

My ref: Audit01/24

Your ref:

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Headteachers, Chairs of Governors of Cambridgeshire Maintained Schools

Dear colleagues

Following on from previous audits, Cambridgeshire County Council Internal Audit undertook a further programme of visits to 7 local schools in 2023/24, aiming to provide assurance over the operation and compliance with local financial management and governance controls in these settings.

Building on previous findings the Schools Finance Team have uploaded the “Consolidated Manual of Model Financial Procedures” and “Model Scheme of Financial Delegation” documents to: [Cambridgeshire Corporate Requirements - Learn Together \(cambsllearntogether.co.uk\)](https://cambsllearntogether.co.uk). These, plus a number of other guidance and regulatory documents, including the Scheme for Financing Schools, will be updated and republished by 31<sup>st</sup> March 2024.

In the interim however, as with last year, we felt it would be useful to share some of the key findings of the audits, recognising there will be operational differences within individual schools.

**Appendix 1** therefore provides a summary of some of the main findings and recommendations for schools to allow them to consider potential areas of improvement, but key headlines include requirements to:

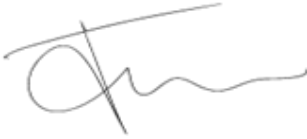
- Document approvals for payroll amendments and improved checking processes.
- Update and maintain asset registers.
- Have clear written procedures in place for all financial functions, including purchasing (and purchase card usage), payroll, debt recovery, collecting/banking cash, and maintaining asset registers.
- Seek and retain at least three quotes for all purchases of £5,000 or above.
- Update Whistleblowing Policies to include contact details for raising whistleblowing concerns within the Council. As a minimum, this should include the [whistleblowing@cambridgeshire.gov.uk](mailto:whistleblowing@cambridgeshire.gov.uk) email address.
- Update employees’ personnel files each time their terms of employment change.
- Take all the steps they can to move towards a fully cashless system

**Appendix 2** highlights examples of good practice observed during the audits which schools may wish to consider adopting.

We would ask that schools should review the identified recommendations with their Finance committee or equivalent to ensure best practice is being followed wherever possible.

If you have any questions or queries on any of the areas raised in the audit findings please speak to your Schools Financial Advisor in the first instance (where applicable) or email [bank.account@cambridgeshire.gov.uk](mailto:bank.account@cambridgeshire.gov.uk) .

Yours sincerely



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## Appendix 1 – Control and Compliance Gaps - Recommendations

Key Findings – Control and Compliance Gaps	Recommendation
<p>Payroll is a major risk area accounting for the majority of schools' budgets. It is therefore one of the most important areas reviewed in school auditing, and is a large factor in deciding the assurance opinions. It was found that the EPM system, which is used by 6/7 schools reviewed and the majority of schools in Cambridgeshire, cannot currently be configured to require an in-system approval by a second officer for all individual payroll amendments. One school used the Strictly Education system, which also did not require an in-system approval by a second officer. This significantly increases the risk of payroll fraud.</p>	<p>Schools should ensure that all off-system approvals for payroll amendments are documented (for example by email) and retained. Schools should also utilise the Payroll Costing Report, Previous Pay Comparison Report, and Payroll Audit report in their monthly payroll checking process.</p>
<p>3/7 schools did not employ the Previous Pay Comparison Report alongside the Costing Report in their monthly Payroll checking process. The Previous Pay Comparison Report available from EPM shows this comparison for all staff members every month, and clearly highlights any staff members whose pay has changed since the previous month so that it can be checked for accuracy, allowing all instances of error or fraud to be easily identified. It also notes the percentage value of any changes. As such, the Previous Pay Comparison Report is the more effective report of the two for checking variances and if the Previous Pay Comparison Report is used, EPM's Variance Report is not required.</p>	<p>Schools should download and review a Previous Pay Comparison Report from EPM every month as part of the payroll checking process, which presents a comparison of the current month's basic pay compared to the month prior for all staff. The report, along with the Costing Report, allows all staff pay variances to be identified and scrutinised. These reports should be recommended in the Council's corporate documents for schools.</p>
<p>This programme of audits revealed that the payroll service provider used by almost all Cambridgeshire schools, EPM, prescribes that schools should review the Payroll Audit Report monthly to identify fraudulent or erroneous payroll changes. Internal Audit has not observed this report being used at any schools. Utilising this report would strengthen schools' payroll control environment as it provides details of all amendments made in the payroll system that month, such as who has made amendments and when they were made. Reviewing the Payroll Audit Report in line with the expectations of EPM is especially important considering the risks outlined above. Without it, schools are not implementing the full set of controls against fraud that EPM prescribes.</p>	<p>In addition to the above recommendation, schools should also download and review a Payroll Audit Report every month as part of the payroll checking process. This report should also be recommended in the Council's corporate documents for schools.</p>

