

# Final Internal Audit Report

## Heavers Farm School 2019/20

### December 2019

**Distribution:** Head Teacher  
 Chair of Governors  
 School Business Manager  
 Executive Director, Children, Families and Education (Final Only)  
 Director of Finance, Investment and Risk (Final Only)  
 Director of Education and Youth Engagement (Final Only)

Assurance Level	Recommendations Made	
<b>Substantial Assurance</b>	Priority 1	0
	Priority 2	9
	Priority 3	4

#### Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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### 1. Introduction

- 1.1. Heavers Farm Primary School is a 4-form entry school based in South Norwood, South London. It is federated with Selsdon Primary School, a 3-form entry school based in Selsdon, South Croydon. At the time of audit there were 705 pupils attending the School and it had an expenditure budget of approximately £4.04m for 2019/20.
- 1.2. The audit was undertaken as part of the agreed Internal Audit Plan for 2019/20 based on a risk assessment. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

### 2. Key Issues

#### Priority 2 Recommendations

The School's 2019/20 budget had not been 'fixed' on SIMs following Governing Body approval. **(Recommendation 1)**

A financial skills audit of the governors had not been carried out in the last year. **(Recommendation 2)**

There was no evidence of a medical check being conducted for one of the three new starters sampled. **(Recommendation 3)**

The Executive Head Teachers appraisal meeting for 2017/18 was not held by 31 December 2018 as required. **(Recommendation 4)**

One high value payment was not evidenced as authorised by either the School's Resources Committee or full Governing Body. **(Recommendation 5)**

Two instances were noted where payments were being made to individuals likely to be deemed employees by HMRC without NI and PAYE deductions being made. **(Recommendation 6)**

The orders for three of the sample of 20 transaction tested were raised after the dates of the invoices for these transactions. **(Recommendation 7)**

Evidence of hirers having public liability insurance was not being evidenced as verified by the School. **(Recommendation 8)**

A checklist of the various responsibilities and duties under current health and safety legislation (as these relate to the maintenance, statutory compliance and repair upkeep of school buildings) was reviewed as part of the audit and a number of gaps were noted. **(Recommendation 9)**

The Priority 3 recommendations are included under Section 4 below.

## **Acknowledgement**

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

- Head Teacher
- School Business Manager

### 3. Actions and Key Findings/Rationale

#### Audit Area: Budgetary Control and Monitoring

Priority	Recommendation 1	Detailed Finding/Rationale
2	The School's annual budget input on SIMs should be fixed once approved by the full Governing Body.	<p><b>Expected Control</b></p> <p>The Council's 'Scheme for Financing Schools' paragraph 2.3 details that, 'Governing Bodies are responsible for agreeing an income and expenditure plan for the financial year.' Once approved, the budget is required to be set up on SIMs and 'fixed'. Any subsequent changes to the budget are then processed as virements, subject to approval in line with the School's Finance Policy and Procedures document.</p> <p><b>Issue/Finding</b></p> <p>Examination of the 2019/20 'Annual Budget Listing' on SIMs identified that, while the approved budget had been correctly input, this had not been 'fixed'. Therefore, any changes to be budget will not be reflected as virements.</p> <p><b>Risk</b></p> <p>Where the original budget is not 'fixed' on the annual budget listing, there is a risk that any subsequent changes to the budget are not easily identifiable and that unauthorised virements may occur.</p>
Management Response		Agreed/Disagreed
We will ensure that our Finance Officer saves the initial budget plan on HCSS once it has been approved by governors.		Agreed
		Responsible Officer
		Finance Officer/Head Teacher
		Deadline
		December 2019

