



STOCKPORT
METROPOLITAN BOROUGH COUNCIL

School Audit Visits 2019/20

Summary of Findings Report

Final Report Distribution list:

School Business Managers - All Schools

Prepared by:

John Pearsall (Head of Internal Audit, Risk and Insurance)

Wendy Christie (CSS Manager – Internal Audit)

Statement of Responsibilities

We take responsibility for this report which is prepared on the basis of the limitations set out below. The matters raised in this report are only those which came to our attention during the course of our internal audit 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. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rest with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity.

The audit process is generally dependent upon the existence of an effective system of internal control. There is always a risk of an internal control system failing to operate as designed. There are inherent limitations as to what can be achieved by an internal control system. Any system of internal control may be ineffective against fraud involving collusion among employees or fraud committed by management, for instance management overriding controls, faulty judgement in decision making processes or breakdown in controls due to human error.

No matter how well designed and operated, sound internal control systems can only provide reasonable assurance and not absolute assurance that objectives have been, and will continue to be, met. Furthermore there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in the future. Such inherent limitations of internal control systems also contribute to inherent limitations of an audit. Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance, any assessment of internal control is judgmental.

Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their records and transactions for the purposes of our audit work and to ensure the authenticity of documents.

1. Introduction

- 1.1 This report details a Summary of Findings from the 20 schools audited in the 2019/20 financial year. This is the 2nd year that we have prepared a summary report following the audit of schools.
- 1.2 The aim of this report is to communicate to all schools the key and recurring issues, risks and subsequent recommendations made from these audits. A further objective is that the report will help facilitate discussion between schools and clusters and to encourage best and consistent practices around the management of control and risk.
- 1.3 The key recurring issues are current budget forecasts showing a deficit position, insufficient number of quotes obtained during the procurement process, issues with authorised signatories, policies and procedures not being reviewed or updated, the need to ensure there is a clear purpose if running loss making breakfast clubs and that it is approved by governors, and not having lettings agreements in place with appropriate liability insurance.
- 1.4 This year we have reported on some new issues, namely the need to ensure that overtime claims are authorised by the appropriate officer and that appropriate action is taken promptly to address the issues following health & safety inspection on gates and barriers.
- 1.5 If you have any further queries please contact one of the Internal Audit Team as follows:
 - John Eaves, john.eaves@stockport.gov.uk
 - Wendy Christie, wendy.christie@stockport.gov.uk

2. Summary of Findings

- 2.1 Overall, we consider that the current control environment around governance, financial planning & budgetary control, payroll management, procurement, income and bank accounts are operating well within schools and address the majority of risks.
- 2.2 We were satisfied that there are appropriate budget monitoring procedures in place. However, we did note, that increasingly an issue for schools is that current budget forecasts show that the school will be in a deficit position in future years, consequently this is a key risk that needs to be managed on an ongoing basis to avoid it materialising.
- 2.3 The Governing Body and the Finances / Resources sub-committee meets regularly and review of the minutes of their meetings and supporting documentation showed detailed challenge of the school's activities, particularly the financial management arrangements. We did report at a couple of schools, a lack of separate Finance / Resources Committee. Consequently there is a risk that sufficient time is not afforded to detailed oversight of the school's finances. Best practice and Schools Financial Value Standard states that each school should have a dedicated Finance / Resources Committee.
- 2.4 A review of a sample of procurement exercises showed that three competitive quotes were not always obtained nor was there evidence of discussion and approval by Governors. In addition a number of schools has had long contractual arrangements with existing suppliers which had not been subject to review or re-tendering. We consider that this is an area where the arrangements can be improved.

