



SOMERSET
County Council

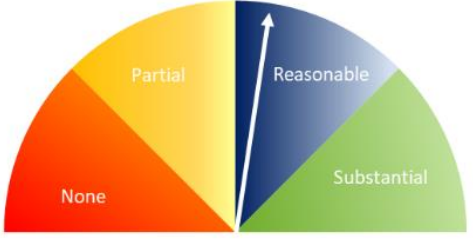


School Expenditure 2019/20

Final Theme Report

Issue Date: 23rd September 2019

Executive Summary

Audit Opinion		Recommendation Summary	
	<p>We are able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed, but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.</p>	Priority	Number
		Priority 1	0
		Priority 2	1
		Priority 3	5
		Total	6

Audit Conclusion

Eight schools were visited in total for this themed review, with two being given an audit opinion of Partial assurance and the remainder received a Reasonable opinion. As can be seen from the individual opinions given, standards were fairly consistent across the schools visited. We were pleased with the positive attitude to recommendations made as a result of the audit process and whilst there were some issues of greater concern at two schools, we are satisfied that they were exceptions and overall, most areas reviewed were found to be adequately controlled.

All schools visited as part of this theme have been issued with an individual report and, where issues have been identified, an action plan has been set out with agreed changes to enhance the control framework in place to support transparent and effective purchasing procedures.

Some areas of good practice were also identified:

- Procurement Cards and Imprest Funds were all found to be securely held;
- Authorisation of invoice payment batch headers was complete and timely and amounts to be paid were agreed;
- VAT was found to be accurately accounted for across all purchases tested.

We have made six recommendations in this report, where we have identified that the Local Authority should issue reminders to schools regarding expected procedures. One priority two recommendation has been raised where an issue of greater concern exists, for schools to ensure that wherever possible, they raise a purchase order on the Financial Management System to ensure there is a budgeted and approved commitment for all planned expenditure. There were low levels of purchase orders raised at six schools, as reported under paragraph 1.3. In addition to the risks highlighted there, this practice also compromises the extent to which a clear separation of duties can be achieved.

By implementing the recommended actions of this report, the Local Authority will have greater assurance that all schools have received a timely reminder of expected standards and that practices are in line with requirements.

Background

As part of the 2019/20 Internal Audit Plan, a themed review of the purchasing process in schools was carried out. Themed school reviews focus on a particular subject across a sample of schools, with results being consolidated into a report for the Local Authority and Schools Forum. Where good practice or common weaknesses are identified, the Local Authority will disseminate the information to other schools to ensure weaknesses can be rectified and best practice shared.

The purpose of the audit is to provide assurance to the local authority that schools comply with legal and regulatory requirements and have effective procedures to safeguard against fraudulent or improper use of public money.

Having adequate arrangements in place to guard against fraud and theft by staff, contractors and suppliers is one of the questions that make up the Schools Financial Value Standard (SFVS). Schools manage substantial sums of public money and consequently require a robust control framework to ensure funds are safeguarded and also to ensure that best value is obtained.

The audit sought to verify the degree to which schools comply with local and regulatory requirements, there is a clear understanding of the requirements and whether arrangements are effective. Please see the Scope section of this report for the specific areas reviewed.

It was also decided to include two specific outcomes from our 2018/19 audit of Combatting Tax Evasion, in which we found that

- the majority of Construction Industry Scheme related invoices received by SCC are in respect of maintained schools, which therefore require school staff to have a reasonable understanding of the Scheme in order to ensure the correct treatment;
- a high proportion of the invoices for wage payments to workers or contractors who should be subject to tax and National Insurance deductions as per IR35 legislation are in respect of services engaged by maintained schools.

We therefore agreed to test a sample of payments to suppliers and providers that fall under these two areas of legislation, to establish whether they were treated correctly and that there is an adequate understanding of requirements within schools.

This report is primarily intended to assist the Local Authority with their responsibilities in relation to school expenditure in Somerset. It therefore draws attention to any areas where risks may not be appropriately controlled and improvements in the internal control system would be beneficial.