Key Findings – Control and Compliance Gaps	Recommendation
<p>2/7 schools visited did not have an asset register in place. Of the 5 schools that did have a register in place, 2 of the registers had not been kept up-to-date as assets have been procured and disposed of. As such, the registers' ability to act as an authoritative record is significantly diminished, and in the event of an insurance claim due to theft or loss, the asset register may not be able to be used as evidence due to not being up to date.</p> <p>5/7 of these schools did not have documented procedures for maintaining their registers, such as for adding and disposing of assets.</p>	<p>Internal Audit recommends that schools update asset registers whenever new valuable items enter the school or are disposed of. And that the Headteachers should undertake an annual reconciliation of assets to the register.</p> <p>Schools should also ensure they develop a clear written Asset Register procedure to ensure all assets are correctly recorded and dealt with, and that sufficient clarity is given for who is responsible for updating the register. Procedures should include the secure disposal/deletion of data.</p>
<p>5/7 schools did not have sufficient procedures in place regarding Government Procurement Card (GPC) payments. These schools had some procedures in place, but none of the procedures reviewed included the cards' transaction or monthly spending limits. Without clear, documented GPC procedures in place, there is a risk that responsibilities in relation to GPC usage, such as pre-approval or scrutiny of expenditure, may not be clear. Including the card's transaction and monthly spending limits provides the benefit of making the limitations of GPC expenditure clear to staff.</p>	<p>Schools should develop documented GPC procedures which include key procedures around spending limits. This should clearly include the card's spending limit for individual transactions and a monthly spending limit, to make it clear to purchasers that GPC spending is limited.</p>
<p>A goods receipting process, such as creating a goods receipt note or similar, ensures that payment is only made for goods and services which have been received in the same quantity and quality as was ordered. All 7 schools visited this year did not demonstrate a consistent goods receipting process for all purchases. This can be achieved simply through a clear signed note on the relevant invoice. This creates a risk that payment could be made for goods or services which have not been received. It also increases the risk of paying fraudulent invoices if payments are habitually made without a goods receipt note being in place.</p>	<p>Goods receipt notes or an equivalent record that services were provided as ordered should be created for all goods or services received before payment is authorised. This provides a clear trail of evidence in the event that what is received differs from what was ordered. If a pupil has not attended a trip or externally-provided lesson, then a goods receipting process enables the school to enquire about getting a refund for that pupil's place. It could also highlight re-occurring instances of the same pupil being absent from a trip or lesson and allow the school to consider whether to continue funding the placement.</p>

Key Findings – Control and Compliance Gaps	Recommendation
<p>Seeking three quotations for all purchases with a value of £5,000 or above is a requirement of the Council's Scheme of Financial Management. This is to ensure that the best value for money is always being obtained in the spending of public funds and to ensure fair supplier selection processes. Of the 6 schools reviewed which had made purchases over £5,000 in the last year, 5/6 schools could not provide evidence that three quotes had been sought for all purchases over £5,000.</p> <p>It is imperative that schools obtain three quotes for all purchases over £5,000, in case another supplier arises offering the same experience at better value for money. If one supplier is used repeatedly, there is a risk that they may abuse their dominant position unless alternative quotes are sought (e.g. for annual residential trips).</p>	<p>All purchases of £5,000 or above should have at least three quotes sought and retained. This includes repeat purchases such as residential trips, to ensure that the school is continuing to receive the best value for money, and to ensure fair supplier selection processes.</p>
<p>2/7 schools visited were lacking a standalone Scheme of Financial Delegation document, detailing which aspects of financial management have been delegated away from the full Governing Body and to whom in the school those responsibilities have been delegated. However, of the 2 schools which did not have a standalone Scheme of Financial Delegation, one had delegations of financial responsibilities detailed through their other financial procedures. The remaining school had a Terms of Reference outlining the financial responsibilities delegated to one of its committees only, which does not cover the financial responsibilities delegated to other staff in the school, such as the Headteacher.</p>	<p>Even if delegated financial responsibilities are detailed in other internal procedures, having a standalone Scheme of Financial Delegation allows the full Governing Body to be able to review and approve all delegations of power quickly and easily, without having to read entire financial procedures. As delegations of financial management responsibilities must be approved by the full Governing Body, having a standalone Scheme of Financial Delegation allows the approval of other procedural documents to be undertaken by other bodies if desired (for example, a Finance Committee).</p>
<p>It was found that 5/7 schools had gaps in their internal financial procedures (for example, having no documented internal procedures for debt recovery.) Compared to previous years, no schools provided CCC financial regulations in the belief that they are a substitute for the school having its own internal financial procedures.</p>	<p>Schools should have clear written procedures in place for all financial functions, including purchasing (and purchase card usage), payroll, debt recovery, collecting/banking cash, and maintaining asset registers. The Council's suite of Model Internal Financial Procedures includes models for most of these.</p>