## Audit Area: Budgetary Control and Monitoring

Priority	Recommendation 2	Detailed Finding/Rationale			
2	<p>A financial skills audit of the governors should be carried out. This should be annually conducted and inform any new governor appointments and any training considered.</p>	<p><b>Expected Control</b></p> <p>The governments School Financial Value Standard (SFVS) document details that, 'The governing body should not only have but should be seen to have adequate financial skills' and that, 'Governing bodies should carry out skills audits to identify the skills that are present on the governing body and those that are missing so that this can be addressed by targeting governor recruitment activity.'</p> <p><b>Issue/Finding</b></p> <p>It was confirmed that School staff with financial responsibilities have had their financial skills assessed. However, discussion with the Head Teacher, confirmed by examination of Governing Body meeting minutes for the last year, established that the Governors have not had a similar assessment conducted.</p> <p><b>Risk</b></p> <p>Where the financial skills of Governors are not assessed, the School is not compliant with SFVS and there is a risk that governors cumulatively do not have the right mix of financial skills and that appropriate training to help remedy this is not taken up.</p>	Agreed/Disagreed	Responsible Officer	Deadline
Chair of Resources committee to complete this in the spring term 2020.	Agreed	Agreed	Chair of Resources Committee	Spring term 2020	

## Audit Area: Payroll

Priority	Recommendation 3	Detailed Finding/Rationale
2	<p>The School should follow up on the staff member identified to ensure that a medical check, if not already conducted, is conducted as soon as possible. A copy of the relevant check should be retained on the employee file.</p>	<p><b>Expected Control</b>                      In line with the requirements of the Education (Health Standards) (England) Regulations 2003, all new staff should receive a Health Check from the Council's Medical Officer to check that they are fit to perform their required duties in their role. The document confirming the successful check is sent to the school and should be retained on file.</p> <p><b>Issue/Finding</b>                      Examination of the documentation available for a sample of three new starters at the School established that there was no evidence of a medical check being conducted for one of the new starters (start date 25 February 2019).</p> <p><b>Risk</b>                      Where new staff do not receive a medical check prior to commencing employment, there is a risk that employees are not fit to carry out some specific roles. This could result in a loss of provision of services through long term illness and potentially a financial loss for the School.</p>
Management Response	Agreed/Disagreed	Responsible Officer
<p>This was resolved on 28<sup>th</sup> September 2019 when we received the confirmation. Systems for ensuring health checks for new starters have been reviewed so that this does not happen again.</p>	<p>Agreed</p>	<p>Head Teacher/School Business Manager</p>
		Deadline
		<p>Completed</p>



**Audit Area: Payroll**

Priority	Recommendation 4	Detailed Finding/Rationale
2	<p>The Governors should ensure that the Executive Head Teacher is appraised annually before 31 December each year.</p>	<p><b>Expected Control</b>                      The Education (School Teachers' Appraisal) (England) Regulations 2012, specify that the performance of the Head Teacher must be annually reviewed. The School's Teacher Appraisal Policy details that, <i>'The teacher will receive as soon as practicable following the end of each appraisal period – and have the opportunity to comment in writing on – a written appraisal report. In this school, teachers will receive their written appraisal reports by 31 October (31 December for the Executive Head teacher).'</i></p> <p><b>Issue/Finding</b>                      It was established that the Executive Head Teachers appraisal meeting for 2017/18 was held in February 2019 and reported to the full Governing Body at the meeting held on 3 April 2019.</p> <p><b>Risk</b>                      Where performance reviews are not undertaken in line with set guidelines there is a risk that any instances of poor performance may not be identified in a timely manner and there is an impact on budget management with the Head Teacher's pay being backdated to September.</p>
Management Response		Agreed/Disagreed
<p>The Headteacher's performance management review meeting took place on 25<sup>th</sup> November 2019. The report was finalised on 3<sup>rd</sup> December 2019.</p>		<p>Agreed</p>
		Responsible Officer
		Full Governing Body
		Deadline
		Completed



## Audit Area: Procurement

Priority	Recommendation 5	Detailed Finding/Rationale		
2	Higher value payments should be properly evidenced as approved in line with the requirements of the School's Finance Policies and Procedures document.	<p><b>Expected Control</b></p> <p>The School's Finance Policies and Procedures document, section D2: 'Expenditure limits – governor's authorisation' details that <i>"Prior approval from the Governing Body should be obtained for all expenditure above a predetermined limit. The Governing Body will approve a maximum amount and the Executive Head Teacher will be responsible for authorising the order, invoice and payment within this amount."</i></p> <p><b>Issue/Finding</b></p> <p>In sample testing of transaction, a high value payment of £16,416 was identified and which related for the year 6 residential trip that occurs each year. This was not evidenced as approved by the Resource Committee (or the Full Governing Body) as required by the School's Finance Policies and Procedures document.</p> <p><b>Risk</b></p> <p>Where high value payments are not approved as required by the School's Finance Policies and Procedures document, there is an increased risk that payments of large amounts of school funds occur that are deemed inappropriate.</p>		
Management Response		Agreed/Disagreed	Responsible Officer	Deadline
The transactions for the school journeys for 2020 (Selsdon: £24,648 and Heavers Farm: £28,704) were provisionally agreed by the Resources Committee on 14 <sup>th</sup> October 2019 these costs have been referred to the Full Governing Board for approval on 9 <sup>th</sup> December 2019.		Agreed	Full Governing Body	December 2019