The conclusion section above records our overall opinion on the adequacy of the internal control framework and its effectiveness of operation.

Corporate Risk Assessment

Objective

To assess the extent to which there are adequate purchasing controls to safeguard against fraudulent or improper use of public money and ensure compliance with legal and regulatory requirements.

Risk	Inherent Risk Assessment	Manager's Initial Assessment	Auditor's Assessment
1. Loss of public money as a result of fraud or misappropriation, or failure to secure value for money.	Medium	Medium	Low
2. Penalties incurred due to non-compliance with regulatory and statutory requirements.	Medium	Medium	Low

Scope

Individual school visits were carried out in eight schools, seven of which were primary and one junior school. The sample of schools was a random selection by Internal Audit, based on a combination of suggestions by Children's Financial Services and also our own records of schools who have not been included in an audit theme in recent years.

Visits were carried out during June and July 2019. Our evaluation was based on evidence collected during our visits, together with the key documents and records requested prior to the audit visit.

The areas assessed were:

- Finance Policy and documented procedures covering all major purchasing requirements
- Purchase orders, invoices, authorisation, quotations and tenders, separation of duties
- Contracts
- Procurement Cards/Imprest Accounts (where held)
- Compliance with the Construction Industry Tax Scheme, payments made to individuals and IR35, and VAT requirements.

At each school we selected a sample of purchases made over the past twelve months and sought evidence that all required procedures had been complied with.

As each school's Governing Body has a responsibility to ensure that adequate procedures and controls are in place, each school received their own audit report, to which they were required to respond and detail how they intended to address any weaknesses identified.

Findings and Outcomes

Summary of Control Framework

The expected controls are:

- The school has a Finance Policy and documented procedures that cover all major purchasing requirements;
- Official purchase orders are raised for all applicable goods and services and are approved by an authorised signatory;
- Expenditure above a pre-determined amount is subject to additional authorisation and quotations/tenders;
- There is a separation of duties between placing orders, processing and approving payments;
- All invoices are certified, paid correctly and are authorised by an approved signatory;
- Contracts are in place where appropriate and checks are undertaken to ensure that payments are made in accordance with approved contracts;
- Purchase card and imprest transactions are approved and there is authorised back-up documentation for all purchases made
- Regular reconciliations are completed;
- Purchase card restrictions are appropriately set and cards are held securely;
- Purchases falling within the Construction Industry Tax Scheme are identified and receive the correct treatment;
- Payments to individuals are made through the Payroll system and are compliant with IR35 regulations for the correct deduction of tax and National Insurance;
- VAT is reclaimed on the production of a valid HMRC compliant invoice.

1.	Loss of public money as a result of fraud or misappropriation, or failure to secure value for money.	Low
-----------	---	------------

1.1 Finding and Action		
Issue	Risk	
There is a lack of evidence that supplier selection had been subject to a competitive process in line with the Finance Policy.	There is a risk that value for money is not achieved and there is reduced transparency over the selection of suppliers.	
Findings		
The Finance Policy requires that schools obtain three written quotations for all purchases above a specified threshold and also that for contracts from £75,000 up to the European Union Threshold, two tenders should be obtained. A record should be kept of how and from whom the tenders are sought, what tenders are received, who the successful tender is and any reason for not accepting the lowest tender.		
At each school we selected a sample of purchases and requested evidence of the supplier selection process for those which exceeded the quotations and tender thresholds.		
Four schools were unable to demonstrate that for recent high-level purchases, they had consistently followed the requirement to obtain three written quotes and comply with the tender process for expenditure above the relevant thresholds. Records were examined and no evidence of the written quotations or tenders were held on file.		
Recommendation		
We recommend that Service Manager – Management Accounting ensures that a reminder is issued to all schools via the School Forum, of the requirement to comply with and retain evidence for written quotations and tenders for all purchases above the specified threshold.	Priority Score	3
Agreed Action	Timescale	Oct 19 – Apr 20
<ul style="list-style-type: none"> A report will be presented to Schools Forum highlighting the issues, findings and recommendations for actions to be taken. A themed audit summary will be uploaded to iPost after half term following the Schools Forum meeting for all schools to access. The themed audit summary will be brought to the attention of Business Managers and Finance Officers at the subsequent ADL Meeting. The Model Finance Policy will be reviewed and enhanced in April 2020 highlighting the areas of concern i.e. Governors to call for purchase reports to check that transactions have been approved at the correct level and/or that 3 quotes have been obtained when appropriate. 	Responsible Officer	Schools' Finance Manager / Finance Officer

- The themed audit summary will be shared with governance boards at the next chairs' meetings and on the service website.

