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EXECUTIVE SUMMARY

Internal Audit 2017-18

This report details the work undertaken by internal audit for the London Borough of Southwark ("the council" and provides an overview of the effectiveness of the controls in place for the full year.

We have summarised by department the audits undertaken during 2017-18 on page four, and highlighted audits undertaken in addition to the approved plan, and those not carried out (and the reasons why). We have detailed the opinions and number of recommendations for each audit on pages five to seven.

We have noted those reports which are in draft at the time of writing, and where a management response is to be agreed. Whilst the final report may differ to that initially reported, these reports will not change the overall assurance opinion concluded for 2017-18.

Our internal audit work for the 12 month period from 1 April 2017 to 31 March 2018 was carried out in accordance with the internal audit plan approved by management and the audit, governance and standards committee.

The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

Head of internal audit opinion

The role of internal audit is to provide an opinion to members, through the audit, governance and standards committee on the adequacy and effectiveness of the internal control system to ensure the achievement of the council's objectives in the areas reviewed.

The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service.

Schools audits

In respect of the school audit programme for 2017-18, we have prepared a separate annual summary report, which is included at appendix I to this report.

Opinion

The basis for forming my opinion is as follows:

- An assessment of the design and operation of the underpinning risk management arrangements and supporting processes
- An assessment of the range of individual opinions arising from risk based audit assignments contained within internal audit's risk based plans that have been reported throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses.

Overall, we are able to provide moderate assurance that there is a sound system of internal control, designed to meet the council's objectives and that controls are being applied consistently. In forming our view we have taken into account that:

- The council has ended 2017-18 with a balanced outturn position after movements to/from reserves. In a climate of continued spending pressures, strong financial management during the year enabled the council's overall financial standing, as measured by its usable reserves, to improve by £10.9m, compared to a reduction of £27.4m in 2016-17. The Council has shown strong financial management in respect of the children's and adults budget recovery board. The Housing Revenue Account reserves at 31 March 2018 stood at £19.9m (against £14.4m in 2016-17), of which around 65% is committed. This upward movement is positive, but still remains below the optimal level considered prudent and represents a moderate degree of risk, which is being managed. We have provided a moderate assurance opinion in the financial planning and budget monitoring audit.
- 81% of recommendations made in the years 2015-16 to 2017-18 have been implemented, and management has generally improved its performance in implementing agreed recommendations. However, there is scope for more timely implementation of recommendations in accordance with the timeframes set out by management.
- 48% of audits received limited or part limited assurance in 2017-18. Whilst this is an improved position from 2016-17, the operational effectiveness of the controls in place needs to be addressed, to ensure that the controls are consistently and routinely applied across the council. We acknowledge the level of organisational change in the last two years and the focus of management to include areas of most concern in the audit plan.
- To facilitate the strengthening of the internal control framework, internal audit will be working more closely with directors forum, as well as the anti-fraud teams. More detailed review of the status of the audit plan with the strategic director of finance and governance has also been introduced, with follow up of any issues by the director.

Internal audits completed in 2017-18, by council department.

The list below incudes additional audits requested by management during the year

CHIEF EXECUTIVE'S DEPARTMENT

Land charges Major regeneration

programmes & projects

CHILDREN'S AND ADULTS' SERVICES DEPARTMENT

Children with disabilities

services

Mosaic

Social care staff recruitment Leaving care

(covered in staff

recruitment and vetting

audit audit)

SCHOOLS AUDITS

We have completed 20 school audits during 2017-18.

ENVIRONMENT AND SOCIAL REGENERATION DEPARTMENT

Corporate energy Leisure services contract

Food safety Materials contract

Grounds maintenance

contract

Regulatory services

Highways maintenance

FINANCE AND GOVERNANCE DEPARTMENT

Data protection (advisory

review)

Home ownership - charges

to leaseholders

Electoral services Legal case management

system

Enforcement team

KEY FINANCIAL SYSTEMS

Council tax Mosaic payments (covered in

mosaic audit)

Creditor payments Payroll

Housing benefit and Suspense account

universal credit management

Housing rents Treasury management

Non-domestic rates

IT AUDITS

IT disaster recovery **Network security** HOUSING AND MODERNISATION DEPARTMENT

Apex asset management

system

Housing adaptations

Apprenticeships levy

(advisory review)

Housing investment decision making

Commissioning of community grants Data sharing - multi-agency

working

Community and safety

partnership service

Integration of customer based systems

Corporate facilities

management

Ledbury estate

compensation payments (an addition to the original plan)