Key Findings – Control and Compliance Gaps	Recommendation
<p>Due to the transfer to the new financial system, some schools were unable to produce budget monitoring reports through the system. The Schools Finance Team should ensure all maintained schools are aware of the uses of the new system and how to access reports previously used in the old system.</p>	<p>Schools should seek support from the Schools Finance Team if they do not feel confident using the new digital finance system to their required degree of functionality.</p>
<p>It was found at 2/7 of schools that, where there were employees who have been employed by the school for a number of years and have possibly been subject to scale point increases, there were discrepancies between staff members' salary listed on their personnel file and their actual current pay. This is due to the personnel files not being updated each time employees' terms of employment change.</p>	<p>Schools should update employees' personnel files each time their terms of employment change. For example, after a performance review results in a scale point increase. Pay increases due to inflationary uplifts do not need to invoke updates to files.</p>
<p>Holding copies of photo identification such as a passport on the personnel files of all staff members is a statutory requirement for schools under Keeping Children Safe in Education (KCSIE). One school visited this year did not have copies of photo ID held on file for the entire sample of three staff selected by Internal Audit. Another school did not have copies for one staff member in the sample of three. Retaining copies of documentation used to verify identity is important to verify that staff are who they say they are, and to reduce the risk of payroll fraud.</p>	<p>As required by Paragraph 276 of KCSIE 2023, the school should obtain copies of photo ID for all staff and ensure that these are retained on personnel files. This is required to ensure that the school is always able to verify that staff working are who they say they are, and to reduce the risk of payroll fraud.</p>
<p>Whilst not a corporate requirement, Schools' Financial Value Standard (SFVS) best practice recommends that schools have a Finance Committee (or equivalent) in place to facilitate detailed management and scrutiny of financial functions. Of the schools visited during this programme of audits, it was observed that 3/7 did not have a Finance Committee or equivalent in place.</p>	<p>Schools are encouraged to maintain a Finance Committee or equivalent. The full Governing Body at any school has many other responsibilities, and so having a Finance Committee helps to ensure that financial matters are not overlooked in favour of other issues managed by the Governing Body.</p>
<p>The CCC Whistleblowing Service is available to all Council employees, including school staff. Whilst most school Whistleblowing Policies mentioned that you can contact members of the Local Authority to raise whistleblowing concerns, it was observed that 6/7 schools' Whistleblowing Policies did not provide any contact details for County Council Officers including Internal Audit, or for the CCC Whistleblowing Service.</p>	<p>Whistleblowing Policies should be updated to include contact details for raising whistleblowing concerns within the Council. As a minimum, this should include the <a href="mailto:whistleblowing@cambridgeshire.gov.uk">whistleblowing@cambridgeshire.gov.uk</a> email address, but schools may also wish to include other contact details listed in the CCC Whistleblowing Policy.</p>

Key Findings – Control and Compliance Gaps	Recommendation
<p>Another common control gap observed at 6/7 schools sampled, was that contractors working at schools are not routinely being made to show proof of valid liability insurance before beginning their work. Often, the reason given for this was that the contractors were procured through an agency which commits to ensuring that all contractors have necessary insurance cover. However, in order to definitively verify whether contractors actually have appropriate liability insurance, schools should obtain and review proof of the cover themselves.</p>	<p>All contractors should be made to provide proof of valid liability insurance before being allowed to carry out any work at the school. For long-term or repeat contractors, this should be requested on an annual basis. Where contractors are procured via an agency, it is acceptable for the agency to provide copies of insurance documents for the school to review. This requirement should be reflected in purchasing procedures.</p>
<p>An issue became apparent with regard to key documents and evidence, such as signed contracts or expenditure approvals, only being retained by schools in electronic email records. When the staff involved in those emails leave the school, the information held in their email accounts is lost. This creates a risk that evidence such as contracts, agreements or approvals are not available to refer to when needed.</p>	<p>Schools should keep a shared filing space for contracts which can remain accessible to key staff regardless of whether Officers leave the school.</p>
<p>7/7 schools were still accepting cash in some cases, in particular when families had no access to online systems. Schools were also accepting cash when carrying out fundraising events. In all cases, online or bank payments were the preferred method for the school; however, cash was still accepted. Schools should support and encourage their remaining parents who make cash payments in using another method of payment, and then cease to accept any cash payments when all parents have alternative payment options. All 7 schools have the ability to fully eliminate cash payments and the associated risks.</p> <p>3/7 schools reviewed did not have a written procedure relating to collecting, recording and banking cash. The remaining 4 schools had some procedures, however, there were gaps in these procedures and key responsibilities were not made clear, such as the separation of duties during the collection, recording, and banking process.</p>	<p>Schools should take all the steps they can to move towards a fully cashless system. For families who struggle to use digital systems, schools should support and encourage their remaining parents who make cash payments in using another method of payment such as bank transfer or online payment, and then cease to accept any cash payments when all parents have alternative payment options. This would mitigate risks associated with the handling and banking of cash.</p> <p>The use of online donation systems, such as Just Giving, should be expanded to all fundraising activities, to ensure that all donations are cashless.</p>

