



# LONDON BOROUGH OF SOUTHWARK SCHOOLS ANNUAL INTERNAL AUDIT REPORT

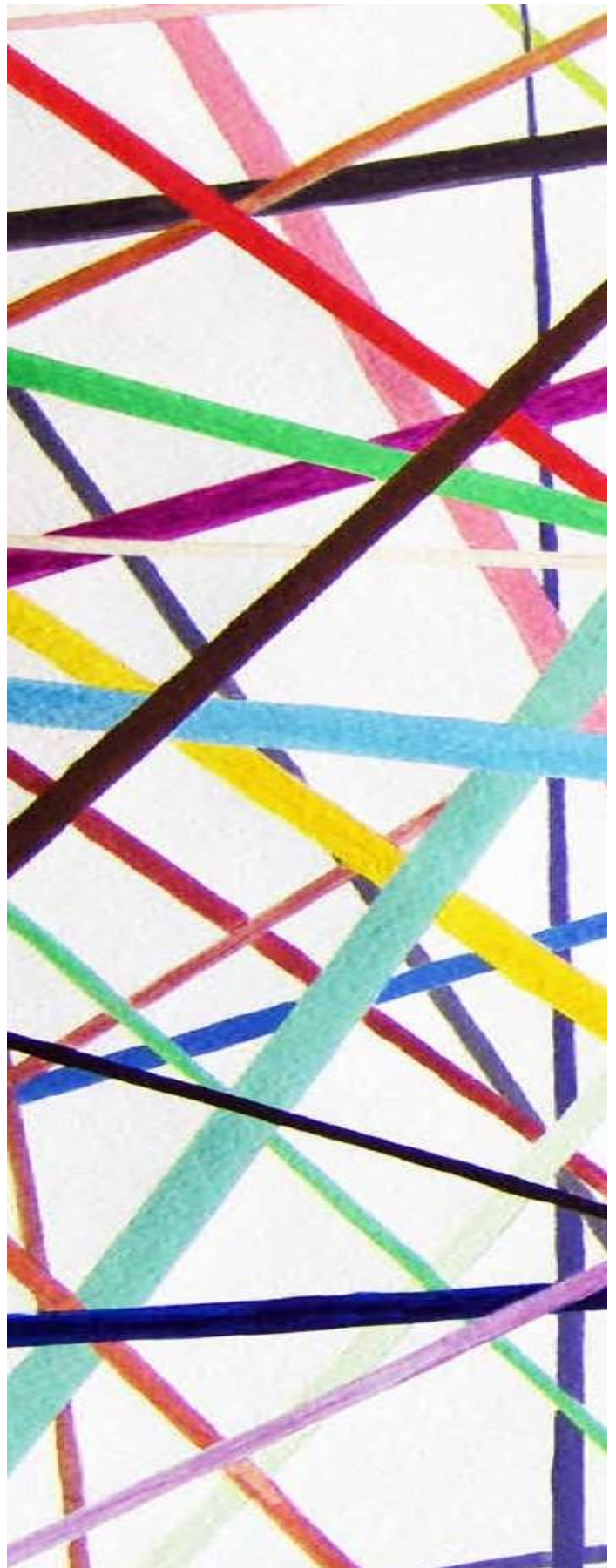
SUMMARY OF THEMES ARISING FROM THE INTERNAL AUDIT PROGRAMME  
2016-17 TO 2017-18

MAY 2018

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# EXECUTIVE SUMMARY

## BACKGROUND TO 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 to manage risks

## APPROACH TO INTERNAL AUDIT OF SCHOOLS

A three year rolling cycle of internal audits across all of the schools within the London Borough of Southwark is undertaken, on behalf of the director of education. This report summarises the key findings made in schools over the two year period 2016-17 to 2017-18 and provides information to schools on the framework of control expected by the council.

The work is designed to assess the design and operational effectiveness of the controls in place to mitigate the key risks in the areas below:

- Governance
- Procurement
- Banking
- Data Security
- Budgeting
- Cash Handling
- Payroll and Pensions

*“The purpose of the 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 being incurred”*

In turn, this ensures that the school is minimising its exposure to financial and reputational risk. To this end, our internal audit terms of reference set out the objective of the audit as follows:

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, or provide an absolute assurance that material error, loss or fraud do not exist.

