



# **INTERNAL AUDIT SCHOOLS SUMMARY REPORT 2022-23**

London Borough of Southwark

*For presentation to the Audit, Governance and Standards Committee*

*17 July 2023*

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# 1. INTRODUCTION AND BACKGROUND

## PURPOSE OF REPORT

This report summarises the approach and key findings regarding the London Borough of Southwark school audits which were completed during 2022/23 by BDO LLP on behalf of the Council.

This report is presented to the Audit, Governance and Standards Committee, and will be shared with all schools via the School Forum.

## INTERNAL AUDIT

### *What is Internal Audit?*

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”  
(Source: *International Standards for the Professional Practice of Internal Auditing, the Institute of Internal Auditors*)

### *Why is Internal Audit needed?*

- Legislation
- Public Accountability
- Risk management, governance, and control expertise
- Assurance on systems of control
- Fraud prevention, detection and/or investigation
- Objective advice
- Assistance in managing risks.

## APPROACH TO INTERNAL AUDIT OF SCHOOLS

A cyclical plan to complete internal audits of every school over a four-year period is in place. The programme of audits is agreed by the Director of Education.

Due to the Covid-19 pandemic, schools audits were paused in the latter stages of 2019/20 which continued throughout 2020/21. In 2021/22, the Council had asked us to refocus attention onto the schools’ budget and school financial strategy. Our work linked directly into the Schools Financial Value Standard. In 2022/23, the full programme of school audits was resumed, with 20 schools being audited between April 2022 and March 2023.

The purpose of a school audit is to assess whether adequate controls are in place to help prevent financial management weaknesses within the school that could result in budget overspend or inappropriate expenditure.

The work in 2022/23 was designed to assess the design and operational effectiveness of the controls in place to mitigate the key risks in seven areas:

1. **Governance** arrangements are inadequate or not formally documented to support effective administration and decision making that is in the best interests of the school.
2. **Bank Account** controls over the school’s account(s) are weak, exposing the school to potential error and/or fraud which may result in a financial loss to the school.
3. **The School’s Budget** is not balanced or aimed at recovering a deficit or achieving a prudent, but not excessive, level of unspent balances resulting in inefficient use of school funds. Where the school is in deficit, a clear recovery plan is not in place.
4. **Payroll** controls are inadequate without appropriate checks and adequate segregation of duties for making changes to personnel and payroll data leading to invalid or inappropriate payments.
5. **Procurement** is not well controlled resulting in purchases of goods and services that are not appropriate or

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do not provide value for money.

6. **Data** is not adequately protected, allowing unauthorised access, leading to potential misuse or risk of harm to pupils and staff.
7. **Cash** is not controlled, leading to unidentified loss or theft.

The limitations to the scope of our work are as follows:

- Testing is performed on a sample basis, selected from transactions processed in the previous 12 months.
- The audit does not assess the adequacy of teaching arrangements at the school.
- Our work does not provide any guarantee against material errors, loss, or fraud, nor provide an absolute assurance that material error, loss or fraud do not exist.

## **RECOMMENDATIONS AND ASSURANCE OPINIONS**

Recommendations are rated based on the risks associated with the findings arising from our audit work, where controls are not in place or not being complied with. Recommendations are rated as High, Medium, or Low.

We provide an overall assurance opinion on all school audits undertaken based on the categories and numbers of recommendations.

- The highest opinion is Substantial Assurance - There is a sound system of internal control designed to achieve system objectives. The controls that are in place are being consistently applied.
- The lowest opinion is No Assurance - Poor system of internal control and non-compliance and/or compliance with inadequate controls.

Please refer to Appendix 1 for all definitions for recommendations and assurance opinions.

## 2. SCHOOLS AUDITED FROM APRIL 2022 TO MARCH 2023

The table below summarises the recommendations raised, and audit assurance opinion provided.

