

**LGSS Audit & Risk Management Service**

# **Internal Audit Report Personnel and Payroll Thematic Audit of Primary Schools – 2014/15**

Client Children, Families and Education

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Date 4<sup>th</sup> August 2015  
Lead Auditor Heather Fraser  
Status of report Final  
Internal Audit Opinion Limited Assurance  
Audit Committee Date 27<sup>th</sup> August 2015

# Executive Summary

## Assurance Summary

Process Area	No	Limited	Moderate	Substantial	Full
Governance					
Employees – Staff Recruitment					
Employees - Payroll					
Employees – Variations to Contract					
Employees – Payroll Checking and Monitoring					
<b>Overall</b>					

### Note

All Internal Audit reports are available on a confidential basis to Senior Management and the Audit Committee as a matter of course. The main points of this report and the overall assurance level will be summarised for the Audit Committee in a report that is made available within the public domain.

We will follow up the agreed actions contained in this report in line with individual timescales and report on progress to Management and the Audit Committee.

## 1. Background to the review

As part of the 2014/15 Audit Plan a thematic audit was undertaken on Personnel and Payroll in Primary Schools during the period November to December 2014. Fifteen schools were chosen based on when they had previously been subject to a thematic audit. Each school received their own audit report on the day. This report is a collation of those findings in order to provide feedback to appropriate officers within the council on the controls in place in schools.

It is recognised that schools have local management, however we need to be aware of how well schools comply with legislation, Northamptonshire County Council (NCC) policies and guidance issued to them. Thematic audits are carried out annually and the results are communicated to all primary schools through Finance seminars, HR Matters, Governors’ newsletters and Clerks’ briefings. Final reports are also published on the LGSS Schools Finance website.

### 1.1 Key Risks

Service related risks identified at the start of the audit through discussions with key individuals were:

- Schools do not have appropriate Governance arrangements in place for Personnel and Payroll;
- Schools not complying with national and NCC policies; and
- Poor financial management increasing the risk of fraud and weak budgetary control.

## 1.2 Objectives

The objectives of the review were therefore to:

- Assess the controls in place at the school to ensure compliance with statutory requirements, council policy and other relevant codes of practice; and
- To assess whether the systems and procedures in place ensure that the costs of payroll are appropriately monitored and controlled.

## 2. Internal Audit Opinion, Main Conclusions and Good Practice

Internal Audit's approach for the completion of this review was to visit each school for one day. Discussions were held with the Headteacher and the Bursar and records were examined in the schools. The findings of the audit were discussed with the Headteacher and the Bursar at the conclusion of the audit and agreed in principle. The schools were provided with a short summary report which could then be presented to the Governors.

### 2.1 Main conclusions

Based on the completion of our fieldwork we are giving **limited** assurance for the personnel and payroll processes carried out in the Primary Schools within our sample. Whilst we are able to provide substantial assurance with regards to the governance processes and moderate assurance for some aspects of payroll, the overall system of control is weak and there is evidence of non-compliance with the controls that do exist which may result in the relevant risks not being managed.

The table below provides a breakdown on the level of assurance for the fifteen schools audited.

Personnel and Payroll Level of Assurance		
Limited	Moderate	Substantial
7	5	3

Effective Personnel and Payroll controls within schools are fundamental to the system of internal control. Governing Bodies are responsible for ensuring that appropriate controls are in place to reduce the risk of fraud, misappropriation of assets, budget overspends and reputational damage to the school. Personnel and Payroll processes need to improve in order for schools to comply with Financial Regulations and to support their success in achieving critical strategic objectives.

To ensure a sound control environment, all schools should adhere to the regulations in the Schools Financial Management Handbook which is available on the LGSS Schools Finance Website. Thematic audit templates can also be found on the website and schools can use these to check their compliance with the controls.

The table overleaf provides a comparison of key weaknesses identified in 2013/14 and 2014/15, the number of instances in our sample is provided in the detailed findings later in the report.