SSE-Governance
Service Manager

1.2 Finding and Action		
Issue	Risk	
Prior approval for purchases, including those above the governor approval threshold could not be evidenced in all cases.	There is reduced assurance of value for money, appropriate oversight and increased reputational risk of collusion or corruption in supplier selection.	
Findings		
To ensure that schools obtain best value for money and that expenditure is appropriately authorised, the Finance Policy requires that schools identify a number of Authorised Signatories, who must review and approve purchases prior to orders being placed and to also set a threshold for purchases to receive additional prior approval from governors.		
From the testing samples selected at schools, purchase orders were reviewed along the governors' meetings minutes to verify that prior approval for the purchases had been given.		
Confirmation of approval by an Authorised Signatory was not found for a number of purchases at one school. Governor approval was not found in the meeting minutes reviewed at five schools.		
One further school received a recommendation to review the threshold set for governor approval, because it did not reflect typical levels of expenditure and had meant that governors had had oversight of only a few purchases in the past twelve months.		
Recommendation		
We recommend that Service Manager – Management Accounting ensures that a reminder is issued to all schools via the School Forum, of the requirement to for prior approval to be obtained from Authorised Signatories and governors for all purchases above the thresholds within the school's Finance Policy, and that approval is clearly documented.	Priority Score	3
Agreed Action	Timescale	Oct 19 – Apr 20
<ul style="list-style-type: none"> A report will be presented to Schools Forum highlighting the issues, findings and recommendations for actions to be taken. A themed audit summary will be uploaded to iPost after half term following the Schools Forum meeting for all schools to access. The themed audit summary will be brought to the attention of Business Managers and Finance Officers at the subsequent ADL Meeting. The Model Finance Policy will be reviewed and enhanced in April 2020 highlighting the areas of concern i.e. Governors approval of purchases – appropriate levels of approval to be set for the size of the school, exclude invoices which are already part of a signed contract or have already been specifically included within the schools' approved budget plan. 	Responsible Officer	Schools' Finance Manager / Finance Officer

- Outcomes from the audit will be shared with clerks, for minuting purposes, and chairs of governance boards via the service half termly bulletin and the autumn term chairs' meetings.

SSE Governance
Service Manager

1.3 Finding and Action		
Issue	Risk	
Purchase orders are not routinely raised for all relevant goods and services requested from contractors and suppliers.	There is reduced assurance of authorisation to spend. Illegitimate purchases may be made or budget overspends may occur due to lack of financial commitment via purchase orders until invoices are received.	
Findings		
<p>The school's Finance Policy requires that requisition forms (purchase orders) must be completed to ensure all expenditure is included in the budget plan and that there is formal approval that adequate funds are available to make the purchase. Permitted exemptions are for supplies of public utility services, items purchased through petty cash of not more than £100 in value, rental payments and staff reimbursements.</p> <p>The school's Supplier Account Status Reports for 2018-19 and 2019-20 were reviewed to verify whether purchase orders were raised for all applicable goods and services supplied to the school.</p> <p>At six schools we found a low levels of purchase orders being raised for planned expenditure. Whilst there were some exemptions and reasonable explanations, we reminded schools that if an order is not raised the following controls will be missing:</p> <ul style="list-style-type: none"> • Authorisation by the budget holder; • Evidence of an approved record to check the invoice back to; • A commitment on the finance system; and • The binding to SCC's terms and conditions. 		
Recommendation		
We recommend that Service Manager – Management Accounting ensures that a reminder is issued to all schools via the School Forum, of the requirement for purchase orders to be raised for all relevant goods and services requested from contractors and suppliers, to enable effective financial management of the school's budget.	Priority Score	2
Agreed Action	Timescale	Oct 19 – Apr 20
<ul style="list-style-type: none"> • A report will be presented to Schools Forum highlighting the issues, findings and recommendations for actions to be taken. • A themed audit summary will be uploaded to iPost after half term following the Schools Forum meeting for all schools to access. • The themed audit summary will be brought to the attention of Business Managers and Finance Officers at the subsequent ADL Meeting. 	Responsible Officer	Schools' Finance Manager / Finance Officer

