

LGSS Audit & Risk Management Service

Internal Audit Report

Purchasing and Payments Thematic

Audit of Primary Schools – 2014/15

Client Children, Families and
Education

Issued to Paul Blatern,
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Date 28th November 2014
Lead Auditor Heather Fraser
Status of report Final
Internal Audit Opinion Limited Assurance
Audit Committee Date 26th February 2015

Executive Summary

Assurance Summary

Process Area	No	Limited	Moderate	Substantial	Full
Ordering Goods and Services					
Payment for Goods and Services					
Procurement Card					
Petty Cash					
Leasing					
Local Bank Account					
BACS Payments					
Overall					

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 Purchasing and Payments in Primary Schools during the period July to October 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 the 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, 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 Purchasing and Payments; 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 schools to ensure compliance with statutory requirements, Council policy and other relevant codes of practice; and
- To assess whether the systems and procedures in place safeguard the assets and interests of the schools and Council.

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 Headteacher, Bursar and Chair of Governors were provided with a short summary report for presentation to the Governing Body.

2.1 Main conclusions

Based on the completion of our fieldwork we are giving **limited** assurance for the purchasing and payment processes carried out in the Primary Schools within our sample. Whilst the testing found improvements for some of the controls (39%), there are control weaknesses in specific areas, particularly with regards to a policy for quotations and tenders being applied, appropriate authorisation of Headteachers' card statements and monitoring the sequential use of cheques. It is disappointing to report that the same control weaknesses were also identified during the 2013/14 thematic audit. These areas of control are fundamental to the purchasing and payments process and the Schools Financial Value Standard (SFVS). Governing Bodies have a formal responsibility for the financial management of their schools and so the Standard, which is a statutory requirement, is primarily aimed at governors.

The Schools Financial Management Handbook contains all of the necessary regulation to ensure a sound control environment. However, the audit has found that some of the required controls are either not in place or are not being complied with in several schools, resulting in a weak control environment.

The assurance level given also reflects the fact that this lack of control increases the risk of fraud. All schools should adhere to the regulations in the Schools Financial Management Handbook which is available on the LGSS Schools Finance Website.

The table below provides a comparison of key weaknesses identified in 2013/14 and 2014/15, percentages are based on a sample of fifteen school audits unless stated otherwise. The number of instances in our sample is provided in the detailed findings later in the report.

Ordering Goods and Services	2013/14	2014/15	Direction of Travel
Governors' had not agreed a policy for when quotations and tenders should be obtained.	0%	20%	↓
There was a lack of documentary evidence to show that this policy was being applied.	40%	33%	↑
A contract register was not in place in the school.	47%	47%	↔
There was a lack of documentary evidence that School Management demonstrated to Governors' that they had sought best value.	53%	27%	↑
Orders were not raised for goods and services in advance or were not appropriately authorised.	67%	80%	↓
Goods ordered over the internet were not subject to the same controls i.e. orders were not authorised.	82% (11 Schools)	57% (14 Schools)	↑
Payment for Goods and Services	2013/14	2014/15	Direction of Travel
Checks were not in place / evidenced to ensure that the School only paid for goods and services it had received.	20%	0%	↑
The school did not ensure that VAT was only reclaimed when appropriate VAT invoices were received.	7%	0%	↑
Procedures were not in place to ensure that invoices were appropriately authorised.	0%	0%	↔
There was a lack of documentary evidence to confirm that the cheque signatories checked the cheques they signed to the invoices.	0% (14 Schools)	7%	↓
The Bursar was not aware of the appropriate checks to be completed to confirm the self employed status of individuals providing services to the school.	20%	7%	↑
If these payments had been made, these checks had not been completed.	67% (9 Schools)	53%	↑