Corporate health and safety MySouthwark home owners

agency

Good storage and disposal Staff recruitment and

vetting

THEMATIC REVIEWS / COUNCIL WIDE AUDITS

Access to services

Information governance

(an addition to the

original plan) Procurement

Financial planning and

budget monitoring

Register of interests

Governance - decision making

Planned internal audits not undertaken in 2017-18

Children's and adults'

services department

Social educational needs (SEN) - deferred to Q1,

2019-20

Finance and governance

department

Accounts preparation (advisory) - not required

Budget recovery board (advisory) - not required, assurance audit to be

undertaken in 2018-19

IT audits Programme governance

deferred to 2018-20 due to ICT shared service

implementation

Helpdesk - work already undertaken by the London Borough of Lambeth internal audit service, results to be shared with the council

Housing and modernisation

department

Estates parking permits deferred to 2018-19

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REVIEW OF 2017-18 WORK

Reports Issued	Recommendations and significance			Overall Report Conclusions (see Appendix II for definitions)	
	н	М	L	Design	Operational Effectiveness
CHIEF EXECUTIVE'S DEPARTMENT					
Land charges	1	4	1	Limited	Mode rate
Major regeneration programmes & projects	-	3	2	Moderate	Moderate
CHILDREN'S AND ADULTS' SERVICES	S DEPARTMENT	Г			
Children with disabilities services	2	3	-	Limited	Limited
Leaving care- draft	1	2	-	Moderate	Limited
Mosaic	2	1	1	Moderate	Limited
ENVIRONMENT AND SOCIAL REGENE	ERATION DEPA	RTMENT			
Corporate energy	-	2	-	Moderate	Substantial
Food safety	2	2	1	Moderate	Limited
Grounds maintenance contract	-	-	-	Substantial	Substantial
Highways maintenance	-	5	3	Moderate	Limited
Leisure services contract	-	-	2	Substantial	Substantial
Materials contract	-	-	1	Substantial	Substantial
Regulatory services	-	1	-	Moderate	Substantial
FINANCE AND GOVERNANCE DEPAR	TMENT				
Data protection			or consideration g undertaken.	N/A - Advi	sory Review
Electoral services	-	4	-	Moderate	Moderate
Enforcement team	-	2	1	Moderate	Moderate
Home ownership - charges to leaseholders	-	1	1	Moderate	Substantial
Legal case management system	-	3	0	Substantial	Moderate

REVIEW OF 2017-18 WORK

Reports Issued	Recommendations and significance			Overall Report Conclusions (see Appendix II for definitions)			
	Н	М	L	Design	Operational Effectiveness		
KEY FINANCIAL SYSTEMS							
Council tax	-	1	2	Moderate	Moderate		
Creditor payments	-	4	1	Moderate	Moderate		
Housing benefit and universal credit	1	4	5	Moderate	Limited		
Housing rents	1	4	5	Moderate	Limited		
Non-domestic rates	-	4	3	Moderate	Limited		
Payroll	-	7	3	Moderate	Moderate		
Suspense account management	2	4	1	Limited	Limited		
Treasury management	-	2	2	Moderate	Moderate		
HOUSING AND MODERNISATION DEP	PARTMENT						
Apprenticeships levy	-	4	3	N/A - Advi	sory Review		
Apex asset management system	1	5	1	Limited	Moderate		
Commissioning of community grants	-	3	2	Moderate	Substantial		
Community and safety partnership service	-	2	2	Moderate	Moderate		
Corporate facilities management	-	2	2	Moderate	Moderate		
Corporate health and safety	1	10	1	Limited	Limited		
Goods storage and disposal	1	5	2	Limited	Limited		
Housing adaptations	-	2	2	Moderate	Moderate		
Housing investment decision making - Draft	1	1	1	Moderate	Limited		
Data sharing - multi-agency working	1	3	2	Limited	Moderate		
Integration of customer based systems	-	2	6	Moderate	Moderate		
Ledbury estate compensation payments - Draft	1	1	2	Moderate	Limited		
MySouthwark home owners agency	-	2	6	Moderate	Moderate		
Staff recruitment and vetting	-	1	1	Substantial	Substantial		

