# Internal Audit Report

# Nutfield Church CofE Primary School, Redhill

## Final

Assignment Lead: Caroline Nairn, Auditor
Assignment Manager: Liam Pippard, Principal Auditor
Prepared for: Surrey County Council (Schools)
Date: June 2024

**Report Distribution List**

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## 1. Introduction

1.1. This report provides assurance on the overall effectiveness of controls at Nutfield Church CofE Primary School and identifies areas of concern or weakness where improvement can be made.

1.2. At the time of our audit, the school had recently approved their 2024/25 three-year budget plan, which included a carry forward balance, from the previous year, of just over £165k. Staffing costs for year one have been forecast at 86.4% of total funding, and pupil and staffing numbers are expected to remain static in September 2024.

1.3. This report and opinion are based on a high-level review of key controls in the school and a limited level of transactional testing.

1.4. This review is part of the agreed Internal Audit Plan for 2024/25.

1.5. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the detailed findings section of the report.

## 2. Scope

2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- Governance structures are in place and operate effectively to ensure there is independent oversight and challenge by the Governing Body;
- Decision making is transparent, well documented, and free from bias;
- Effective planning and monitoring arrangements are in place to enable the school to operate within its budget;
- Expenditure is controlled and funds are used only for educational and school business purposes;
- The school ensures value for money is sought on contracts and larger purchases;
- All voluntary funds are held securely and used in accordance with the agreed aims;
- Pupils and the school's systems, assets, and site are safeguarded from unauthorised or inappropriate access; and
- Employment processes are robust to ensure that only appropriate persons are engaged, and staff are paid in accordance with the school's pay policy.

## 3. Audit Opinion

3.1. **<u>Reasonable Assurance</u> is provided in respect of Nutfield Church CofE Primary School, Redhill**. This opinion means that most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.

*Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.*

## 4. Basis of Opinion

4.1. Based on the testing undertaken, we have been able to provide an opinion of Reasonable Assurance over the controls in place because:

4.2. The Governing Body has a formalised structure and governors have defined areas of responsibility.

4.3. The School Business Manager (SBM) provides financial insight to both the Governing Body and Finance Working Party (FWP) through the provision of Financial Monitoring Reports and supplementary narrative. In addition, The SBM attends Governing Body and FWP meetings, where financial matters are strategically reviewed. Furthermore, there is regular dialogue on financial matters between the SBM and Headteacher, through a mixture of formalised and ad-hoc discussions.

4.4. The school's budgeting process appears robust, with a carry-forward balance from 2023/24 into the current year exceeding original forecasts. Staffing costs are monitored and reviewed for the benefit of the school.

4.5. Statutory policies and procedures are in place and include a Business Continuity Plan, to provide guidance to staff in the event of a major incident.

4.6. The SBM maintains a Register of Contracts to aid contractual oversight. Public liability insurance for contractors and external club providers is also monitored, helping to ensure that cover remains valid.

4.7. The school seeks value for money; obtaining quotes from a variety of suppliers for high priced items prior to commitment of purchase.

4.8. The school has good awareness of bank mandate fraud and checks the validity of requests to safeguard funds.

4.9. We have, however, identified some areas where improvements could be implemented to strengthen the current control environment. Our findings are summarised below, and detailed findings are included in the main body of the report.

4.10. Although governors are provided with financial reports and narrative, oversight of the current budget position could be further strengthened through the Cumulative Expense Analysis report being shared with governors, to allow for more detailed analysis.

4.11. Headteacher expenses are currently reviewed and approved by the SBM and Deputy Headteacher. Whilst this helps to ensure separation of duties, Governor approval would be more appropriate, to ensure hierarchical oversight.

4.12. We found the school does not require all staff to complete a declaration of interest; however, it is considered best practice and important to do so. This is particularly important for those staff members with financial responsibilities; failure to capture this information risks conflicts of interests going unmitigated, and thus materialising and the school being unaware.

4.13. Higher value purchases are discussed with governors in advance; however, for a purchase we examined, there was a lack of evidence to support Governor approval of the final purchase decision (selected vendor, goods and price), which is a requirement of the school's Financial Management Policy, to ensure that governors are in agreement.