## RECOMMENDATIONS AND ASSURANCE OPINIONS

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

High	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.
Medium	
Low	

We provide levels of assurance on all school audits undertaken based on the categories and numbers of recommendations. This assurance is provided on the basis of the design of the internal control framework and operational effectiveness of the internal controls.

LEVEL OF ASSURANCE			
Substantial	Moderate	Limited	No

The highest level of assurance is Substantial. This specifies that “the council and governing body can take substantial assurance that the controls upon which the organisation relies to manage the risk are suitably designed, consistently applied and effective.”

The lowest level of assurance is No. This specifies that “the council and governing body cannot take assurance that the controls upon which the organisation relies to manage the risk are suitably designed, consistently applied and effective.”

*Please refer to Appendix 1 for complete definitions.*

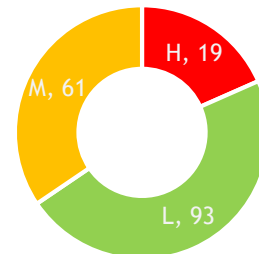
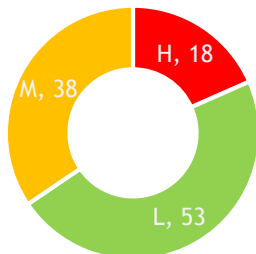
# SUMMARY OF RECOMMENDATIONS ARISING FROM SCHOOLS' INTERNAL AUDITS

The summaries of findings within this report are based on all schools reviews from the programme of audits carried out from 2016/17 to 2017/18. The graphs below provide a breakdown of the recommendations made over the two cycles.

2016-17

2017-18

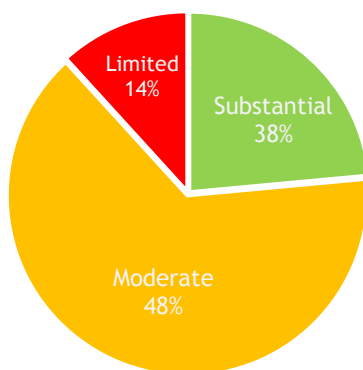
The number of recommendations raised and their significance over 2016-17 and 2017-18 are set out below:



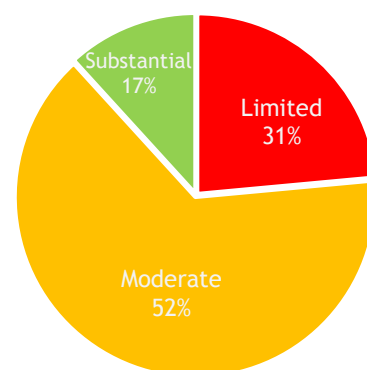
In 2017-18 and 2016-17 we raised a total of 173 recommendations across 20 schools and 109 recommendations across 9 schools respectively. This calculates as an average of 12 recommendations raised per school in 2016-17, reducing to 9 recommendations per school in 2017-18, which indicates an improving position.

We also provided an overall opinion on both the design and operational effectiveness of the controls operating over the areas we review when we are providing assurance. The assurance levels given during 2016-17 and 2017-18 are set out below. These results indicate that whilst on the whole the control frameworks are well designed, they are not being applied consistently and effectively in practice.

## CONTROL DESIGN



## CONTROL EFFECTIVENESS



Assurance Rating - Design	Assurance Rating - Operation Effectiveness	Percentage of schools 2016/17 and 2017/18
Substantial	Substantial	10%
Substantial	Moderate	28%
Moderate	Substantial	7%
Moderate	Moderate	24%
Moderate	Limited	17%
Limited	Moderate	0%
Limited	Limited	14%
Limited	No	0%
No	Limited	0%