<b>Governance</b>	<b>2013/14</b>	<b>2014/15</b>	<b>Direction of Travel</b>
The Committee that dealt with personnel issues did not have appropriate Terms of Reference in place.	13%	7%	↑
The responsibility for appointing staff, creating new posts and re-grading of staff had not been appropriately delegated.	27%	7%	↑
The Headteacher did not report regularly to Governors on staffing changes and issues.	0%	7%	↓
Governors had not agreed a Pay policy for the school.	20%	0%	↑
Governors had not adopted the NCC Whistle Blowing policy.	20%	0%	↑
The school had not made staff aware of the Whistle Blowing policy.	0%	7%	↓
No members of the Recruitment Panel had completed Safer Recruitment training.	13%	7%	↑
Personnel records were not retained for the appropriate time.	7%	0%	↑
<b>Employees – Staff Recruitment</b>	<b>2013/14</b>	<b>2014/15</b>	<b>Direction of Travel</b>
Personnel files were not held securely.	0%	0%	↔
School management did not ensure that related staff did not authorise payments for each other.	20%	13%	↑
Qualifications were not checked / held on file for qualified staff.	13%	0%	↑
An Induction certificate was not held on file for Teachers who qualified after 1999.	27%	27%	↔
The SENCO Coordinator was not a qualified Teacher.	0%	0%	↔
Two references had not been obtained for new employees.	27%	60%	↓
A Disclosure of Criminal Convictions form was not held on file for all successful applicants.	40%	60%	↓
Pre-employment Children's List checks had not been completed for employees who had not received Disclosure and Barring Service (DBS) clearance by their start date.	33%	53%	↓
An appropriate undertaking had not been completed.	33%	53%	↓
A central log of pre-employment checks was not maintained.	7%	0%	↑
There was a lack of documentary evidence to confirm that the Headteacher checked progress with clearance.	33%	20%	↑
The identity of new employees was not checked.	0%	0%	↔
DBS clearance was not confirmed for agency staff.	0%	0%	↔
Confirmation of medical clearance was not held on file for new employees.	27%	20%	↑

<b>Employees – Staff Recruitment</b>	<b>2013/14</b>	<b>2014/15</b>	<b>Direction of Travel</b>
Records relating to the interview and selection process for unsuccessful applicants were not retained for less than six months.	7%	20%	↓
<b>Employees - Payroll</b>	<b>2013/14</b>	<b>2014/15</b>	<b>Direction of Travel</b>
Payroll records were not held securely and access to the payroll provider was not controlled.	0%	7%	↓
Procedures were not documented for the administration of the payroll.	0%	27%	↓
The school did not have resilience for the administration of the payroll.	7%	13%	↓
All appointment, contract changes and leaver forms were not authorised by the Headteacher.	40%	33%	↑
Severance / Compensation / ex-gratia payments made to staff through Payroll were not approved and minuted by the Governing Body / approved by LEA.	13%	0%	↑
Safeguarding checks were not carried out for self employed individuals who were paid through the local bank account.	0%	0%	↔
Travel claims were not authorised by the Headteacher.	13%	20%	↓
<b>Employees – Variations to Contract</b>	<b>2013/14</b>	<b>2014/15</b>	<b>Direction of Travel</b>
Decisions relating to the Headteacher’s Performance Review were not recorded in the Governors minutes.	7%	20%	↓
Timesheets were not submitted in support of additional hours.	7%	33%	↓
Variation Returns were not authorised by the Headteacher.	20%	20%	↔
Additional payments such as SIP work and Honarariums were not approved by the Governors.	7%	0%	↑
<b>Employees – Payroll Checking and Monitoring</b>	<b>2013/14</b>	<b>2014/15</b>	<b>Direction of Travel</b>
The payroll was not checked to ensure that new starters or staff whose contracts had been changed had been paid correctly.	0%	13%	↓
The payroll was not checked to ensure that additional hours had been paid correctly.	0%	13%	↓
The Headteacher did not carry out a management check on the payroll reports.	20%	47%	↓
Payslips were not distributed by a member of staff who did not have payroll duties.	7%	0%	↑
Individual salary costs were not checked against the expected monthly totals.	0%	7%	↓
The salaries on SIMS and Oracle were not reconciled each month.	20%	13%	↑

<b>Own Payroll Schools</b>	<b>2013/14</b>	<b>2014/15</b>	<b>Direction of Travel</b>
A management check was not in place for the transfer of the BACS file.	<b>0%</b>	<b>0%</b>	<b>↔</b>
Monthly payments were not made on time to the relevant agencies.	<b>0%</b>	<b>0%</b>	<b>↔</b>
P60s were not issued to employees at the end of the tax year.	<b>0%</b>	<b>0%</b>	<b>↔</b>
HMRC year end returns were not submitted on time.	<b>0%</b>	<b>0%</b>	<b>↔</b>

## **2.2 Good Practice**

**Areas of good practice are listed at Appendix 1.**

## **2.3 Main recommendations**

For each of the issues identified we have made suggested recommendations in the accompanying action plan. When schools comply with the advice given, this will positively improve the control environment and aid the Authority in its ability to effectively manage its risks.