- The Model Finance Policy will be reviewed and enhanced in April 2020 highlighting the areas of concern i.e. telephone orders – though still discouraged, if these are used an order should be placed retrospectively if over £100.
- The themed audit summary will be shared with governance boards at the next chairs' meetings and on the service website.

SSE Governance Service
Manager

1.4 Finding and Action		
Issue	Risk	
Not all primary services supplied to schools are supported by contracts that have been signed and dated by both parties.	A lack of contractual agreement may result in unidentified overcharging and reduced clarity of the exact provision of services expected from providers.	
Findings		
<p>Schools commonly agree contracted provision for the following services:</p> <ul style="list-style-type: none"> • Catering • Cleaning • Grounds maintenance • Photocopiers • IT support <p>We asked each school to provide evidence of the contractual agreements they have in place, to verify whether a written contract exists that explains the work performed and all outputs expected, the time period covered and rate of pay.</p> <p>Three schools were unable to evidence all of their arrangements with providers had been formally agreed and there were issues where contracts were not in place, a copy was not held, or copies had not been signed.</p> <p>Not having a signed contract in place also means that there is no clear process to confirm that invoices received by the school agree to expected delivery, fees and timescales.</p>		
Recommendation		
We recommend that Service Manager – Management Accounting ensures that a reminder is issued to all schools via the School Forum that formal contracts should be agreed for all primary services, so that they are documented with the full terms and conditions of the agreed service, including the period covered, and duly signed and dated by both parties.	Priority Score	3
Agreed Action	Timescale	Oct 19 – Apr 20
<ul style="list-style-type: none"> • A report will be presented to Schools Forum highlighting the issues, findings and recommendations for actions to be taken. • A themed audit summary will be uploaded to iPost after half term following the Schools Forum meeting for all schools to access. • The themed audit summary will be brought to the attention of Business Managers and Finance Officers at the subsequent ADL Meeting. • The Model Finance Policy will be reviewed and enhanced in April 2020 highlighting the areas of concern i.e. Governors to check contracts register annually to ensure it is complete. 	Responsible Officer	Schools' Finance Manager / Finance Officer

- The themed audit summary will be shared with governance boards at the next chairs' meetings and on the service website.

SSE Governance Service
Manager

1.5 Finding and Action		
Issue	Risk	
Schools do not require staff to complete annual declarations for the Register of Business Interests.	There is a risk that personal or private interests may have influenced purchasing decisions, and this may lead to challenge over the process for supplier selection and awarding contracts.	
Findings		
<p>Schools should ensure that all authorised signatories and staff with financial responsibility are required to declare all business interests, including those of family and close friends, which may present a potential conflict. The declaration of business interests form should be completed on an annual basis and entered into the official Register, which must be available for public inspection at the school.</p> <p>We requested evidence of annual declarations made by staff and governors at all schools, in order to verify that all suppliers have been selected with robust controls in place.</p> <p>Whilst all governors had completed annual declarations and evidence was held at seven schools, we found that two schools were not aware that staff with financial responsibilities should also complete a declaration and at one other school, the Register was being held at the home of the Clerk to Governors and therefore not available for the audit.</p>		
Recommendation		
We recommend that Service Manager – Management Accounting ensures that a reminder is issued to all schools via the School Forum to ensure that annual declarations of business interests are obtained from all staff and that they are retained in the school's Register of Business Interests.	Priority Score	3
Agreed Action	Timescale	Oct 19 – Apr 20
<ul style="list-style-type: none"> • A report will be presented to Schools Forum highlighting the issues, findings and recommendations for actions to be taken. • A themed audit summary will be uploaded to iPost after half term following the Schools Forum meeting for all schools to access. • The themed audit summary will be brought to the attention of Business Managers and Finance Officers at the subsequent ADL Meeting. • The Model Finance Policy will be reviewed and enhanced in April 2020 highlighting the areas of concern i.e. Clerks to ensure that the Business Interest register has been completed by all staff having a financial responsibility. • The themed audit summary will be shared with governance boards at the next chairs' meetings and on the service website and a reminder via the half termly bulletin that staff with financial responsibility must complete register of business interests. 	Responsible Officer	<p>Schools' Finance Manager / Finance Officer</p> <p>SSE Governance Service Manager</p>

