

# Final Internal Audit Report

## Bensham Manor School

### April 2019

**Distribution:** Headteacher  
 Chair of Governors  
 Executive Director, Children Families and Education (Final Only)  
 Director of Education and Youth Engagement  
 Director of Finance, Investment and Risk (Final Only)

Assurance Level	Recommendations Made	
<b>Substantial Assurance</b>	Direction of Travel from previous audit: Up from Limited	Priority 1 1
		Priority 2 2
		Priority 3 6

#### 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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## Executive Summary

### 1. Introduction

- 1.1. Bensham Manor School is a community school and at the time of the audit, there were 225 pupils attending. It has an expenditure budget of approximately £4.18m for the current financial year.
- 1.2. The School's previous Bursar departed in December 2018, with the current Bursar commencing employment on 7 January 2019. The financial controls in place prior to January were described by the Bursar to be inadequate and it was explained that these have been revised with a higher level of financial control since January 2019. Testing of financial data for this audit was therefore mainly selected from January 2019 onwards to reflect the current level of revised financial control at the School.
- 1.3. The audit was undertaken as part of the agreed Internal Audit Plan for 2018/19 based on a risk assessment. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

### 2. Key Recommendations and Issues

#### Priority 1 Recommendation

Sample testing identified payments being made to two separate individuals without PAYE or NI deductions being made, without properly testing whether they are likely to be deemed employees by HMRC, (**Issue 2**).

#### Priority 2 Recommendations

Examination of a sample of 15 transactions established that purchase orders were not held for two of the purchases and that the purchase order for a third transaction had been raised retrospectively to the receipt of the corresponding invoice, (**Issue 1**).

Review of a checklist of the various responsibilities and duties under current health and safety legislation noted that, whilst the School has a satisfactory overall level of compliance, some gaps were noted, (**Issue 3**).

The priority 3 recommendations are included under item 4 below.

### Acknowledgement

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

- Headteacher
- School Business Manager

**3. Actions and Key Findings/Rationale**

**Audit Area: Procurement**

Priority	Recommendation 1	Detailed Finding/Rationale		
2	<p>For all cases, where costs relating to transactions can be identified in advance, management should ensure that purchase orders are raised and appropriately certified in advance of purchases being initiated. Where costs cannot be properly determined, evidence of order approval in advance should still be maintained.</p>	<p><b>Expected Control</b>                      The School's Finance Policy details that, 'official, pre-numbered orders from the FMS6 system must be used for all goods and services except utilities, rents, rates and petty cash payments. Where urgency requires an oral order, these must be confirmed by a written order.'</p> <p><b>Issue/Finding</b>                      Examination of a sample of 15 transactions established that two purchases did not have a purchase orders raised. Furthermore, one transaction had a purchase order raised retrospectively to the receipt of invoice.</p> <p><b>Risk</b>                      Where the School does not raise purchase orders in advance, there is a risk that the authorisation and commitment processes are by-passed, which may result in inappropriate purchases and poor budgetary control.</p>	<p><b>Responsible Officer</b>                      School Business Manager</p>	<p><b>Deadline</b>                      Immediately</p>
Management Response		Agreed/Disagreed	Responsible Officer	Deadline
<p>One payment was to our catering company and these invoices differ from month to month as its dependent on the amount of staff lunches, children lunches and free school meals. The invoice is generated at the end of the month based on the weekly numbers. It's hard to determine how much this bill will be as it's anything between £4k - £7.5K. Another was a membership renewal sent by a teacher to renew via email. A Purchase order was</p>		<p>Agree</p>	<p>School Business Manager</p>	<p>Immediately</p>

<p>not raised as it was after the renewal date and time on the invoice sent.</p> <p>Lastly, an outstanding invoice – did not have a previous PO, the bursar was informed that Croydon council raise POs for everything and you would penalised therefore the PO was raised – however after that one invoice no other PO was raised after invoice dates – New Processes in place with the bursar.</p>			
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Priority	Recommendation 2	Detailed Finding/Rationale
1	<p>The HMRC 'view' of the employment status of the individuals should be obtained by using the Employment Status Indicator (ESI) tool, and NI and PAYE deductions, where appropriate, should be made from payments.</p> <p>(Provided the answers given to the ESI questions accurately reflect the terms and conditions under which the services are provided at the relevant time of the contract, HMRC will be bound by the ESI outcome where the engager or their authorised representative provides copies of the printer-friendly version of the ESI Result screen, bearing the 14 digit ESI reference number, and the Enquiry Details screen. A copy of the written contract (if available) in relation to the engagement along with any other documentation relied on when completing the ESI should also be retained.)</p>	<p><b>Expected Control</b></p> <p>The guidance on the HMRC website details that, 'A worker's employment status that is whether they are employed or self-employed, is not a matter of choice. Whether someone is employed or self-employed depends upon the terms and conditions of the relevant engagement.' The Employment Status Indicator (ESI) tool &lt; <a href="https://www.tax.service.gov.uk/check-employment-status-for-tax/setup">https://www.tax.service.gov.uk/check-employment-status-for-tax/setup</a> &gt; on the HMRC website can be used to determine the employment status of individuals. Where someone is determined to be employed, PAYE and NI deductions <u>must</u> be made at source.</p> <p><b>Issue/Finding</b></p> <p>Examination of a sample of 15 transactions identified that this included two separate payments to individuals where there was no evidence of NI or PAYE deductions being made. No record of the individuals' employment status being checked using the HMRC online tool was available.</p> <p>Examination of the bank history report and sample invoices for 2018/19 found that:</p> <ul style="list-style-type: none"> <li>• One individual has been receiving weekly payments since 5 October 2018.</li> <li>• The other individual has been receiving monthly payments since 2 May 2018.</li> </ul> <p>It is held that in both the above instances the individuals are likely to be deemed employees by HMRC.</p> <p><b>Risk</b></p> <p>Where payments are made to individuals and the employment status of these individuals is not confirmed, there is a risk that these individuals may be defined as employees by HMRC and the School fined and held liable for the NI and PAYE deductions plus interest charges.</p>