SCHOOL	STATUS	HIGH	MEDIUM	LOW	DESIGN	OPERATIONAL EFFECTIVENESS
Charlotte Sharman Primary School	Final Report	8	15	4	Moderate	Limited
Keyworth Primary School	Final Report	2	8	-	Moderate	Moderate
Southwark Inclusive Learning Service	Final Report	1	4	5	Moderate	Moderate
St Mary Magdalene Church of England Primary School	Final Report	7	11	1	Moderate	Limited
St Saviour's and St Olave's School	Final Report	8	9	2	Moderate	Limited
Haymerle School	Final Report	2	6	4	Moderate	Moderate
Peter Hills Church of England Primary School	Final Report	3	10	1	Moderate	Limited
Oliver Goldsmith Primary School	Final Report	1	3	4	Moderate	Moderate
Dulwich Wood Primary School	Final Report	3	6	7	Moderate	Limited
St Joseph's Junior School	Final Report	-	3	3	Moderate	Moderate
Phoenix Primary School	Final Report	-	8	4	Moderate	Moderate
Ilderton Primary School	Final Report	-	8	2	Moderate	Moderate
Tuke School	Draft Report 24-May 2023	2	6	-	Moderate	Moderate
Grove Children and Family Centre	Draft Report 09-June 2023	-	2	2	Substantial	Moderate
Michael Faraday Primary School	Draft Report 22-June 2023	-	6	5	Moderate	Moderate
St Joseph's Roman Catholic Primary School (George Row)	Draft Report 22-June 2023	-	6	1	Moderate	Moderate

SCHOOL	STATUS	HIGH	MEDIUM	LOW	DESIGN	OPERATIONAL EFFECTIVENESS
St Peter's Church of England Primary School	Draft Report 26-June 2023	1	8	3	Moderate	Moderate
St. George's Church of England Primary School	Draft Report 30-June 2023	1	11	4	Moderate	Moderate
St Jude's Church of England Primary School	Draft Report 30-June 2023	-	6	4	Moderate	Moderate
Crawford Primary School	Draft Report 30-June 2023	-	6	8	Moderate	Moderate

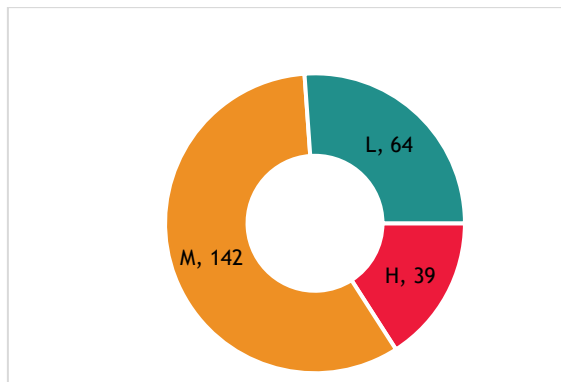
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### 3. SUMMARY OF RECOMMENDATIONS RAISED IN 2022/23 AND ASSURANCE OPINIONS

The summaries of findings within this report are based on all school audits completed between April 2022 and March 2023.

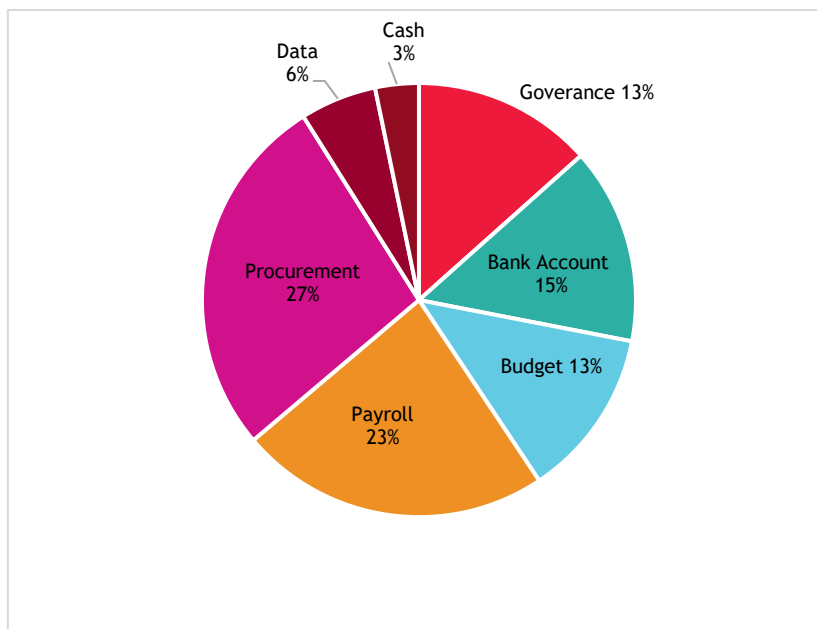
#### Number of Recommendations

The number of recommendations raised and the ratings of High, Medium, or Low is summarised below:



In 2022/23 a total of 245 recommendations were raised across 20 schools. This represents an average of 12 recommendations raised per school with the Borough.

A summary of the relative proportion of recommendations raised in each risk area is shown below:



As in previous audit cycles, most recommendations continue to be raised in the areas of Payroll and Procurement, with Budget, Bank Account and Governance also showing similarity to previous reports.