Procurement Card	2013/14	2014/15	Direction of Travel
There was a lack of documentary evidence that the Governors' had approved maximum limits for the schools procurement card and the card holders.	56% (9 Schools)	25% (12 Schools)	
Appropriate controls were not in place for the security of the procurement card.	0% (9 Schools)	0% (12 Schools)	
Appropriate records were not maintained and controls were not in place for the authorisation of the card statement each month.	67% (9 Schools)	75% (12 Schools)	
Petty Cash	2013/14	2014/15	Direction of Travel
There was not an agreed level of Petty cash float.	0% (12 Schools)	0% (11 Schools)	
The petty cash account was not checked and reconciled regularly to ensure that the cash balances were correct.	25% (12 Schools)	30% (10 Schools)	
A management check was not in place on this process.	17% (12 Schools)	20% (10 Schools)	
Petty cash purchases were not authorised before staff were reimbursed.	8% (12 Schools)	0% (10 Schools)	
Reimbursed individuals did not sign to confirm receipt of monies.	17% (12 Schools)	0% (10 Schools)	
The schools accounts were not updated with petty cash transactions on a regular basis.	0% (12 Schools)	20% (10 Schools)	
Leasing	2013/14	2014/15	Direction of Travel
The school could not demonstrate that value for money was sought for any leases it had signed. Comparative costs were not obtained for the equipment and for financing the lease.	27% (11 Schools)	27% (11 Schools)	
The school could not provide evidence to confirm that the NCC Asset Purchase Scheme had been considered as an alternative to leasing (Testing introduced in 2014).	N/A	90%	N/A
Local Bank Account	2013/14	2014/15	Direction of Travel
The school's bank account mandate had not been kept up to date.	13%	13%	
Spoiled and cancelled cheques were not retained.	0% (14 Schools)	0%	
The manual cheque book stub did not show who the cheque was made payable to, the amount and the date.	0%	0%	

Local Bank Account (continued)	2013/14	2014/15	Direction of Travel
There was no evidence of the control over the sequential use of manual cheques.	27%	14% (14 Schools)	
There was no evidence of the control over the sequential use of printed cheque stationery.	44% (9 Schools)	44% (9 Schools)	
The bank reconciliation was not checked by the Headteacher each month.	7%	7%	

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>Ordering Goods and Services</p> <p>In three of the fifteen schools audited, the Governors had not agreed a policy to confirm when quotations and tenders should be obtained.</p> <p>Five of the fifteen schools were unable to provide documentary evidence to confirm that alternative quotations had been obtained for high value purchases. In addition, two of these schools had not followed a formal tendering process for purchases above £20,000 in line with Financial Regulations at the time of the audit.</p> <p>School management did not demonstrate to Governors' that best value had been sought in four of the fifteen schools audited and official orders were not always raised appropriately in twelve of the fifteen schools.</p> <p>Fourteen of the fifteen schools ordered goods over the internet; however, these purchases were not subject to appropriate controls in eight of the fourteen schools.</p> <p>It is considered good practice for schools to have a contract register in place, however, an appropriate register was not in place in seven of the fifteen schools audited.</p>	<p>Financial Regulations state that alternative quotations should be obtained for all high value purchases to demonstrate that value for money has been sought.</p> <p>Schools should be advised that:</p> <ul style="list-style-type: none"> • two written quotations should be obtained for goods or services over £1000 and less than £10,000 in value; • three written quotations should be obtained for goods or services over £10,000 and up to £30,000; • goods and services over £30,000 are subject to a formal tender process; and • evidence should be retained in the school to prove that best value has been sought and to demonstrate this to the Governing Body. <p>In addition to this, official (SIMS) orders must be raised for all goods and services with the exception of utilities, rents, rates and telephones.</p>	<p>Agreed - Alternative quotations / contract register included in November 14 seminars / Official orders to be included in March 15 seminars.</p> <p>Governors will be informed in the monthly support update with a link to the audit report.</p>	<p>November 14 / March 15 - LGSS Schools Finance.</p> <p>December 14 – Rose Kinley.</p>