Management Response	Agreed/Disagreed	Responsible Officer	Deadline
<p>Both individuals were prior agreements and payments to these suppliers continued.</p> <p>HMRC checks have now been conducted. One individual is confirmed as self-employed and the other no longer works for the school.</p>	<p>Agreed. This has been rectified and will not occur moving forward.</p>	<p>School Business Manager</p>	<p>Immediately</p>

**Audit Area: Health and Safety**

Priority	Recommendation 3	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 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. Whilst it was evidenced that the School has a good overall level of compliance, a number of gaps were noted including:</p> <ul style="list-style-type: none"> <li>• Asbestos awareness training;</li> <li>• Meetings being held with contractors;</li> <li>• Maintenance records being kept;</li> <li>• Traffic management plan;</li> <li>• Risk assessments of premises; and</li> <li>• Self-managed construction work (Questions 32-35 on the checklist were left blank).</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>



Management Response	Agreed/Disagreed	Responsible Officer	Deadline
<p>Health and Safety – the gaps will be addressed</p> <p>The site manager will be attending Asbestos training – we are looking into courses</p> <p>Contractors pack is handed to all contractors at the start before starting jobs – (new processes in place)</p> <p>Maintenance of records – will be addressed between the site manager and site team</p> <p>Traffic Management plan – policy in process</p> <p>Risk assessments for each room – we have these on site and stored.</p> <p>Self-managed construction work – we do not have any tenders. We tender for construction works</p>	<p>Agree</p>	<p>School Business Manager</p>	<p>Immediately</p>

### Priority 3 Recommendations

Recommendation	Findings
<p>1) The School should ensure that all new governors are provided with the School's budget for the financial year of their induction.</p> <p><u>Management response:</u> Added the school budget to each pack now.</p>	<p>Examination of the list of documents included within the Governor's Induction Pack established that this did not include the School's current budget.</p> <p>Where the governor's induction pack is incomplete, there is a risk that Governors may not be properly informed regarding their duties and the School, and be unable to govern the School's finances efficiently.</p>
<p>2) The register of pecuniary interests available on the School website should be updated to reflect the current declarations.</p> <p><u>Management response:</u> Actioned and will be updated after the next full governors meeting</p>	<p>The register of pecuniary interests obtained from the School's website is dated 2017/18.</p> <p>Where the register of pecuniary interests available for public examination is outdated, there is a risk that new declarations of interest have not been made available.</p>
<p>3) Staff resignations should be acknowledged in writing, with the last working day formally confirmed, and these should be retained on file.</p> <p><u>Management response:</u> Practice adopted with immediate effect</p>	<p>Examination of the records held for a sample of five staff leavers established that a letter of acknowledgement of resignation from the Head Teacher was not held for four of the samples.</p> <p>Where the School does not retain acknowledgement letters of resignation, there is a risk that the final leaving date may be disputed.</p>
<p>4) Where there are unreconciled items older than six months, there is a risk that where cheque payments are being made, these will not be accepted by the bank.</p> <p><u>Management response:</u> All suppliers have been called and contacted regarding these payments and the bank has been notified in Feb and chqs have been cancelled from FMS</p>	<p>Examination of the School's unreconciled items list established that there were four unreconciled items which were older than six months old.</p> <p>Where there are unreconciled items older than six months, there is a risk that where cheque payments are being made, these will not be accepted by the bank.</p>

<p>5) The School should review the Data Protection Policy to include descriptions of what could be considered a data breach.</p> <p><u>Management response:</u> Being actioned and will be approved at the next governors meeting.</p>	<p>Examination of the School's Data Protection Policy established that descriptions of data breach procedures were not included.</p> <p>Where examples of a data breach are not included in the data breach procedure section of the School's Data Protection Policy, there is a risk that staff will not be certain of what qualifies as a data breach, and breaches may go undetected.</p>
<p>6) Subject Access Request forms should be amended to include the individual's right to request data which may have been corrected or deleted if inaccurate.</p> <p><u>Management response:</u> Actioned with immediate effect</p>	<p>The Subject Access Requests forms used by the School were found to not explicitly state that the individual has the right to request access to data which may have been corrected or deleted if inaccurate.</p> <p>Where Subject Access Request forms do not clearly state the rights of the individual, there is a risk that the School is not complying with the Data Protection Act 2018.</p>

## AUDIT TERMS OF REFERENCE

### Bensham Manor School – 2018/19

#### 1. INTRODUCTION & BACKGROUND

- 1.1 This audit is being undertaken as part of the Internal Audit Plan for 2018/19, 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 It is intended that the following areas will be examined:





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

Information Governance	0	0	2
Income	0	0	0
Health and Safety	0	1	0
School Fund	0	0	0

### 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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