Key Findings – Control and Compliance Gaps	Recommendation
<p>The audit identified inconsistent evidence of advance approval of purchases and separation of duties in the purchasing process. Non-compliance in this area increases the risk of fraud as well as potentially impacting on schools' budget monitoring if known commitments are not entered on schools' finance systems. In particular, for all 7 schools, there was a lack of evidence of purchase orders being raised and authorised for all purchases, to evidence expenditure being approved and to commit it against the school's general ledger in advance of payment. There was also a lack of goods receipting processes to verify and record that goods and services have actually been received before the associated invoices are certified for payment.</p>	<p>For all purchases of goods or services, an order form should be raised and signed by two people including the required approver, to evidence separation of duties in the expenditure approval process. The only exception to this requirement are for genuine emergencies, which are outlined in section 2.7.1 of CCC's Contract Procedure Rules. Additionally, a goods receipt note or equivalent record should be in place for all purchases of goods or services before they are authorised for payment. This is to ensure that payment is only made for goods or services which have been received in the same quantity and quality as ordered, and to reduce the risk of fraud.</p>
<p>It was found that 2/7 schools were not complying with the statutory requirement of having declarations of interest for all Governors available on the school website, updated within the last year. It is a statutory requirement to ensure that this information is publicly available. For full transparency, Internal Audit also recommend that the Headteacher and other key finance staff such as the School Business Manager should also publicise their declarations of interest.</p>	<p>Schools should obtain declarations of interest from all Governors and key finance staff at the school. These must be published on the school's website and updated on an annual basis. Publication of Governors' interests is a statutory requirement.</p>



## Appendix 2 – Good Practice Observed at Schools

### Good Practice Observed at Schools

#### Contractor Information log:

One school visited this year maintains a 'Property Companies Insurance Information' document which holds information relating to contractors who have worked at the school. This includes the required proof of insurance and included information such as a DBS requirement. This is an example of good record keeping and mitigates the risk of uninsured contractors operating at the school.

#### Sharing Budgetary Reports with Governors:

One example of good practice was observed at a school which opted to communicate monthly Budget Monitoring Reports to all members of the Governing Body by email, every month. This allowed the school to go beyond the SFVS best practice recommendation for Governors to undertake budget monitoring activities six times per year. Schools which have been struggling to meet the SFVS best practice guidance of having Governors monitor the school budget at least six times per year may want to consider incorporating this procedure into their own practices, to facilitate more frequent overview, scrutiny and questions around the school budget by Governors.

#### Goods Receipt Stamp:

One school visited was considering a process for conveniently confirming what goods/services had been received as ordered before verifying an invoice for payment (i.e., a goods receipting process). They judged that the easiest way for them to do this will be to have a stamp created which states that all the goods/services recorded on the invoice were received as listed, and has boxes for the person checking the order to add their approval signature and the date<sup>1</sup>.

A lack of goods receipting for purchases was a consistent finding amongst the schools sampled, especially in relation to the provision of services. Schools which are considering how best to incorporate a quick and convenient goods receipting process may wish to follow this example. Schools should ensure that as per section 13.2 of the School Financial Regulations, the person who checks the order against the invoice must not be the same person authorising the order or certifying the invoice for payment.

#### Budgetary Impact of Purchases:

When visiting one school, it was noted in relation to requisition forms used for purchasing, that the requisition forms include a figure showing the remaining budget amount which will be left for that cost centre if the requisition is approved. This was considered to be a useful inclusion as it means budget holders are always made aware of the knock-on financial implications of their individual purchases.

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<sup>1</sup>

Consolidated Financial Procedures:

In addition to each school's Scheme of Financial Delegation document which must be approved by the Full Governing Body, schools need to formulate their own internal financial procedures surrounding processes such as payroll, purchasing, and entering into contracts, which can be approved by other bodies such as a committee. These procedures need to comply with the Council's financial guidance and requirements provided to schools.

At some schools, the audit identified gaps in the set of internal financial procedures, inconsistency between the different internal financial procedures in how regularly they are reviewed and approved, or both. One school approached this issue by consolidating all their own internal financial procedures into a single codified manual of internal financial procedures.

This manual should not include the Scheme of Financial Delegation or Terms of Reference for any committees, which need approving by the full Governing Body. Having all other internal financial procedures consolidated into a single document also allows it to be much more user-friendly than having multiple documents, and whoever the review and approval is delegated to then only has to approve one document each time a review is due.