**Audit Area: Procurement**

Priority	Recommendation 6	Detailed Finding/Rationale
2	<p>The School should immediately desist from paying individuals, who would be deemed employees of the School by HMRC, directly without NI and tax deductions being made.</p> <p>In order to prevent future re-occurrences, a procedure should be included in the School's Financial Policy and Procedures Manual detailing the checks (including the use of HMRC's status indicator tool) that should be conducted to determine whether individuals engaged by the School are employees or not and to pay them accordingly.</p>	<p><b>Expected Control</b></p> <p>HM Revenue and Customs (HMRC) may regard someone as self-employed for tax purposes even if they have a different status in employment law. HMRC require all payments to employees to be paid through the payroll and be subject to deductions for National Insurance (NI) and Income Tax. Individuals and their employers may have to pay unpaid tax and penalties, or lose entitlement to benefits, if their employment status is wrong. Legislation commonly known as the intermediaries' legislation or IR35 came into operation from April 2017 to deem workers in the public sector who are paid through their own personal service company to be off payroll</p> <p><b>Issue/Finding</b></p> <p>While conducting sample testing of the School's expenditure, two instances for payments being made to individuals were noted. In both these instances evidence of the HMRC's 'Check employment status for tax' tool being conducted was provided along with copies of the signed 'Agreement for Self Employed Agreements' for each individual.</p> <p>Examination of the 'Agreement for Self Employed Agreements' established that, despite the wording '<i>Nothing contained in this agreement shall constitute a partnership or contract of employment between the parties</i>', these read as employment contracts by including the following wording in the agreements:</p> <ul style="list-style-type: none"> <li>- 'Duties: as per Job Description';</li> <li>- 'Shall render the Services to the best of his/her skill and ability'; and</li> <li>- 'A breach of this requirement will be regarded as gross misconduct...'</li> </ul> <p>Furthermore, the individuals were being paid at a daily rate input, rather than a fee on the delivery of an output. Despite the HMRC tool being completed, due to wording of 'Agreement for Self Employed Agreements' it is held that it would be likely that would deem these individuals to be employees of the School.</p> <p><b>Risk</b></p>

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	Where payments are made to individuals, who are deemed to be employees by HMRC, without NI and PAYE deductions being made, there is a risk that the School will be held liable for the PAYE and NI for these payments and may be fined.		
<b>Management Response</b>	<b>Agreed/Disagreed</b>	<b>Responsible Officer</b>	<b>Deadline</b>
Payments were stopped for these individuals. New contracts have been agreed where payment is clearly against project/service costs. This will be monitored by the chair of the Resources Committee.	Agreed	School Business Manager/Chair of Resources Committee	Immediately