REVIEW OF 2017-18 WORK

Reports Issued	Recommendations and significance			Overall Report Conclusions (see Appendix II for definitions)	
	н	M	L	Design	Operational Effectiveness
IT AUDITS					
IT disaster recovery	3	3	-	Limited	Limited
Network security	2	6	-	Limited	No
THEMATIC REVIEWS / COUNCIL WID	DE AUDITS				
Access to services - Draft	1	2	-	Moderate	Limited
Financial planning and budget monitoring - Draft	-	4	-	Moderate	Moderate
Governance - decision making - Draft	-	4	-	Moderate	Moderate
Information governance	2	7	1	Moderate	Limited
Procurement	3	6	2	Substantial	Limited
Register of interests	2	2	-	Limited	Limited

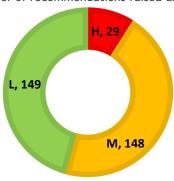
SUMMARY OF FINDINGS

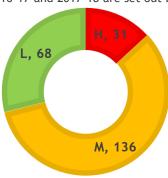
RECOMMENDATIONS AND ASSURANCE DASHBOARD

2016-17

2017-18

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

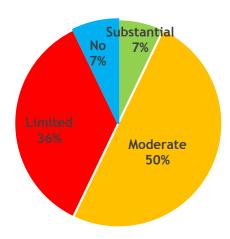


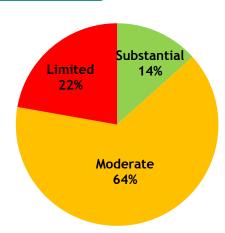


In 2017-18 we raised an average of 5.2 recommendations per assurance audit as compared to 7.8 in 2016-17, although the relative number of high and medium recommendations had increased.

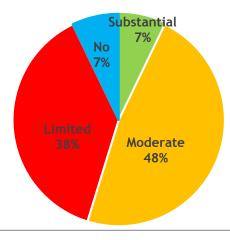
We provide an overall opinion on both the design and operational effectiveness of the controls operating over the areas where we undertaken assurance audits. The assurance levels given during 2016-17 and 2017-18 are set out below. Based upon the work undertaken, these show a good improvement overall with regards to the design of the control framework, and a marginally improved position in respect of the operational effectiveness of the controls in place to manage the identified risks.

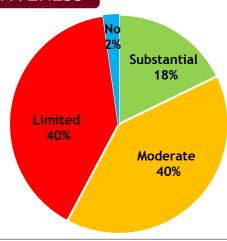
CONTROL DESIGN





CONTROL EFFECTIVENESS





KEY THEMES

Themes and trends identified in the year

- **PEOPLE GOVERNANCE SYSTEMS** AND **PROCESSSES**
 - Whilst clarity of roles and responsibilities was evident in the majority of areas reviewed, policies and procedures were absent or not reflective of actual requirements and practice in some areas, e.g. suspense account management and IT disaster recovery
 - Lessons learned were not routinely considered and used as a means of improving outcomes or identifying new approaches or training staff, e.g. health and safety and financial planning and budget monitoring
 - In some areas there was a culture of non-compliance evident across the council, including procurement, raising of purchase orders and annual declarations of conflicts of interests.
 - Governance and reporting requirements were found to be well defined and generally understood through our audits of financial planning and budgetary control and governance - decision making
 - Contract management was found to be strong in the majority of areas audited, although risk management with regards to contractor failure (in light of the collapse of Carillion) needs to be strengthened.
 - Targeted key performance indicators to measure, monitor and drive service improvement were not used for all services, e.g. enforcement team, corporate energy, community grants, facilities management and health & safety
 - Actions arising from contract, service and management meetings were not always adequately recorded and subsequently followed up to resolution.
 - Inconsistent practices across teams within services was evident, and a lack of understanding of the process by staff, leading to inefficiencies in the process and the council not meeting required service and statutory timeframes, e.g. regulatory services, council tax, non-domestic rates, housing rents, health & safety and information governance.
 - Cyber security risks were highlighted, including use of unsupported versions of Windows operating systems and lack of IT disaster recovery plans. User access to the council's systems was not being routinely reviewed to ensure it remained appropriate and that leavers' access had been revoked, e.g. housing rents, payroll, suspense accounts and the apex asset management system
 - Data quality issues (completeness of information) with council systems was identified in 42% of the audits undertaken, including leaving care cases, adult social care, legal cases, housing benefits, housing rents, payroll, Ledbury estate compensation payments and health & safety
 - Lack of evidence to support the appropriate management approval of transactions and commitment of council funds was found in 22% of the audits completed, including children with disabilities, land charges, electoral services, payroll and expenses, housing rents and community grants.

ADDED VALUE

How we have added value during the year



USE OF SPECIALISTS

We have used our IT and Data Protection specialists to deliver Network Security, IT Disaster Recovery and Information Governance assurance audits and the Data Protection readiness review.

