirety then the Schools will not be able to demonstrate it is meeting safeguarding requirements determined by the Department for Education.</p>	<p><b>Medium</b></p>	<p><b>Actions:</b></p> <p>The school will review the Single Central Record and ensure that all columns are completed correctly.</p> <p><b>Responsible officer:</b></p> <p>Office staff/School Business Manager /Headteacher</p> <p><b>Target date:</b></p> <p>Immediately</p>



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

Risk rating	
<b>Critical</b> 	Critical issue where action is considered imperative. Action to be effected immediately.
<b>High</b> 	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.
<b>Medium</b> 	Significant issue where action is considered necessary to avoid exposure to risk. Action to be effected within 3 to 6 months.
<b>Low</b> 	Issue that merits attention/where action is considered desirable. Action usually to be effected within 6 to 12 months.
Level of assurance	
<b>Substantial</b> 	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.
<b>Reasonable</b> 	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.
<b>Limited</b> 	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.
<b>No</b> 	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			1		
Financial Planning		1			
Budget Monitoring					
Purchasing					
Contracts			1		
Income			1		
Lettings					
Banking & Petty Cash			1		
Payroll					
Tax					
Voluntary Funds					
Assets			1		
Insurance					
Data Security					
Pupil Premium					
Safeguarding*			1		
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					
<b>Audit agreed:</b>	<b>Fieldwork commenced:</b>	<b>Fieldwork completed:</b>	<b>Draft report issued:</b>	<b>Management comments received:</b>	<b>Final report issued:</b>
21 September 2020	23 November 2020	24 November 2020	3 December 2020	28 January 2021	3 February 2021

### Appendix 3 – Review of Schools Financial Values Standard 19/20

LIST OF QUESTIONS	SCHOOL RESPONSE	AUDIT CONCLUSION FOLLOWING REVIEW OF COMMENTS AND EVIDENCE
<b>A: Governance</b>		
1. In the view of the governing body and 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. Does the governing body board receive clear and concise monitoring reports of the school's budget position at least six times a year?	Yes	Agreed
4. Are business interests of governing body members and staff properly registered and taken into account so as to avoid conflicts of interest?	Yes	No current signed forms for Governors. No declaration on current minutes
5. 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
<b>B: School strategy</b>		
6. Does the school have a realistic, sustainable and flexible financial strategy in place for at least the next 3 years, based on realistic assumptions about future funding, pupil numbers and pressures?	In Part	Agreed
7. Is the financial strategy integrated with the school's strategy for raising standards and attainment?	Yes	Agreed
8. 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 was not complete
<b>C: Setting the annual budget</b>		
9. Does the school set a well-informed and balanced budget each year (with an agreed and timed plan for eliminating any deficit)?	No	Agreed
10. Does the budget setting process allow sufficient time for the governing body to scrutinise and challenge the information provided?	Yes	Agreed

11. Is the governing body realistic in its pupil number projections and can it move quickly to recast the budget if the projections and the reality are materially different?	In Part	Agreed
12. 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 such variations result from explicitly planned changes or from genuinely unforeseeable circumstances?	No	Agreed
13. Are balances at a reasonable level and does the school have a clear plan for using the money it plans to hold in balance at the end of each year?	In Part	Agreed
<b>D: Staffing</b>		
14. Does the school review and challenge its staffing structure regularly to ensure it is the best structure to meet the needs of the school whilst maintaining financial integrity?	Yes	Agreed
15. Has the use of professional independent advice informed part of the pay decision process in relation to the headteacher and is it tightly correlated to strong educational outcomes and sound financial management?	Yes	Agreed
16. Does the school benchmark the size of its senior leadership team annually against that of similar schools?	Yes	Agreed
<b>E: Value for Money</b>		
17. 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
18. Does the school have procedures for purchasing goods and services that both meet legal requirements and secure value for money?	Yes	Agreed
19. Is the governing body given the opportunity to challenge the school's plan for replacing contracts for goods and services that are due to expire shortly?	Yes	Agreed
20. Does the school consider collaboration with others, eg on sharing staff or joint purchasing, where that would improve value for money?	In Part	Agreed
21. Do you compare your non-staff expenditure against the DfE recommended national deals to ensure you are achieving best value?	In Part	Agreed
22. Does the school maintain its premises and other assets to an adequate standard and make best use of capital monies for this purpose?	Yes	Agreed

<b>F: Protecting Public Money</b>		
23. Is the governing body sure that there are no outstanding matters from audit reports, internal audit reports or from previous consideration of weaknesses by the governing body?	Yes	In Part – one finding has been repeated
24. Are there adequate arrangements in place to manage conflicts of interest or any related party transactions?	Yes	Agreed
25. 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 Assets
26. Are all staff aware of the school's whistleblowing arrangements and to whom they should report concerns?	Yes	Agreed
27. 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
28. Does the school have adequate arrangements for audit of voluntary funds?	Yes	Agreed
<b>G: SFVS dashboard</b>		
29. Have the results of the dashboard been carefully considered and potential follow-up actions identified?	In Part	Documented discussion of results was not available

## **Appendix 4 – Internal Audit roles and responsibilities**

### **Limitations inherent to the internal auditor's work**

We have undertaken the review of Frith Manor 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.