## **2.4 Acknowledgement**

We would like to take this opportunity to thank all members of staff whom we contacted during the course of this review for their time and assistance.

## Findings and Management Responses

Area Risk Level	Key Findings	Recommendations	Management Comments / Agreed Actions	Timescale / Owner
<p>1.</p> 	<p><b><u>Employees – Staff Recruitment</u></b></p> <p>Twelve of the fifteen schools audited had purchased LGSS Recruitment Services. A ‘Disclosure of Criminal Convictions’ form was not held on file for successful applicants in nine of the twelve relevant schools.</p> <p>DBS clearance had not been confirmed for a number of employees prior to their start date in nine of the fifteen schools. Pre-employment Children’s List Checks and appropriate undertakings were not held on file in eight of these schools.</p> <p>Two references had not been obtained for a number of new employees in nine of the fifteen schools.</p> <p>Although all of the fifteen schools maintained a Single Central Record (SCR) to monitor progress with DBS clearance; there was a lack of documentary evidence to confirm that the Headteacher checked the SCR in three of these schools.</p>	<p>In order to comply with the NCC HR Recruitment Policy, Financial Regulations and The Department for Education (DFE) Statutory Guidance, schools should be strongly advised to:</p> <ul style="list-style-type: none"> <li>• ensure that all pre-employment checks are completed;</li> <li>• ensure that an appropriate undertaking is held on file when applicable; and</li> <li>• ensure that appropriate management checks are in place to monitor these processes.</li> </ul> <p>The NCC Medical Clearance Procedure states the following:</p> <p><i>No-one should be allowed to take up appointment until medical clearance is obtained from the Council’s Medical Adviser. If this advice is not followed not only could the children’s health be at risk but the Council may find itself in the invidious position of having deprived a person of employment.</i></p>	<p>Governors Newsletter and direct correspondence to all clerks will highlight recommendations.</p> <p>The Transactions Service issued the following communication to all schools by email on 16/07/15:</p> <p><i>As the local authority, we have a safeguarding duty to ensure the safety of all children within our schools.</i></p> <p><i>This requires that the correct mandatory checks have been carried out on employed staff within our schools to ensure this safety. With your co-operation, we can ensure that we have a safe recruitment policy to not only protect all children, but also the reputations of both the school and the local authority.</i></p>	<p>Actioned June 15 - Rose Kinley Leadership &amp; Governance Manager.</p> <p>Actioned July 15 - Transactions Service.</p>

Area Risk Level	Key Findings	Recommendations	Management Comments / Agreed Actions	Timescale / Owner
	<p>Sample testing identified that twelve of the fifteen schools had employed Teachers who had qualified after 1999. Four of these schools did not hold an Induction certificate on file for the relevant Teachers.</p> <p>Schools that fail to carry out these critical pre-employment checks increase the risk of employing barred and / or unqualified individuals who lack integrity, which undoubtedly puts the safety and welfare of the children in their school at risk.</p> <p>The impact of these risks could include inappropriate and illegal activity, which could result in legal action, reputational damage and financial loss to the school.</p> <p>Medical clearance was not held on file for a number of employees in three of the fifteen schools audited.</p> <p>Failure to obtain medical clearance for new employees may put the children's health at risk and may result in employing staff who are unfit.</p>	<p><i>This situation could arise if a candidate resigns in order to take up an appointment with the Council before medical clearance is obtained and the appointment is then subsequently refused on medical grounds.</i></p> <p>Appropriate checks should be completed to ensure that employees have been medically cleared.</p> <p>In order to comply with Financial Regulations and the Data Protection Act, schools should be strongly advised to:</p> <ul style="list-style-type: none"> <li>• ensure that records relating to the interview and selection process for unsuccessful applicants are retained for six months only.</li> </ul>	<p><i>Please can you therefore ensure that staff do not start employment without the relevant checks being fully completed first. In particular these include the Children's Barred List, a new DBS clearance (we will not accept a portable DBS clearance, unless the individual has signed up to the DBS Update Service), Medical clearance and receipt of 2 relevant references. We will require confirmation from schools that the mandatory checks have all taken place. Without this confirmation we will be unable process new starter details onto our payroll system or issue employment contracts, which may result in a delay in salary being received.</i></p> <p><i>If anyone has any queries or needs further guidance on this matter please do not hesitate to contact us further.</i></p> <p><i>Can you please reply to this email to acknowledge that you understand the findings of the audit and the mandatory recruitment requirements.</i></p>	