Area Risk Level	Key findings	Recommendations	Management Comments / Agreed actions	Timescale / Owner
	<p>Schools will be in breach of Financial Regulations and may fail to achieve value for money if an appropriate purchasing policy is not in place and / or adhered to.</p> <p>If alternative quotations are not obtained and reviewed by Governors' in accordance with their Scheme of Delegation, schools will be unable to demonstrate that value for money has been sought.</p> <p>There is a risk that inappropriate goods or services will be purchased and disputes with suppliers may arise if official orders are not raised and authorised in a timely manner.</p> <p>School budgets may go into deficit if expenditure is not captured on the SIMS system at the point of requisition.</p>	<p>Schools should be advised that:</p> <ul style="list-style-type: none"> official orders should be raised at the point of requisition; a copy of the signed order should be retained in the school to facilitate cross referencing with the goods delivered and also to evidence who has authorised the order; and goods ordered over the internet should be subject to the same controls in that purchases should be authorised in advance, official orders should be raised / authorised and the school should make payment, not the individual. <p>It is also recommended that schools should have a contract register in place which details the supplier name, contract start / end dates and the total value of the contract.</p>		
<p>2.</p> 	<p><u>Payment for Goods and Services</u></p> <p>Fourteen of the fifteen schools audited were aware that additional checks were required to confirm the self employed status of individuals providing services to the school; however, no additional checks had been carried out in eight of the fourteen schools.</p> <p>Schools that do not comply with HM Revenue and Customs guidance could be fined for not doing so.</p>	<p>Schools should be advised that they must check the employment status of all individuals who supply services to the school. Guidance on the self employed status of individuals should be consulted and is held on the Extranet within LGSS Payroll and Recruitment Services / Policies and Guidance.</p>	<p>Agreed - To be included in March 15 seminars.</p> <p>Governors will be informed in the monthly support update with a link to the audit report.</p>	<p>March 15 - LGSS Schools Finance.</p> <p>December 14 – Rose Kinley.</p>

Area Risk Level	Key findings	Recommendations	Management Comments / Agreed actions	Timescale / Owner
<p>3.</p> 	<p>Procurement Card</p> <p>Twelve of the fifteen schools audited had a procurement card / cards in place; however, the Governors had not approved maximum limits for the procurement card / cards and the card holders in three of these schools.</p> <p>Although appropriate records were maintained, adequate controls were not in place for the authorisation of the Headteacher's card statements in nine of the twelve schools.</p> <p>There is a risk that fraudulent activity may occur if procurement cards are not authorised by the Governors and funds may not be spent appropriately if adequate segregation of duties are not in place for the authorisation of the card statements each month.</p>	<p>Schools should be advised that Financial Regulations state that:</p> <ul style="list-style-type: none"> • Governors' should approve maximum limits for the schools procurement card / cards and the card holders; and • the receipts and statement for the Headteacher's card should be checked and authorised by the Chair of Governors / Chair of Finance Committee. 	<p>Agreed - To be included in March 15 seminars.</p> <p>Governors will be informed in the monthly support update with a link to the audit report.</p>	<p>March 15 - LGSS Schools Finance.</p> <p>December 14 – Rose Kinley.</p>

Area Risk Level	Key findings	Recommendations	Management Comments / Agreed actions	Timescale / Owner
<p>4.</p> 	<p>Petty Cash Ten of the fifteen schools audited operated a petty cash system.</p> <p>There was a lack of documentary evidence to demonstrate that the cash in hand was checked and reconciled regularly in three of the ten schools and two schools did not have an appropriate management check in place for this process.</p> <p>There is a risk that monies may be misappropriated or lost if these controls are not in place.</p>	<p>Schools should be advised that:</p> <ul style="list-style-type: none"> the cash in hand should be reconciled on a termly basis (monthly if petty cash is used on a regular basis) and the SIMS report should be printed and signed to confirm that this check is in place; and the Headteacher should sign the SIMS report to confirm that a management check has taken place on the reconciliation process. 	<p>Agreed - To be included in March 15 seminars.</p> <p>Governors will be informed in the monthly support update with a link to the audit report.</p>	<p>March 15 - LGSS Schools Finance.</p> <p>December 14 – Rose Kinley.</p>
<p>5.</p> 	<p>Leasing Eleven of the fifteen schools audited had lease agreements for equipment.</p> <p>Three of these schools could not demonstrate that value for money had been sought for the lease agreements and nine schools had not considered the NCC Asset Purchase Scheme as an alternative to leasing.</p> <p>There is a risk that if schools do not compare leasing / purchasing costs they may not achieve value for money.</p>	<p>Schools should be advised that when leasing equipment:</p> <ul style="list-style-type: none"> Schools considering leasing equipment as an alternative to outright purchase should ensure that value for money is sought by obtaining alternative quotations for the cost of equipment and the cost of financing the lease; and A comparison of costs should be made with purchasing the equipment or by utilising NCC’s Asset Purchase Scheme – details are contained in the NCC Scheme for Financing Schools. 	<p>Agreed - To be included in March 15 seminars.</p> <p>Governors will be informed in the monthly support update with a link to the audit report.</p>	<p>March 15 - LGSS Schools Finance.</p> <p>December 14 – Rose Kinley.</p>