- 2.5 Whilst we were satisfied with the arrangements for authorised signatories at most schools, we have identified that schools either had only 2 authorised signatories and the School Business Manager (SBM) and support staff as an authorised signatory on the school bank account. As the SBM are also involved in the other elements of the procurement and payment process, we have recommended that these arrangements are reviewed with a view to them being removed as a signatory or to be used on exception basis only. Support staff are not considered to be of sufficient seniority to approve payments.
- 2.6 We are of the opinion that the unofficial fund at most schools are also administered to the same high standards and controls as the main account. The accounts have also been subject to an external audit, which has been presented to the governing board for approval. However, we found issues at some schools around the accounting for income and expenditure through the unofficial fund and being unclear about the usage and purpose of these funds. A couple of unofficial funds were not up to date and therefore no independent audit had been conducted.
- 2.7 A review of the Declaration of Business Interests for Governors showed that in the main these had been completed at most schools with just a few still outstanding at some schools and we recommend that these are followed up.
- 2.8 We found some schools that have a number of plans and policies that are in need of review and update. Consequently, we recommended that these schools arrange for its plans and policies to be reviewed and updated on a regular basis and submitted to the respective committee for approval.
- 2.9 A review of the arrangements for the administration and accounting of the monies relating to the Breakfast Club at some schools identified that there is a need for a more robust audit trail to be in place to confirm that all monies can be fully accounted for. We also identified that at some schools, the Breakfast Club is being run on a loss making basis. We have recommended that this matter should be reported to the Governing Board for decision.
- 2.10 We identified some issues around cash handling procedures at a number of schools with high volumes of cash being taken to the bank by members of staff. This presents inherent risks specific to cash collection, storage and movement. We recommended that schools should review its cash collection arrangements with a view to implementing an electronic payment system.
- 2.11 On the whole, lettings arrangements at schools were satisfactory but we did find at some schools that they did not always have the evidence that hirers of school premises have signed an agreement and provided evidence of liability insurance.
- 2.12 The detailed findings from the school visits are summarised in Appendix A.

No.	Finding	Risk	Priority	Recommendation
1	<p>Future Budget Position</p> <p>At 6 of the school visits, we reported that we found the budget predictions / scenarios for the current and future years show expenditure exceeding income levels and a deficit budget arising if not already in place.</p>	Unsustainable budget pressures resulting in a need to set a deficit budget	High	We have recommended that the Head teachers, in conjunction with the Finance / Resources Sub-committee, continue to monitor future budget scenarios and risks to ensure that any shortfalls can be met. Any identified variances are challenged to a conclusion. Should the need arise; the most suitable mitigating actions to avoid a deficit budget are taken at the school.
2	<p>Procurement</p> <p>At a number of schools, we found some procurement practices which could be improved. These are set out below:</p> <ul style="list-style-type: none"> • 3 incidences where there was no evidence to support that sufficient quotations have been sought in procurement exercises. • 2 incidences where schools have procured services for a lengthy period of time (at least 5 years) and have not re-tendered to ensure value for money is being achieved. • 1 incidence where a service provider was contracted for a period of 3 years and payment was made upfront, instead of regular payments throughout the period. 	<p>Inability to demonstrate value for money and transparency</p> <p>Lack of evidence to demonstrate decision making and that best value is being achieved</p>	Medium	<p>We recommend that in instances where the school obtains competitive quotations to choose a supplier, such quotations should be retained on file as evidence.</p> <p>We recommend schools reviews the contracts it has with its suppliers to determine if they are getting value for money and if they should continue on the current basis. Contracts with the same provider should be kept to a maximum of 3 years before schools should go through a competitive procurement process and obtain quotes.</p> <p>A report on the quotations received and the preferred option(s) should be presented to the Resources / Finance committee for review and approval and the minutes should contain sufficient information on the discussion held during the committee meetings.</p>
3	<p>School Development Plan</p> <p>We found upon review of the School Development Plan at 6 schools, that where financial resources are required to achieve specified outcomes, these did not always include the financial details or</p>	Budgetary needs to meet the schools priorities may not be set aside.	Merits attention	Where applicable, the link between the required financial budget / resources to meet the targets in the School Development Plan should be included.