## Audit Area: Procurement

Priority	Recommendation 7	Detailed Finding/Rationale
2	<p>For all expenditure where costs relating to transactions can be identified in advance, management should ensure that orders are raised and appropriately certified in advance of purchases being initiated.</p> <p>Where urgency requires an oral order these must be confirmed by a written order as soon as possible after the oral order has been initiated, (at the very least within a month).</p>	<p><b>Expected Control</b></p> <p>The School's Finance Policies and Procedures document, section 'D8: Use of written pre-numbered order forms' details that, '<i>Official, pre-numbered orders from the FMS6 system must be used for all goods and services except utilities, photocopies, rents, rates and petty cash payments. Where urgency requires an oral order these must be confirmed by a written order.</i>'</p> <p><b>Issue/Finding</b></p> <p>Examination of the documentation relating to a sample of 20 transactions identified three instances where the purchase order was raised after the payment had been initiated. The details and explanation for these was as follows:</p> <ul style="list-style-type: none"> <li>- Payment to London Teaching pool of £6,795, where the invoice was dated 3 September 2019, but the order was dated 12 September 2019;</li> <li>- Payment to Apple Retail UK of £2,347.20, where the invoice was dated 25 September 2019 and the order was dated 8 November 2019. This was explained to be an error made by another school; however, as the payment was made through the School's accounts, the requirements of the School's Finance Policies and Procedures document must be complied with; and</li> <li>- Payment to Knight Installations of £175.50, where the invoice was dated 20 October 2018, but the order was dated 8 January 2019. It was explained that this was an emergency payment and therefore a valid exception as detailed in the Schools Finance Policies and Procedures document; however, it is expected that where urgency requires an oral order these must be confirmed by a written order in a timely manner and not the 80 days that it took.</li> </ul> <p><b>Risk</b></p> <p>Where official orders are not raised and authorised prior to purchases being made, there is a risk that the authorisation and commitment processes are by-passed which could result in inappropriate purchases and poor budgetary control.</p>

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Management Response	Agreed/Disagreed	Responsible Officer	Deadline
<p>The chair of the Resources Committee will carry out monitoring of the purchase orders. Finance staff to ensure that all purchase orders are raised well before the payments are initiated.</p>	<p>Agreed</p>	<p>Finance Officer/Chair of Resources Committee</p>	<p>Immediately</p>

## Audit Area: Income

Priority	Recommendation 8	Detailed Finding/Rationale
2	<p>The public liability insurance of any hirers of the schools facilities should be confirmed prior to any lets being agreed. Evidence of this check should be retained.</p>	<p><b>Expected Control</b> When school facilities are let to those outside of the school, a booking form is filled out and the hirer signs to confirm that they have public liability insurance. An up to date copy of the hirer's public liability insurance should be provided as evidence before the school authorises the use of school facilities.</p> <p><b>Issue/Finding</b> Discussion with a member of staff at the School established that when facilities are let out, hirers sign a form that confirms they are covered by public liability insurance, but the School does not obtain a copy of the insurance or confirm that it is in place.</p> <p><b>Risk</b> Where the public liability insurance of hirers is not confirmed, there is a risk that School facilities are let to users that do not have appropriate insurance and, if there were any damage caused to property and facilities, this could result in large financial costs to the School.</p>
Management Response	Agreed/Disagreed	Responsible Officer
<p>The Lettings Policy has been updated and is due to be ratified by governors on 9<sup>th</sup> December 2019. Staff responsible for lettings will ensure that the hirers either provide a copy of their public liability insurance or pay to be included on the Local Authority insurance policy.</p>	Agreed	Finance Officer
		Deadline
		December 2019



## Audit Area: Health and Safety

Priority	Recommendation 9	Detailed Finding/Rationale
2	<p>The checklist of the various responsibilities and duties under current health and safety legislation should be reviewed by the School, with any identified gaps being addressed as soon as possible.</p>	<p><b>Expected Control</b></p> <p>The Health &amp; Safety at Work Act 1974, its subordinate legislation, The Regulatory Reform (Fire Safety) Order 2005, Control of Asbestos Regulations 2012 and other related legislation, place responsibilities on school governing bodies for the appropriate management of building-related risks.</p> <p><b>Issue/Finding</b></p> <p>A checklist of the various responsibilities and duties under current health and safety legislation (as these relate to the maintenance, statutory compliance and repair upkeep of school buildings) was reviewed as part of the audit. This identified that there were a number of gaps including:</p> <ul style="list-style-type: none"> <li>• Implementation of actions identified from fire risk assessment</li> <li>• Fire risk assessment reviewed annually</li> <li>• Emergency evacuation measures for mobility impaired staff</li> <li>• Water quality training</li> <li>• School premises risk assessments</li> <li>• Glazing risk assessment</li> <li>• Traffic management Plan</li> <li>• External Powered vehicle and pedestrian gate risk assessment</li> <li>• Portable electronic appliance register</li> <li>• Work equipment registered with Council's insurers</li> <li>• Equipment register for working at height</li> </ul> <p><b>Risk</b></p> <p>Where the School does not review its responsibilities and duties under current health and safety legislation and carry out works to ensure that it is compliant, there is an increased risk that all required maintenance is not identified and completed, leading to a risk that harm could come to children and staff when present in the School grounds.</p>
<b>Management Response</b>		<p><b>Agreed/Disagreed</b>      <b>Responsible Officer</b>      <b>Deadline</b></p>