We have used an employment tax specialist to help deliver the Apprenticeships Levy advisory review.



RESPONSIVENESS

We have been able to adapt our audit plan to address your emerging risks and areas requiring assurance to management, such as the inclusion of the review of Information Governance, Ledbury Estate Compensation Payments, plus the reviews continuing into 2018-19 on Chargebacks and Temporary Accommodation.



BENCHMARKING AND BEST PRACTICE

We have shared best practice examples from our clients and other local authorities, and undertaken benchmarking exercises in a number of audits. We have performed this in approximately 80% of our reviews. This is clearly indicated in the executive summaries.

A comparison of practices across the five departments has identified areas where greater consistency and adoption of good practice across the council would make processes more efficient and improve the effectiveness of controls.



BACKGROUND TO ANNUAL OPINION

Introduction

Our role as internal auditors to the London Borough of Southwark is to provide an opinion to members, through the audit, governance and standards committee, on the adequacy and effectiveness of the internal control system to ensure the achievement of the council's objectives in the areas reviewed. Our approach, as set out in the firm's Internal Audit Manual, is to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period.

Scope and approach

Audit Approach

Our internal audit work for the 12 month period from 1 April 2017 to 31 March 2018 was carried out in accordance with the internal audit plan approved by management and the audit, governance and standards committee, adjusted during the year for any emerging risk issues. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

This report is made solely in relation to those business areas and risks reviewed in the year and does not relate to any of the other operations of the organisation. Our approach complies with best professional practice, in particular, Public Sector Internal Audit Standards, the Chartered Institute of Internal Auditors' Position Statement on Risk Based Internal Auditing.

We discharge our role, as detailed within the audit planning documents agreed with the council's management for each review, by:

- Considering the risks that have been identified by management as being associated with the processes under review
- Reviewing the written policies and procedures and holding discussions with management to identify process controls
- Evaluating the risk management activities and controls established by management to address the risks it is seeking to manage
- Performing walkthrough tests to determine whether the expected risk management activities and controls are in place
- Performing compliance tests (where appropriate) to determine that the risk management activities and controls have operated as expected during the period.

BACKGROUND TO ANNUAL OPINION

The opinion provided on page 3 of this report is based on historical information and the projection of any information or conclusions contained in our opinion to any future periods is subject to the risk that changes may alter its validity.

Coverage

During 2017-18 BDO LLP has reviewed and evaluated the council's processes in the areas listed on page 4.

Reporting mechanisms and practices

Our initial draft reports are sent to the key officer responsible for the area under review in order to gather management responses. In every instance there is an opportunity to discuss the draft report in detail. Therefore, any issues or concerns can be discussed with management before finalisation of the reports.

Our method of operating with the audit, governance and standards committee is to agree reports with management and then present and discuss the matters arising at the committee's meetings.

Management action on our recommendations

Management have generally been conscientious in reviewing and commenting on our reports, although the response timelines are not usually within the expected timeframe of two weeks. For the reports which have been finalised, management have responded positively.

Recommendation follow-up

Implementation of recommendations is a key determinant of our annual opinion. If recommendations are not implemented in a timely manner then weaknesses in control and governance frameworks will remain in place. An unwillingness or inability to implement recommendations reflects poorly on management's commitment to the maintenance of a robust control environment.

Management has generally improved its performance in addressing the findings and implementing recommendations arising from internal audit work. However, there is a need for more timely implementation of recommendations in accordance with the timeframes set out by management to ensure that the risks identified are being managed.

A total of 107 high and medium recommendations raised in 2015-16 were covered by the follow up protocols. We confirmed that 97% have been implemented.

A total of 115 high and medium recommendations raised in 2016-17 were covered by the follow up protocols. We confirmed that 77% have been implemented.

A total of 39 high and medium recommendations raised in 2017-18 have been subject to follow up to date. We have confirmed that 49% have been implemented within the agreed date.

Relationship with external audit

All our final reports are available to the external auditors through the audit, governance and standards committee papers and are available on request. Our files are also available to external audit should they wish to review working papers to place reliance on the work of internal audit

Report by BDO LLP to London Borough of Southwark

As the internal auditors of the London Borough of Southwark ("the council" we are required to provide the audit, governance and standards committee, the chief executive, s151 officer and the directors with an opinion on the adequacy and effectiveness of risk management, governance and internal control processes, as well as arrangements to promote value for money.