No.	Finding	Risk	Priority	Recommendation
	aligned to the budget.			
4	<p>Policies and Procedures</p> <p>We found that a small number of schools are not regularly reviewing their policies and procedures including the Finance Manual. In one incidence we found that the financial manual is inaccurate and does not adequately reflect the financial management arrangements and practices.</p>	Staff unaware of the processes to follow leading to an inconsistent approach applied by different staff	High	<p>We recommended that schools arrange for its plans and policies to be reviewed and updated on a periodic basis. They should then be submitted to the respective committee for approval.</p> <p>In particular the Finance Manual is reviewed and updated to reflect the current financial management arrangements.</p>
5	<p>Extended Provision</p> <p>At a number of schools, the Breakfast Club in operation is being run on a loss making basis.</p> <p>We also found in relation to the collection, recording and banking of Breakfast Club monies that the controls could be improved.</p> <p>There were a number of issues regarding the provision of an extra-curricular club at a school, where the club did not pay a fee to the school for the utilisation of the room, lack of clarity over fees charged to pupils and payments made to the provider, and no insurance cover in the place by the provider.</p>	<p>Lack of transparency and accountability.</p> <p>Unclear decision-making.</p> <p>No defence in the event of insurance claims.</p>	Medium	<p>If schools take the decision to run extended clubs on a loss making basis, governors should be made aware of these arrangements and decisions made whether to continue with these or approve these on the basis of being of benefit to pupils and the wider community. Annual financial reports on the income and expenditure of the extended clubs as well as the outcomes should be presented to the Governing Board.</p> <p>Any external suppliers providing extended clubs should comply with the school's policies e.g lettings policy and pay the appropriate fee. These arrangements should be formally documented e.g lettings hire form and providers should have the appropriate insurance cover in place and this must be verified by the school.</p> <p>Should the school be involved in running the extended club, they should ensure:</p> <ul style="list-style-type: none"> • There is appropriate segregation of duties in place between the financial aspects of the arrangements e.g. the collection and banking of the monies • Total monies collected each day should be recorded on the attendance sheet • Where monies are handed over from one member of staff to another, this should be evidenced in writing and both staff sign to confirm the amount being handed over for safe-keeping and banking. • Appropriate supporting records are maintained to support any payments to the provider.

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6	<p>Authorised signatories</p> <p>At a number of schools, the School Business Manager is included as an authorised signatory on the school's bank account in addition to other nominated staff. In one case, support staff involved in the procurement and payment process were named as bank signatories.</p>	<p>Lack of separation of duties when raising POs and processing invoices for payment</p> <p>Inadequate separation of duties leading to inappropriate expenditure being incurred</p>	Medium	<p>We recommend that a review of the authorised signatories is undertaken, and that the school's bank is liaised with to ensure there are three official signatories and that they are of sufficient seniority.</p> <p>We also recommend that the School Business Manager should be removed as signatory, due to their involvement in the procurement and payment process. If the School Business Manager cannot be removed, due to operational issues, the Finance Manual should reflect that the School Business Manager only signs cheques if absolutely necessary, on an exception basis.</p>
7	<p>Cash collection and banking</p> <p>At a number of schools, it was found that the levels of cash being banked were quite high. Due to staffing resources and workload, monies are not banked as frequently as it should. School staff are also required to take the monies to the bank unaccompanied. At one school, we found the School Business Manager was responsible for all aspects of the cash handling, receipting, reconciliation and banking duties.</p>	<p>Cash collection and storage is inherently risky.</p> <p>Possible misappropriation of monies.</p>	Medium	<p>Due to the inherent risks in the cash handling, storage and banking processes, we recommend that schools should review their cash collection and banking arrangements and explores the option of implementing an electronic payment methodology such as Parent Pay.</p> <p>In the meantime, schools should ensure that monies are banked on a more frequent basis and there should be clear supporting evidence to show that all monies received have been banked in full. Cash income records should include the recording of the daily amounts received, evidence of handovers and reconciliation checks in place to demonstrate that all monies collected are accounted for.</p>
8	<p>Inventories</p> <p>We reported issues with inventories at 8 schools. This included:</p> <ul style="list-style-type: none"> Schools not carrying out an annual physical check on assets back to the 	<p>School assets may be misappropriated or unaccounted for.</p> <p>Additional cost</p>	Merits attention	<p>We recommend that the school's inventory of assets and equipment is updated and maintained on an ongoing basis.</p> <p>In order to make the administration and annual checking less onerous it may be beneficial to set a minimum value for assets to be included in the inventory and for this to be approved by the Resources Committee.</p>