Area Risk Level	Key Findings	Recommendations	Management Comments / Agreed Actions	Timescale / Owner
	<p>Records relating to the interview and selection process for unsuccessful applicants had been retained for longer than six months in three of the fifteen schools audited.</p> <p>Principle 5 of the Data Protection Act – Retaining Personal Data, highlights the following risk area:</p> <ul style="list-style-type: none"> <li>Information will go out of date, and outdated information will be used in error - to the detriment of all concerned.</li> </ul>		<p><i>The audit report can be found at <a href="http://www.northamptonshire.gov.uk/en/councilservices/educationandlearning/services/schlfin/pages/auditinformation.aspx">http://www.northamptonshire.gov.uk/en/councilservices/educationandlearning/services/schlfin/pages/auditinformation.aspx</a></i></p> <p>The Transactions Service issued the following communication to all schools by email on 20/07/15:</p> <p><i>Good afternoon, Following on from our message sent last week, please can you ensure a fully completed Risk Assessment form is submitted in the absence of a completed DBS check. Without this we will be unable to process new starter details onto our payroll system or issue employment contracts, which may result in a delay in salary being received.</i></p>	

Area Risk Level	Key Findings	Recommendations	Management Comments / Agreed Actions	Timescale / Owner
<p>2.</p> 	<p><b><u>Employment of Relatives</u></b></p> <p>Seven of the fifteen schools audited employed staff who were related. Two of these schools could not demonstrate that an appropriate segregation of duties was in place for the payment of staff who were related.</p> <p>An appropriate segregation of duties is critical to effective internal control; it reduces the risk of both fraud and inappropriate activity.</p>	<p>In order to comply with Financial Regulations, schools should be strongly advised that:</p> <ul style="list-style-type: none"> <li>• an appropriate segregation of duties must be in place for all financial processes; and</li> <li>• no individual should authorise any payments relating to themselves or a relative.</li> </ul>	<p>Governors Newsletter and direct correspondence to all clerks will highlight recommendations.</p> <p>LGSS Schools Finance to update schools of this requirement via:</p> <ul style="list-style-type: none"> <li>• Finance Matters; and</li> <li>• Finance Seminar.</li> </ul>	<p>Actioned June 15 - Rose Kinley Leadership &amp; Governance Manager.</p> <p>September 15 / November 15 – LGSS Schools Finance.</p>

Area Risk Level	Key Findings	Recommendations	Management Comments / Agreed Actions	Timescale / Owner
<p>3.</p> 	<p><b><u>Employees – Payroll</u></b></p> <p>Appointment, contract changes and leaver forms were not always authorised by the Headteacher in five of the fifteen schools audited.</p> <p>Travel claims were processed in ten of the fifteen schools, however, the travel claim forms were not appropriately authorised in two of the ten relevant schools.</p> <p>Four of the fifteen schools did not have documented payroll procedures in place and two of the fifteen schools did not have resilience for the payroll administration.</p> <p>Fraudulent activity / errors could occur if paperwork is not appropriately authorised by the Headteacher / senior management.</p> <p>There is a risk that the payroll will not be processed securely, accurately or on time if schools do not have documented procedures / resilience in place.</p>	<p>In order to comply with Financial Regulations, schools should be strongly advised that:</p> <ul style="list-style-type: none"> <li>• all appointment, contract changes and leaver forms must be appropriately authorised;</li> <li>• travel claims should be completed and appropriately authorised; and</li> <li>• documented procedures / resilience should be in place for the payroll administration.</li> </ul> <p>LGSS HR, Payroll and Recruitment Services place reliance on the quality and accuracy of payroll data submitted by schools and therefore any data errors will impact on the payroll service provided. Schools should be reminded of this to ensure that sufficient controls are in place to ensure that payroll data is accurate.</p>	<p>Governors Newsletter and direct correspondence to all clerks will highlight recommendations.</p> <p>The Transactions Service will issue reminders of the process to be adhered to for schools utilising the LGSS payroll offering and their obligations with regards to control checks.</p>	<p>Actioned June 15 - Rose Kinley Leadership &amp; Governance Manager.</p> <p>September 15 – Transactions Service.</p>