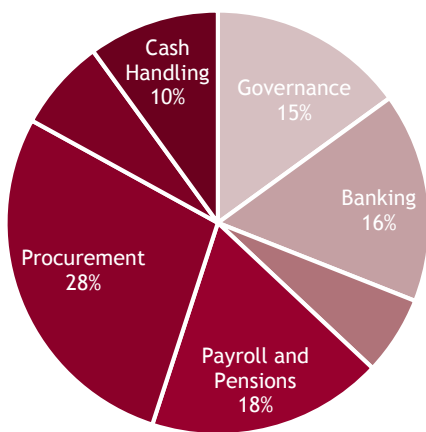
## SUMMARY OF KEY FINDINGS BY AREA

Area	Number of Recommendations and significance			Summary of Key Findings
	H	M	L	
Governance	0	12	29	<ul style="list-style-type: none"> <li>Declaration of business interest forms are not up to date and have not been produced by all members.</li> <li>Instrument of Governance, Scheme of Delegation and Financial Procedures are not always up to date and evidenced as approved.</li> <li>Lack of evidence of advanced circulation (at least one week) of papers to governing body and committee meetings.</li> </ul>
Banking	5	10	30	<ul style="list-style-type: none"> <li>Bank mandates are not always appropriately signed or do not reflect the Scheme of Delegation concerning cheque signatories.</li> <li>Bank reconciliations are not performed on a monthly basis or in a timely manner.</li> </ul>
Budgeting	0	4	12	<ul style="list-style-type: none"> <li>In some cases the annual budgets were not approved by the Governing Body at a quorate meeting in accordance with the set timetable.</li> <li>Lack of evidence to show that budgets are monitored regularly by the Governing Body and that budget variations are being discussed and actions taken are agreed.</li> <li>There is limited scrutiny of overspends (and also underspends) by the Business Managers and Head Teachers.</li> </ul>
Payroll and Pensions	10	12	30	<ul style="list-style-type: none"> <li>Up to date and signed contracts with the payroll provider are not held on file.</li> <li>There is a lack of segregation of duties between the preparer and the sender of the BACS files.</li> <li>HR document retention does not always provide a complete audit trail of the new starter process.</li> <li>Starter and leaver forms are not being authorised and kept on file.</li> <li>Overtime claims are not supported by timesheets, or appropriately approved by senior management.</li> <li>Pension opt-out forms are not stored on file for all employees who opt-out of the pension scheme</li> <li>DBS checks are not being evidenced as obtained prior to employment commencing</li> </ul>
Procurement	14	38	28	<ul style="list-style-type: none"> <li>Purchase Order forms are not being used correctly, completed in full or authorised and raised in line with Financial Regulations (i.e. separate officers)</li> <li>Online purchasing is not subject to adequate checks.</li> <li>Separation of duties in authorisation is not taking place or evidenced.</li> <li>Lack of evidence that goods are being checked upon delivery and signed as received.</li> <li>Insufficient quotes are being obtained in the tendering process (a breach of Financial Regulations).</li> <li>Credit card statements are not being separately reviewed and expenditure is not being monitored.</li> </ul>
Data Security	2	12	6	<ul style="list-style-type: none"> <li>ICT provider contracts are sometimes nearing expiration and do not specify the need for remote back-ups</li> <li>Users of the finance system are not being reviewed on at least an annual basis</li> <li>Risk assessments are not evidenced where staff have started at the school prior to DBS clearance</li> </ul>
Cont.				



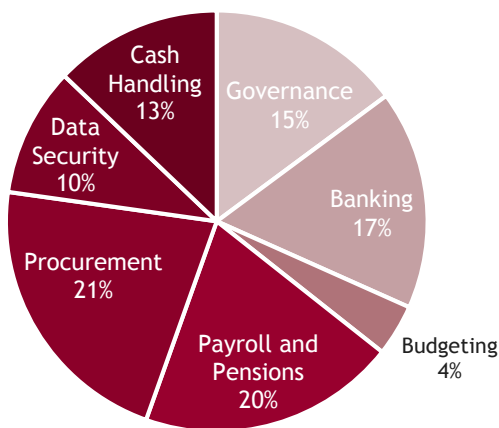
# SUMMARY OF KEY FINDINGS BY AREA

Cont.				
Cash Handling	6	11	11	<ul style="list-style-type: none"> <li>Robust controls for the proper recording of cash transactions are not in place. This includes recording of transactions, use of receipts and independent reconciliations.</li> <li>Petty cash storage is vulnerable to unauthorised access</li> </ul>
TOTAL	37	99	146	<i>We aim to agree workable solutions to the issues identified from our testing techniques and attempt to agree shorter timeframes for resolving high risk areas as opposed to low risk areas. Typically three months for High, six months for Medium and nine months for Low category recommendations</i>