No.	Finding	Risk	Priority	Recommendation
	inventory to ensure these can be accounted for <ul style="list-style-type: none"> Schools not having an up to date inventory record. 	to the school of replacing any items that cannot be accounted for.		In addition, an annual independent check should be carried out and evidenced and the findings and any issues reported to the Resources Committee for information.
9	Purchase Orders At a number of schools, from our review of a sample of purchase orders examined it was found that these had not been signed and authorised by the Headteacher in advance of the orders being issued to the suppliers.	Inappropriate goods / services being procured. Commitment accounting system not being utilised resulting in expenditure being understated.	Merits attention	We recommend that all purchase orders are authorised by the person with the delegated powers where possible in advance of goods / services being procured.
10	Unofficial school funds We reported on unofficial school fund matters at 5 schools. These issues were: <ul style="list-style-type: none"> Administration & record keeping of school fund is not up to date and therefore no independent audit has been conducted Lack of independent oversight, and mixing of income & expenditure between the school fund and main account, inappropriate payment processes including lack of separation of duties Excess funds of £20,000 and at the time of the audit, the school had not formally agreed how this would be 	Monies may not be fully accounted for Potential misappropriation	Medium to merits attention	Administration & record keeping should be up to date and annual audits should be undertaken. Schools should review their current arrangements for the monies that are processed and accounted for through the unofficial school fund. This could include the following: <ul style="list-style-type: none"> Decisions on the purpose / usage of the fund to be reviewed and approved by Governors; Ensuring that only income relating to the school fund is credited to this account; A clear and adequate audit trail is maintained to support monies being moved between the school fund and main account.

No.	Finding	Risk	Priority	Recommendation
	<p>spent</p> <ul style="list-style-type: none"> Duplicate record keeping 			
<p>11</p>	<p>Lettings arrangements</p> <p>We found couple of incidences where there are long standing letting agreements in place but that this had not been reviewed recently and assurance was not obtained regarding appropriate insurance cover.</p> <p>There was also an incidence where there were no formal documented letting agreement in place and where there were, this was not always signed by both parties.</p>	<p>Income is not being maximised.</p> <p>The school is at risk from insurance claims being made against them.</p>	<p>Medium</p>	<p>The lettings agreement should clearly state that the hirer must make their own insurance arrangements.</p> <p>For all lettings the Hirer is required on an annual basis to complete and sign an 'agreement to hire' form and submits a copy of an up to date personal liability insurance policy certificate.</p> <p>The fees to be charged, should be subject to review and approval by governors on an annual basis and the decision formally minuted.</p>
<p>12</p>	<p>Declaration of interests</p> <p>We raised issues at 8 schools concerning declaration of interests.</p> <ul style="list-style-type: none"> At three schools, the annual declaration of interests were not published on the school website in accordance with the DfE requirements and the Governing Body code of conduct. At four schools, declaration of 	<p>Reputational risk if it perceived that there is a lack of transparency</p> <p>Lack of transparency and accountability</p>	<p>Merits attention</p>	<p>We recommend that any 'declarations of interests' for governors are published on the schools website at the earliest opportunity, and updated where there are any changes in circumstances and annually thereafter.</p> <p>We recommend that Governors and staff who are involved in the procurement process are reminded of the need to complete and return their 'declarations of interest' form to the Headteacher on a prompt and timely basis.</p>