## 5. Action Summary

5.1. The table below summarises the actions that have been agreed together with the risk:

| Risk | Definition | No | Ref |
|---|---|---|---|
| High | This is a major control weakness requiring attention. | | |
| Medium | Existing procedures have a negative impact on internal control or the efficient use of resources. | 4 | 1-4 |
| Low | This represents good practice; implementation is not fundamental to internal control. | 6 | 5-10 |
| | **Total number of agreed actions** | **10** | |

5.2. Full details of the audit findings and agreed actions are contained in the detailed findings section below.

5.3. As part of our quarterly progress reports to Audit and Governance Committee, we seek written confirmation from the service that all high priority actions due for implementation are complete. The progress of all (low, medium and high priority) agreed actions will be re-assessed by Internal Audit at the next audit review. Periodically we may also carry out random sample checks of all priority actions.

## 6. Acknowledgement

6.1. We would like to thank all staff that provided assistance during the course of this audit.

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|---|---|---|---|---|
| 1 | **Financial Reporting to Governors**<br><br>Although governors are given oversight of the budget and expenditure, they are not currently provided with a Cumulative Expense Analysis report which would allow them to undertake more detailed analysis of the figures, increasing their oversight and improving their decision-making process. | Where insufficient information is provided, governors are unable to provide sufficiently robust challenge, which may lead to poor decision-making or financial loss. | Medium | The school should consider providing governors with Cumulative Expense Analysis reports to aid oversight. |
| **Responsible Officer:** | | Imogen Woods, Headteacher | **Target Implementation Date:** | 31 July 2024 |

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|---|---|---|---|---|
| 2 | **Purchase Approval**<br><br>The school's Financial Management Policy states that purchases in excess of £2.5k require the approval of the Finance Working Party and that purchases above £10k require approval of the Full Governing Body (FGB).<br><br>In 2023, the school purchased dining equipment with a gross cost of over £10k. Although the school received four quotes for the equipment, and the purchase was approved by the Headteacher, we did not find evidence to demonstrate that the final purchase decision (selected supplier, goods and final cost) had been subject to governor approval, as specified in policy. Governors were, however, made aware of the forthcoming cost as part of the 2023/24 budget review and approval. | Where purchases are not subject to approval in line with the delegated limits found within the finance policy, there is a reduction in oversight and an increased risk that staff members may authorise expenditure that is not in line with Governor expectations, increasing the risk of inappropriate spend and financial loss. | Medium | Purchases above the threshold for Headteacher review should be subject to formal authorisation by the Finance Working Party or Full Governing Body, in line with the school's Financial Management Policy. |
| **Responsible Officer:** | | Imogen Woods, Headteacher | **Target Implementation Date:** | 31 July 2024 |

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|---|---|---|---|---|
| 3 | **Staff Declarations of Interest**<br><br>Surrey County Council considers it best practice for all employees to complete a declaration within the register of interests (whether there is a potential conflict present or not), which should be updated on an annual basis. The school does not currently ask staff to complete such a declaration, although the information is captured at the initial stage of employment. | The lack of process in place for members of staff to declare any potential conflicts annually, increases the risk of conflicts going unmitigated, and therefore materialising, thus increasing the risk of fraud, financial loss or bias in decision making. | Medium | The school should ensure that all staff complete an annual declaration within the register of interests, and any potential or perceived conflicts should be subject to appropriate mitigations and authorised by the Headteacher and Chair of Governors. |
| **Responsible Officer:** | | Imogen Woods, Headteacher | **Target Implementation Date:** | 31 July 2024 |

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|---|---|---|---|---|
| 4 | **Staff Expenses**<br><br>A reimbursement claim made by the Headteacher had been reviewed and authorised by the Deputy Headteacher and SBM. Authorisation of such claims should always be upwards to ensure hierarchical oversight and maintain accountability. | When a member of staff authorises expense claims, completed by their line manager, there is an increased risk that the claim may not be subject to appropriate scrutiny or challenge, thus increasing the risk of inappropriate expenditure. | Medium | Authorisation of Headteacher expenses should be from the Chair of Governors. |
| **Responsible Officer:** | | Imogen Woods, Headteacher | **Target Implementation Date:** | 31 July 2024 |

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|---|---|---|---|---|
| 5 | **Purchase Orders**<br><br>Purchase Orders raise a commitment within the budget prior to a purchase being made, ensuring that adequate funds are available and improving the accuracy of the budget monitoring process.<br><br>Sample testing revealed that whilst the school makes an effort to raise purchase orders, there were instances of non-order expenditure, although the school has confirmed that the monies were allocated in FMS. | A lack of a purchase order reduces the accuracy of the budget monitoring process and increases the risk that sufficient funds may not be available. | Low | Where possible and applicable, the school should ensure that purchase orders are raised and approved in advance of the purchase. |
| **Responsible Officer:** | | Imogen Woods, Headteacher | **Target Implementation Date:** | 31 July 2024 |