Area Risk Level	Key findings	Recommendations	Management Comments / Agreed actions	Timescale / Owner
<p>6.</p> 	<p>Local Bank Account</p> <p>An up to date mandate was not held on file in two of the fifteen schools audited.</p> <p>Fourteen of the fifteen schools audited had a manual cheque book; however, two of these schools did not have systems in place for monitoring the sequential use of manual cheques.</p> <p>In addition, nine of the fifteen schools audited had printable cheque stationery; four of these schools did not have systems in place for monitoring the sequential use of these cheques.</p> <p>Schools may not have appropriate cheque signatories in place if an up to date mandate is not held on file.</p> <p>Unauthorised / fraudulent activity could go undetected if School Management does not monitor, review and authorise the sequential use of cheques.</p>	<p>Schools should be advised that Financial Regulations state that:</p> <ul style="list-style-type: none"> • an up to date mandate should be held on file in the school; • control should be exercised over all cheques issued including ensuring that cheques are used in a systematic manner and in number sequence. School Management should sign the manual cheque book stub to confirm that this management check is in place; and • the current cheque run report and the previous cheque run report should be provided to the cheque signatories in order for them to be able to confirm the sequential use of cheque stationery. 	<p>Agreed - To be included in March 15 seminars.</p> <p>Governors will be informed in the monthly support update with a link to the audit report.</p>	<p>March 15 - LGSS Schools Finance.</p> <p>December 14 – Rose Kinley.</p>

Area Risk Level	Key findings	Recommendations	Management Comments / Agreed actions	Timescale / Owner
<p>7.</p> 	<p><u>BACS Payments</u> Three of the fifteen schools audited processed BACS payments. It was noted that an appropriate management check was not carried out on bank account changes in one of these schools.</p> <p>Unauthorised / fraudulent activity could go undetected if School Management do not review / authorise the bank account changes.</p>	<p>The Authoriser is required to substantiate all bank account changes using the previous and current SIMS audit trail reports in the following manner:</p> <ul style="list-style-type: none"> • check that the 'To' date of the previous report is the same as the 'From' date of the current report; • on the 'Current SIMS Supplier Audit Trail', any changes in bank details are to be checked to ensure that there is appropriate documentation supporting all bank account or sort code changes (i.e. on the invoice or by a signed form held in the office Suppliers Folder); and • sign and date the current 'SIMS Supplier Audit Trail' to confirm that you have reviewed and authorised the changes. 	<p>Agreed - To be included in March 15 seminars.</p> <p>Governors will be informed in the monthly support update with a link to the audit report.</p>	<p>March 15 - LGSS Schools Finance.</p> <p>December 14 – Rose Kinley.</p>

Appendix 1 – Areas of Good Practice

Good practice identified

Payment for Goods and Services:

- ✓ Checks were in place to confirm that schools only paid for goods and services they had received;
- ✓ Schools ensured that VAT was only reclaimed when appropriate VAT invoices were received;
- ✓ Procedures were in place to ensure that invoices were appropriately authorised; and
- ✓ Cheque signatories checked the cheques they signed to the invoices.

Procurement Card:

- ✓ Appropriate controls were in place for the security of procurement cards.

Petty Cash:

- ✓ Agreed levels of petty cash were in place;
- ✓ Petty cash purchases were authorised before staff were reimbursed; and
- ✓ Reimbursed individuals signed to confirm receipt of monies.

Local Bank Account:

- ✓ Spoiled and cancelled cheques were retained;
- ✓ Cheque book stubs included details regarding who the cheque was made payable to, the amount and the date; and
- ✓ Bank reconciliations were completed each month and management checks were in place.

BACS Payments:

- ✓ Appropriate reports / documentation were provided to the Authoriser;
- ✓ Appropriate management checks were in place for the BACS transfer file;
- ✓ The BACS transfer file was released by the Headteacher; and
- ✓ Smart cards and PIN numbers were held securely.

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 a 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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