No.	Finding	Risk	Priority	Recommendation
	interests were outstanding for some governors and staff.			
13	<p>Overtime claims</p> <p>We found that staff claims for overtime are not subject to review and authorisation by the Headteacher.</p> <p>We also found incidences at a school where claims for overtime were being approved by independent staff who were not authorised to do so.</p>	<p>Inadequate separation of duties in place leading to potential for inappropriate / inflated payments being made.</p>	Medium	We would recommend that all overtime claims are subject to review and approval by the Headteacher prior to processing for payment by the School Business Manager
14	<p>School meals</p> <p>At 3 schools, the monthly invoices received from the school meals provider are not subject to any checks to confirm that the number of meals the school is being billed for is correct.</p> <p>There is no evidencing of the total monies being received each day and placed in the safe and no evidence of reconciliations to confirm that the total monies being banked is correct.</p>	<p>Supplier may invoice for more meals than they have actually provided.</p> <p>Monies could be misappropriated and go unnoticed.</p>	Merits Attention	We recommend that the school establishes a process whereby the invoices from the school meals provider are checked to independent supporting records to ensure that they are correct before processing them for payment. Any queries should be discussed with the supplier prior to payment being made.
15	<p>Benchmarking</p> <p>At 3 schools, benchmarking exercises had not either been carried out, or where it was carried out, this was based on limited costs categories.</p>	<p>The governors are unaware of whether the staffing costs being incurred are reasonable</p>	Medium	<p>We recommend the school fully utilises the benchmarking information published by the School's Finance Team to carry out an annual benchmarking exercise of its staff costs against comparable schools.</p> <p>A report of the findings and data with explanations should be then submitted to the full Governing Body for information, review and challenge.</p>

No.	Finding	Risk	Priority	Recommendation
		are not. Value for money not being attained. Challenge from Governors not in place.		
16	<p>Governance matters</p> <p>At a couple of schools, we found that there is no resources committee established, instead financial monitoring reports were presented directly to the Governing Board. We did not find sufficient evidence in the minutes to support adequate discussion and challenge of budgetary matters and financial issues by committee members.</p> <p>This was also mirrored in a couple of other schools' resources committee minutes.</p>	Insufficient time afforded to financial issues increasing the likelihood of financial risks materialising.	Medium	<p>Best practice and Schools Financial Value Standards suggest a Finance / Resources sub group is better placed to review, understand and offer detailed challenge of the financial performance of the school. To this effect, we have recommended that schools should establish a Finance / Resources Committee with clearly defined term of reference. Meetings should take place at least termly, with meeting minutes taken.</p> <p>In addition, the school should review the effectiveness of the Governing Board meetings with a view to ensuring that the meeting minutes include sufficient details of the budgetary or financial issues discussed at the meetings.</p>
17	<p>Health and safety</p> <p>At one school, we found an external contractor provided an inspection report which showed a number of gates and barriers did not meet the required safety standards and required attention to ensure they did not pose a hazard to pupils or staff. At the time of the audit, these actions were still outstanding.</p> <p>In addition, schools did not maintain any maintenance register, to identify when the</p>	<p>Reputational risk to the school if they do not maintain a safe environment for pupils and staff.</p> <p>Possible injury to pupils or staff.</p>	High	<p>We recommend that the school takes appropriate action to ensure that the gates and barriers that do not meet the required safety standards are addressed as a matter of priority.</p> <p>We would also recommend that the school implement a maintenance register to capture all items of equipment that require routine servicing, maintenance and inspection to ensure that they meet the required safety standard. This register should be routinely reviewed as part of any Health & Safety reviews walk around by the school staff and the responsible governor. Any issues identified should be documented and reported to the Governing Board so that appropriate action can be taken on a timely basis.</p>

No.	Finding	Risk	Priority	Recommendation
	inspection was due or had taken place, to allow independent review.	Lack of defense in the event of any prosecution or insurance claims.		