Area Risk Level	Key Findings	Recommendations	Management Comments / Agreed Actions	Timescale / Owner
<p>4.</p> 	<p><b><u>Employees – Variations to Contract</u></b></p> <p>Decisions relating to changes to the Headteacher’s pay following their performance review were not recorded in the Governors minutes in three of the fifteen schools audited.</p> <p>There is a risk that the Headteacher may be awarded an unauthorised and inappropriate pay increment if such details are omitted from the Governors minutes.</p> <p>Timesheets were not appropriately authorised in five of the fifteen schools audited and variation returns had not been appropriately authorised in three of the fifteen schools.</p> <p>There is a risk that fraudulent activity / errors could occur if paperwork is not appropriately authorised by the Headteacher / senior management.</p>	<p>In order to comply with Financial Regulations, schools should be strongly advised to:</p> <ul style="list-style-type: none"> <li>• ensure that decisions relating to the Headteacher’s pay are formally approved by the Governing Body; and</li> <li>• ensure that all timesheets and variation returns are appropriately authorised.</li> </ul> <p>LGSS HR, Payroll and Recruitment Services place reliance on the quality and accuracy of payroll data submitted by schools and therefore any data errors will impact on the payroll service provided. Schools should be reminded of this to ensure that sufficient controls are in place to ensure that payroll data is accurate.</p>	<p>Governors Newsletter and direct correspondence to all clerks will highlight recommendations.</p> <p>The Transactions Service will issue reminders of the process to be adhered to for schools utilising the LGSS recruitment / payroll offerings and their obligations with regards to control checks.</p>	<p>Actioned June 15 - Rose Kinley Leadership &amp; Governance Manager.</p> <p>September 15 – Transactions Service.</p>

Area Risk Level	Key Findings	Recommendations	Management Comments / Agreed Actions	Timescale / Owner
<p>5.</p> 	<p><b><u>Employees – Payroll Checking and Monitoring</u></b></p> <p>In two of the fifteen schools audited, there was a lack of documentary evidence to confirm that the Bursar / School Business Manager checked the payroll reports to confirm if new starters, staff whose contracts had changed and additional hours had been paid correctly.</p> <p>Ten of the fifteen schools audited had purchased LGSS Payroll Services. Appropriate checks were not evidenced on the payroll validation reports in three of the ten schools. In addition, an appropriate management check was not evidenced on the payroll validation reports in seven of the ten schools.</p> <p>In seven of the fifteen schools there was no evidence that the payroll reports had been presented to the Headteacher for a management check to be completed.</p> <p>Appropriate preventative and detective controls must be in place if School Management are to reduce the risk of fraud, budget overspends and reputational damage to the school.</p> <p>Such controls include a segregation of duties and appropriate management checks on financial reports.</p>	<p>In order to comply with Financial Regulations and the Schools Financial Value Standard, schools should be strongly advised to:</p> <ul style="list-style-type: none"> <li>• carry out appropriate checks on all of the payroll reports;</li> <li>• present the payroll reports to the Headteacher who should complete a management check and sign the reports to confirm this has been done;</li> <li>• ensure that a segregation of duties is in place for all financial activities; and</li> <li>• ensure that the salaries on SIMS and Oracle are reconciled each month.</li> </ul> <p>LGSS HR, Payroll and Recruitment Services place reliance on the quality and accuracy of payroll data submitted by schools and therefore any data errors will impact on the payroll service provided. Schools should be reminded of this to ensure that sufficient controls are in place to ensure that payroll data is accurate.</p>	<p>Governors Newsletter and direct correspondence to all clerks will highlight recommendations.</p> <p>School s Finance during SLA visits to check salaries are reconciled by school and that checks exist on payroll reports and have been presented to the Head.</p>	<p>Actioned June 15 - Rose Kinley Leadership &amp; Governance Manager.</p> <p>Ongoing – LGSS Schools Finance.</p>