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<p>Headteacher meeting regularly with Senior Site Manager to ensure that all Health and Safety procedures and responsibilities addressed appropriately. The chair of the Resources Committee will carry out monitoring of this.</p>	<p>Agreed</p>	<p>Head Teacher/Senior Site Manager/ Chair of Resources Committee</p>	<p>December 2019</p>
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## 4. Priority 3 Recommendations

Recommendation	Findings
<p>1) The School must ensure that the annual SFVS self-assessment form is submitted to the Council before 31<sup>st</sup> March each year.</p>	<p>The Croydon Scheme for Financing Schools paragraph 2.16 details that, ' All maintained schools with a delegated budget must submit the [SFVS self-assessment] form to the local authority before 31<sup>st</sup> March and annually thereafter.'</p> <p>The School's 2018/19 SFVS self-assessment was approved by the Governing Body on 4 April 2019 and submitted to the Council a day later.</p>
<p>2) The Head Teacher should acknowledge the resignation of staff in writing.</p>	<p>Discussion with the Head Teacher established that meetings are held between herself and any members of staff leaving the school, but that there was no acknowledgement of resignations in writing.</p> <p>Where the School does not retain acknowledgement letters of resignation, there is an increased risk that the final leaving date may be disputed.</p>
<p>3) The School should include income in any future benchmarking reviews.</p>	<p>The SFVS support notes on the Department for Education website explains that, '<i>Benchmarking is a process for comparing income and expenditure in detail with that of similar schools to consider whether and how your school can use resources better and identify where changes can be made.</i>'</p> <p>Examination of the Schools benchmarking review established that while it had conducted a benchmarking exercise, this was only for expenditure and had not included income.</p>
<p>4) The School should review the use of consent.</p>	<p>The Data Protection Act (DPA) 2018 and the General Data Protection Regulation (GDPR) revised the requirements for consent.</p> <p>Discussion with the Head Teacher established that the School had not reviewed the use of consent since the new legislation came into force.</p> <p>Where consent has not reviewed been reviewed, there is a risk that the School may not be compliant with the DPA 2018 and GDPR.</p>

## AUDIT TERMS OF REFERENCE

### Heavers Farm School 2019/20

#### 1. INTRODUCTION & BACKGROUND

- 1.1 This audit is being undertaken as part of the Internal Audit Plan for 2019/20, as agreed by the Council's Audit Committee.

#### 2. AUDIT OBJECTIVES AND METHODOLOGY

- 2.1 To provide an independent and objective opinion on the degree to which the Council's internal control environment supports and promotes the achievement of the Council's objectives. The internal control environment comprises the policies, procedures and operations in place to:
- establish, and monitor the achievement of the service's objectives;
  - identify, assess and manage the risks to achieving the services objectives;
  - facilitate policy and decision making;
  - ensure the economical, effective and efficient use of resources;
  - ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations;
  - safeguard the service's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption; and
  - ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.
- 2.2 To confirm that management have controls in place to detect and vigorously, pursue, fraud, corruption, other irregularities, errors and poor value for money.
- 2.3 To confirm that appropriate management action has been taken to implement recommendations for change leading to improvement in performance and/ or control.

#### 3. SCOPE

- 3.1 The audit included the following areas (and number of recommendations made):





Audit Area	Recommendations Made		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Governance and Leadership	0	0	1
Budgetary Control & Monitoring	0	2	0

Payroll	0	2	1
Safeguarding	0	0	0
Procurement	0	3	1
Banking	0	0	0
Information Governance	0	0	1
Health and Safety	0	1	0
Income	0	1	0
<b>Totals</b>	<b>0</b>	<b>9</b>	<b>4</b>

**Definitions for Audit Opinions and Recommendations**

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to recommendations are based on the following criteria:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
<b>Priority 3 (Low)</b>	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

## **STATEMENT OF RESPONSIBILITY**

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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