In giving our opinion it should be noted that assurance can never be absolute. The internal audit service provides the council with moderate assurance that there are no major weaknesses in the internal control system for the areas reviewed in 2017-18. Therefore, the statement of assurance is not a guarantee that all aspects of the internal control system are adequate and effective. The statement of assurance should confirm that, based on the evidence of the audits conducted, there are no signs of material weaknesses in the framework of control.

In assessing the level of assurance to be given, we have taken into account:

- All internal audits undertaken by BDO LLP during 2017-18
- Any follow-up action taken in respect of audits from previous periods for these audit areas
- Whether any significant recommendations have not been accepted by management and the consequent risks
- The effects of any significant changes in the organisation's objectives or systems
- Matters arising from previous internal audit reports to the council
- Any limitations which may have been placed on the scope of internal audit - no restrictions were placed on our work

KEY PERFORMANCE INDICATORS

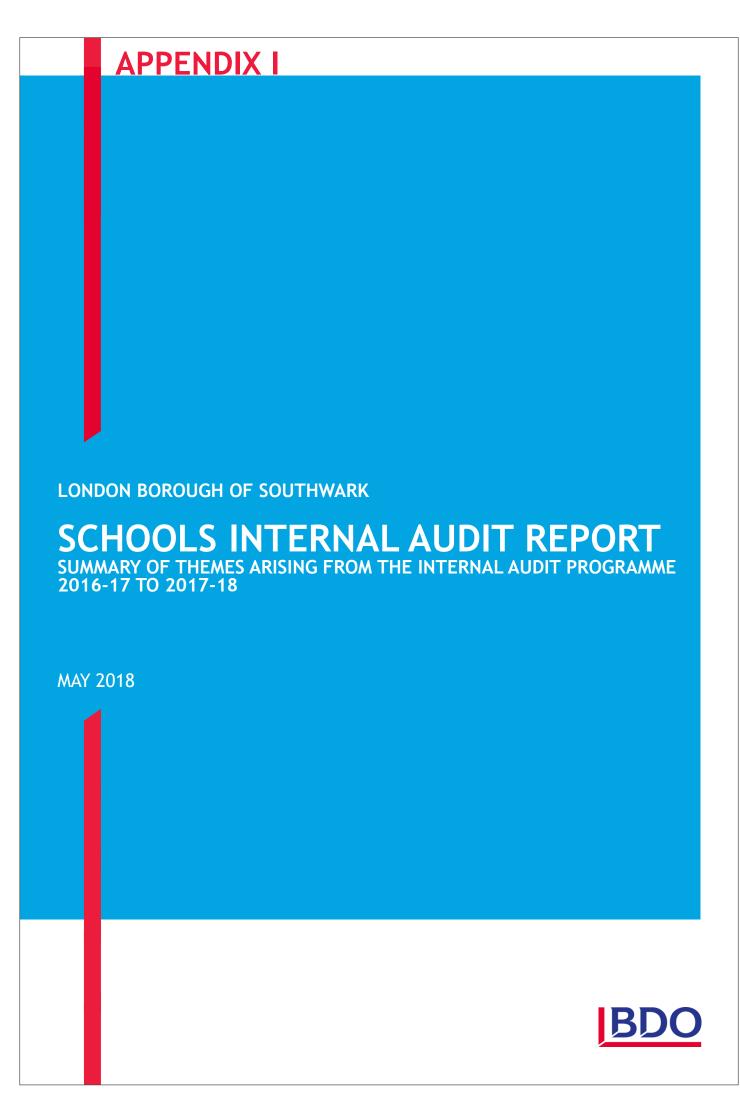
Quality Assurance	Detail on KPI's	RAG Rating 2017-18
 High quality documents produced by the auditor that are clear and concise and contain all the information requested. 	We have received an average of 4/5 ratings in the satisfaction surveys we have received as of July 2018.	Green
 Frequent communication to the customer of the latest mandatory audit standards and professional standards prescribed by the main accountancy bodies. 	Professional updates are provided within the audit governance and standards committee progress report, a new internal audit charter is issued every year.	Green
Reporting Arrangements		
 The auditor attends the necessary, meetings as agreed between the parties at the start of the contract 	All meetings attended including audit, governance and standards committee meetings, individual audit meetings and contract reviews.	Green
Information is presented in the format requested by the customer.	No requests to change the BDO format.	N/A
Audit Protocol		
 Customer satisfaction reports - overall score at average at least 3.5 / 5 for surveys issued at the end of each audit. 	Average client satisfaction received year to date is 4/5.	Green
 Annual survey to audit, governance and standards committee to achieve score of at least 70% 	A new audit survey has been issued in June 2018, we are awaiting the results	ТВС
External audit can rely on the work undertaken by internal audit (where planned)	External Audit has indicated that their strategy and approach has changed and they will not seek reliance on our work.	N/A
Annual Audit Plan delivered in line with timetable	Planned number of audit days in line with those agreed with the audit, governance and standards committee. We did not issue all draft reports by 31	Amber
Actual days are in accordance with Annual Audit Plan	March 2018 as intended, this will be addressed in 2018-19	