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|---|---|---|---|---|
| 6 | **Purchasing Card Storage**<br><br>Purchasing cards that have been issued to members of staff are currently stored in the school's safe, which is accessible to two members of staff.<br><br>When used for online transactions, the cards require cardholders to input an authorisation code to approve payments. Whilst this reduces the risk of misuse, there remains an increased risk that persons other than the cardholders have access to the cards. | The accessible location of purchasing cards reduces oversight and control and may lead to an increased risk of fraudulent purchases. The risk that fraudulent transactions would not be covered is increased, as the card is not being used in accordance with the Card issuers terms and conditions. | Low | The school should consider limiting access to the purchasing cards; which should be kept by the named cardholder to prevent unauthorised access or use. |
| **Responsible Officer:** | | Imogen Woods, Headteacher | **Target Implementation Date:** | 31 July 2024 |

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
| --- | --- | --- | --- | --- |
| 7 | **Purchasing Card Reconciliation**<br><br>A purchasing card has been issued to the Headteacher, and a reconciliation process is in place for purchasing card transactions; carried out by the School Business Manager (SBM).<br><br>The SBM is independent of the Purchasing Card transactions so there is a separation of duty in undertaking the reconciliation. We noticed, however, that whilst the SBM prepares the reconciliation, it is authorised by the Headteacher. | Where the named cardholder approves their own purchasing card reconciliation, there is an increased risk that inappropriate expenditure may not be challenged, leading to financial loss. | Low | The reconciliation of the Purchasing Card should ideally be authorised by someone other than the cardholder, preferably the Chair of Governors. |
| **Responsible Officer:** | | Imogen Woods, Headteacher | **Target Implementation Date:** | 02 September 2024 |

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|---|---|---|---|---|
| 8 | **Purchasing Card Log**<br>The school maintains a purchasing card log to record details of all purchase card transactions. Currently, the log includes: the date of use, cardholder, vendor, and the amount paid. Whilst the school has explained that purchasing cards are used solely by the named card holder, the log does not, however, include a signature by the cardholder to record who has carried out each transaction. | Where a purchasing card log does not capture signatures to record who has carried out a transaction, there is an increased risk that the card could be misused, leading to financial loss. | Low | The school should consider including an additional column within the purchasing card log to capture the signature of the person carrying out the transaction for improved accountability. |

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|---|---|---|---|
| **Responsible Officer:** | Imogen Woods, Headteacher | **Target Implementation Date:** | 31 July 2024 |

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|---|---|---|---|---|
| 9 | **Recording of Budget Approval**<br><br>Whilst approval of the school's budget had been recorded in the FGB meeting minutes, and a copy of the budget had been signed by the Chair of Governors, the actual budget figure approved was not included in the notes. | Failure to formally record the value of the budget approved at FGB meetings increases the risk that the Governing Body may not have adequate oversight over the finances of the school. | Low | The school should ensure that the budget figure should be recorded, together with the FGB approval, in meeting minutes. |
| **Responsible Officer:** | | Imogen Woods, Headteacher | **Target Implementation Date:** | 31 July 2024 |

| Ref | Finding | Potential Risk Implication | Risk | Agreed Action |
|---|---|---|---|---|
| 10 | **Leaver's checklist**<br><br>The SBM maintains a leaver's checklist to record actions required following a staff member's resignation. The list includes access to the school's systems but does not include information such as the staff member's identification pass. ID passes are not currently collected when a staff member leaves employment of the school. | Failure to capture the revocation of site access, and collection of equipment, alongside any other required actions, may increase the likelihood of non-fulfilment, which may increase the risk of unauthorised access to premises or assets. | Low | The school should consider the inclusion of staff ID passes within its leaver's checklist, as a matter of best practise. |
| **Responsible Officer:** | | Imogen Woods, Headteacher | **Target Implementation Date:** | 31 July 2024 |

# Appendix A

## Audit Opinions and Definitions

| Opinion | Definition |
|---|---|
| **Substantial Assurance** | Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives. |
| **Reasonable Assurance** | Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives. |
| **Partial Assurance** | There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk. |
| **Minimal Assurance** | Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud.  There is a high risk to the ability of the system/service to meet its objectives. |

## Management Responsibilities

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.

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.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that 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.