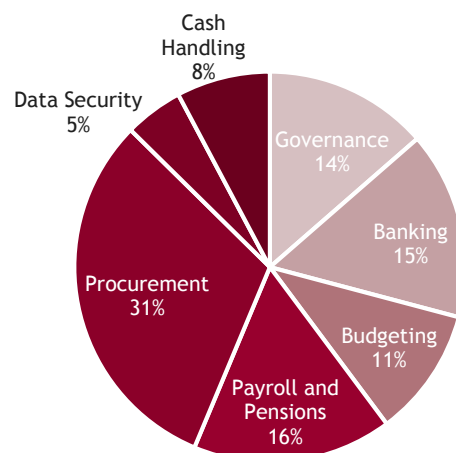


The pie chart reflects that the highest number of recommendations were raised for the area of Procurement, while the lowest number of recommendations were raised for the area of Budgeting across all schools audited. The schools should look to implement the recommendations suggested in the audit reports as well as continue building upon their good practice areas to improve the design and effectiveness of controls in place.

## 2016/17



## 2017/18



Procurement remains the area where most recommendations are made, increasing from 21% to 31% in 2017-18. Recommendations made relating to budgeting almost trebled during 2017-18. Data security and cash handling recommendations fell significantly in 2017-18.

# APPENDIX 1

## OPINION AND RECOMMENDATION SIGNIFICANCE DEFINITION

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
Substantial	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.
Moderate	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.
Limited	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.
No	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.

RECOMMENDATION SIGNIFICANCE	
High	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.
Medium	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.
Low	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.

# APPENDIX 2

## AREAS SUBJECT TO AUDIT

Area	
Governance	<ul style="list-style-type: none"><li>• Declaration of business interest forms for governors</li><li>• Governors are given opportunities to declare interests at each meeting</li><li>• Meetings are quorate and held at least termly</li></ul>
Banking	<ul style="list-style-type: none"><li>• Who the school banks with</li><li>• The school has not been overdrawn</li><li>• Bank Mandate and cheque signatories conform to the school's scheme of delegation</li><li>• Bank reconciliations are undertaken on a monthly basis and appropriately signed and authorised</li><li>• Controls on the security over cheque stationery, their storage location and cheques are not pre-signed.</li></ul>
Budgeting	<ul style="list-style-type: none"><li>• Agreement of the budget in line with required timeframes</li><li>• Budget monitoring</li><li>• Reporting of budgeting monitoring to governors</li><li>• Commitment of expenditure to individual budget areas</li><li>• Budgets set result in prudent but not excessive levels of unspent balances</li></ul>
Payroll and Pensions	<ul style="list-style-type: none"><li>• Contract with payroll provider</li><li>• Payroll process</li><li>• Separation of duties</li><li>• Accuracy and authorisation of payments</li><li>• Overtime claims</li><li>• Amendments to pay</li><li>• Starters</li><li>• Leavers</li><li>• Accuracy of deductions</li><li>• Pension opt-out forms</li><li>• Payroll provider responsibility</li><li>• Process for informing LBS pensions team of changes to payroll data</li></ul>
Procurement	<ul style="list-style-type: none"><li>• The full purchasing process from the use of purchase order forms to invoice authorisation</li><li>• Process for procurement over thresholds set in the school's financial procedures</li><li>• Direct debits and control over payments</li><li>• Online purchasing</li><li>• Procurement cards / credit cards and control over payment</li></ul>
Data Security	<ul style="list-style-type: none"><li>• Access to the finance system</li><li>• Password security</li><li>• Back ups of data</li><li>• DBS checks and risk assessments are complete</li></ul>
Cash Handling	<ul style="list-style-type: none"><li>• Receipting of cash and cheques received</li><li>• Records of monies due and received</li><li>• Banking records</li><li>• Reconciliation processes of monies collected to those banked</li><li>• Whether the cash in the safe agrees with records</li><li>• Physical security over cash held on the premises / access to keys</li></ul>





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