2.	Penalties incurred due to non-compliance with regulatory and statutory requirements.	Low
-----------	---	------------

2.1	Finding and Action
------------	---------------------------

Issue	Risk
There is a limited understanding of the requirements of the Construction Industry Scheme.	Invoices may not be identified that fall within the scope of the Construction Industry Scheme, leading to potential non-compliance with the process for assessing the taxable status of construction suppliers.

Findings

Under the Construction Industry Scheme (CIS), all payments made from a contractor to a subcontractor must take account of the subcontractor's tax status as determined by HMRC.

In order to comply with the Scheme, schools are expected to identify the type of work that may fall within the Scheme and discuss each supplier's taxable status prior to engaging them for service, so that the school will treat the supplier's invoice appropriately and in line with the correct tax status assessment. As such, school finance staff require a clear understanding of their responsibilities and the scope of the Scheme.

To verify whether the school has sufficient knowledge of and complies with the Local Authority process for assessing the taxable status of Construction Industry Scheme suppliers, the matter was discussed with relevant staff in each school. We also tested a sample of transactions with suppliers falling under the scheme and did not identify any errors, but this was largely due to reliance on the Accounts Payable team in Finance at County Hall.

Whilst all schools had some knowledge of the Scheme, some were unaware of the requirement to discuss the taxable status with potential suppliers and providers. There was a generally low level of understanding of the different taxable statuses and the implications of each. Schools generally advised that any queries they had would be directed to Accounts Payable, but there was a low level of awareness of where further guidance could be obtained.

Six schools received recommendations to ensure they familiarise themselves with guidance and direction to relevant links on the Gov.uk website was provided.

Recommendation

We recommend that Service Manager – Management Accounting ensures that a reminder is issued to all schools via the School Forum to ensure that schools improves their knowledge of the Construction Industry Scheme using the government guidance available.	Priority Score	3
--	-----------------------	----------

Agreed Action	Timescale	Oct 19 – Apr 20
----------------------	------------------	-----------------

- A report will be presented to Schools Forum highlighting the issues, findings and recommendations for actions to be taken.
- A themed audit summary will be uploaded to iPost after half term following the Schools Forum meeting for all schools to access.
- The themed audit summary will be brought to the attention of Business Managers and Finance Officers at the subsequent ADL Meeting.
- The Model Finance Policy will be reviewed and enhanced in April 2020 highlighting the areas of concern and provide links to the Gov.uk website regarding Construction Industry Scheme. Consideration will be given to producing a summary of the CIS that schools can more easily understand and which can be included in the Model Finance Policy.

Responsible Officer	Schools' Finance Manager / Finance Officer
---------------------	--

Audit Framework and Definitions

Assurance Definitions

None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Definition of Corporate Risks

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:

Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Authors and Distribution

Please note that this report has been prepared and distributed in accordance with the agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person or organisation.

Report Authors

This report was produced and issued by:

Jenny Frowde
Lisa Fryer

Lead Auditor
Assistant Director

Distribution List

This report has been distributed to the following individuals:

Adele MacLean
Jackie Cottey
Jane Hooper
Sharon Sweetnam
Ann Adams

Service Manager – Management Accounting
Finance Manager, Schools Funding & Accounting Team
Senior Finance Manager
Finance Officer, Schools Funding and Accounting Team
Service Manager – Governance Services