Area Risk Level	Key Findings	Recommendations	Management Comments / Agreed Actions	Timescale / Owner
	<p>There was a lack of documentary evidence that the salaries on SIMS and Oracle were reconciled each month in two of the fifteen schools.</p> <p>There is a risk that schools may incur an adverse variance on the budget if salaries are not reconciled each month.</p>			

## **Appendix 1 – Areas of Good Practice**

**Good practice identified - Percentages represent the proportion of schools in the sample.**

### **GOVERNANCE**

- ✓ The committee that dealt with personnel issues had appropriate Terms of Reference in place (93%);
- ✓ The responsibility for appointing staff, creating new posts and re-grading of staff had been appropriately delegated (93%);
- ✓ Headteachers reported regularly to Governors on staffing changes and issues (93%);
- ✓ Governors had agreed a Pay policy for the school (100%);
- ✓ Governors had adopted the NCC Whistle Blowing policy (100%);
- ✓ Staff had been made aware of the Whistle Blowing policy (93%);
- ✓ At least one member of the Recruitment Panel had attended Safer Recruitment training (93%); and
- ✓ Personnel records were retained for the appropriate time (100%).

### **EMPLOYEES – STAFF RECRUITMENT**

- ✓ Personnel files were stored in a secure area (100%);
- ✓ Qualifications were checked / held on file for qualified staff (100%);
- ✓ The SENCO Coordinator was a qualified Teacher who had either achieved, or was working towards achieving the SENCO qualification (where applicable – 100%);
- ✓ Schools maintained a central log of pre-employment checks (100%);
- ✓ The identity of new employees was checked (100%); and
- ✓ DBS clearance was confirmed for agency staff (where applicable - 100%).

### **EMPLOYEES – PAYROLL**

- ✓ Payroll records were held securely and access to the payroll provider was appropriately controlled (93%); and
- ✓ Safeguarding checks were carried out for self employed individuals who provided services to the school (100%).

### **EMPLOYEES – VARIATIONS TO CONTRACT**

- ✓ Additional payments such as SIP work and Honarariums were approved by the Governors (100%).

### **EMPLOYEES – PAYROLL CHECKING AND MONITORING AND OWN PAYROLL SCHOOLS**

- ✓ Salary costs were checked for accuracy each month (93%); and
- ✓ Adequate controls were in place in the two schools where they processed their own payroll (100%).

## Appendix 2 – Level of Assurance

Internal Audit gives an overall opinion on the level of assurance provided by the controls within the area audited. The level of assurances are defined below:

### Level of Assurance Definition

Full Assurance	There is a sound system of control designed to address the relevant risks with controls being consistently applied.
Substantial Assurance	There is a sound system of control, designed to address the relevant risks, but there is evidence of non-compliance with some of the controls.
Moderate Assurance	Whilst there is basically a sound system of control, designed to address the relevant risks, there are weaknesses in the system, that leaves some risks not addressed and there is evidence of non-compliance with some of the controls.
Limited Assurance	The system of control is weak and there is evidence of non-compliance with the controls that do exist which may result in the relevant risks not being managed.
No Assurance	There is no system of internal control. Risks are not being managed.

## Findings and recommendations

### Prioritisation key

When assessing findings and recommendations reference is made to the Risk Management matrix which scores the impact and likelihood of identified risks.

For ease of reference, we have used a colour code system to prioritise our findings and recommendations, as follows:

	<p>Significant internal control weakness requiring priority action by School Management and/or the Governing Body. Such a control may be a legal requirement, or there may be the possibility of fraud or significant financial loss.</p> <p>The action is critical to the system of internal control and should be implemented immediately.</p>		<p>A modification or addition to the School's internal controls, necessary to safeguard assets and ensure the accuracy and reliability of records. Additionally matters that could be classified as red will be classified as amber if the sums of money involved are not material and the matter relates to a technical issue only.</p> <p>The action has a significant effect on the system of internal control and should be implemented as a matter of priority.</p>		<p>A more minor modification of current systems to further improve the School's internal controls.</p>
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