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## Assurance Opinions

The assurance levels provided during 2022/23 are summarised below:

Overall Design Opinion	Percentage of schools	Overall Operational Effectiveness Opinion	Percentage of schools
Substantial	10% - 2 schools	Substantial	0%
Moderate	90% - 18 schools	Moderate	75% - 15 schools
Limited	0%	Limited	25% - 5 schools
No	0%	No	0%

The results indicate that whilst the controls are in place, there are several key areas of improvements that were identified and require addressing, to ensure that the schools audited have a well-controlled financial environment.



## 4. COMMON THEMES ARISING

Area	Number of Recommendations			Common Themes 2022/23
	H	M	L	
<b>Governance</b>	1	11	20	<ul style="list-style-type: none"> <li>Key documents, including the Scheme of Delegation and the Financial Procedures were in place, however, in several cases they were not up to date with evidence of regular review by the Governing Body.</li> <li>In several schools, the Register of Business Interests was not up to date with missing declarations or incomplete declarations for Governors on the Governing Body.</li> <li>There were instances where evidence of the Governing Body meeting minutes being approved by the Chair of Governors could not be evidenced.</li> </ul>
<b>Bank Account</b>	1	18	17	<ul style="list-style-type: none"> <li>In most cases, the direct debit mandates were not retained, or the copies retained were signed by non-current staff members. These were not countersigned by current authorised staff members to validate the payments.</li> <li>In some instances, the bank reconciliations were complete with supporting documentation available, however these had not been signed by the preparer and an independent reviewer demonstrating lack of adequate segregation of duties.</li> </ul>
<b>Budget</b>	9	17	5	<ul style="list-style-type: none"> <li>In most cases, cashflow forecasting had not been undertaken to identify any shortfalls in the cash position.</li> <li>In some cases, budgets were not approved prior to the Council deadline of 31 May.</li> </ul>
<b>Payroll</b>	5	35	17	<ul style="list-style-type: none"> <li>In most cases, there was no evidence that the payroll contract had been subject to appropriate procurement/tendering process as an adequate number of quotes were not retained.</li> <li>In some cases, the draft and final payroll reports were not signed by the preparer and the reviewer to demonstrate that the payroll checks had been undertaken on a timely basis and anomalies resolved prior to authorisation of the pay run.</li> <li>In some cases, the overtime claim forms were not signed or did not include adequate information noting the reasons for the claim.</li> <li>In some cases, the starter/leaver forms were not retained to demonstrate that they had been processed onto the payroll system within a timely manner. However, we did not identify any such exceptions through our testing.</li> </ul>

Area	Number of Recommendations			Common Themes 2022/23
	H	M	L	
Procurement	17	50	0	<ul style="list-style-type: none"> <li>• Purchase orders were not always raised for all appropriate purchases and authorised in accordance with the Financial Procedures. A clear segregation of duties was not always evident between the raising of purchase order and the receipting of goods/services. In addition, some purchase orders were raised retrospectively, after the invoice date.</li> <li>• Some invoice payments were more than 30 days overdue.</li> <li>• There was a lack of documentary evidence in some instances that the goods received are checked for accuracy and that delivery documentation was appropriately annotated.</li> <li>• In most instances, the appropriate number of quotes were not obtained as part of the procurement process and retained on file in line with the Financial Procedures.</li> <li>• In some cases, the procurement card statements were not signed by the cardholder and an independent officer.</li> </ul>
Data	5	6	3	<ul style="list-style-type: none"> <li>• In most cases, there was no evidence that the ICT contract had been subject to appropriate procurement/tendering process as an adequate number of quotes were not retained.</li> </ul>
Cash	1	5	2	<ul style="list-style-type: none"> <li>• In some cases, the cash collection process was not effectively working, including cash not being counted by two independent officers to demonstrate adequate segregation of duties and a safe log not being maintained.</li> <li>• There were cases where receipts for the petty cash transactions were not retained.</li> </ul>
<b>TOTALS</b>	<b>39</b>	<b>142</b>	<b>64</b>	

# APPENDIX - DEFINITIONS

The table below sets out the definitions of assurance opinions and risk ratings, which are used for all internal audit assurance engagements.

## Assurance Opinions

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
<b>Substantial</b>	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
<b>Moderate</b>	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
<b>Limited</b>	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
<b>No</b>	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

## Risk Ratings

RECOMMENDATION SIGNIFICANCE	
<b>High</b>	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
<b>Medium</b>	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
<b>Low</b>	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

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