KEY PERFORMANCE INDICATORS

Delivery	Detail on KPI's	RAG Rating 2017-18
Draft report to be produced 3 weeks after the end of the fieldwork	This KPI has largely been met, with 5 reports not issued within the expected timeframes, 2 non-school audits (due to staff absence) and 3 schools (due to the Summer break)	Green
Management to respond to internal audit reports within 3 weeks	Timely management responses have been received in 68% (31 out of 47) cases for non-school audits and 50% of schools.	Amber
Final report to be produced 1 week after management responses	All final reports except two have been issued within one week of receipt of management response, the delays were due to manager absence.	Green
 90 % recommendations to be accepted by management 	95% of recommendations raised in draft reports in 2017-18 have been accepted by management.	Green
At least 60% input from qualified staff	All audits have been led by a qualified senior auditor.	Green
Positive result from any external review	Following an External Quality Assessment by the Institute of Internal Auditors in April 2015, BDO were found to 'generally conform' (the highest rating) to the International Professional Practice Framework and Public Sector Internal Audit Standards.	Green





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 main 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.

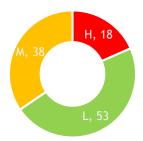
SUMMARY OF RECOMMENDATIONS ARISING FROM SCHOOL INTERNAL AUDITS

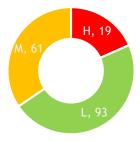
The summaries of findings within this report are based on all schools reviews from the programme of audits carried out from 2016-17 to 2017-18. The graphs below provide a breakdown of the recommendations made over the two cycles.

2016-17

2017-18

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



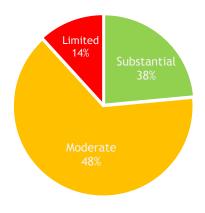


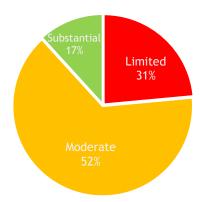
In 2017-18 and 2016-17 we raised a total of 173 recommendations across 20 schools and 109 recommendations across 9 schools respectively. This calculates as an average of 12 recommendations raised per school in 2016-17, reducing to 9 recommendations per school in 2017-18, which indicates an improving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





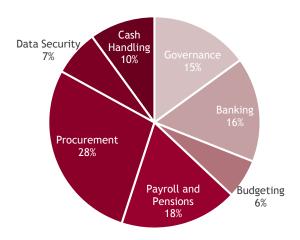
Assurance Rating - Design	Assurance Rating - Operation Effectiveness	Percentage of schools 2016-17 and 2017-18
Substantial	Substantial	10%
Substantial	Moderate	28%
Moderate	Substantial	7%
Moderate	Moderate	24%
Moderate	Limited	17%
Limited	Moderate	0%
Limited	Limited	14%
Limited	No	0%
No	Limited	0%

SUMMARY OF KEY FINDINGS BY AREA

Area	Number of Recommendations and significance		Recommendations		ations	Summary of Key Findings
	Н	М	L			
Governance	0	12	29	 Declaration of business interest forms are not up to date and have not been produced by all members. Instrument of Governance, Scheme of Delegation and Financial Procedures are not always up to date and evidenced as approved. Lack of evidence of advanced circulation (at least one week) of papers to governing body and committee meetings. 		
Banking	5	10	30	 Bank mandates are not always appropriately signed or do not reflect the Scheme of Delegation concerning cheque signatories. Bank reconciliations are not performed on a monthly basis or in a timely manner. 		
Budgeting	0	4	12	 In some cases the annual budgets were not approved by the Governing Body at a quorate meeting in accordance with the set timetable. 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. There is limited scrutiny of overspends (and also underspends) by the Business Managers and Head Teachers. 		
Payroll and Pensions	10	12	30	 Up to date and signed contracts with the payroll provider are not held on file. There is a lack of segregation of duties between the preparer and the sender of the BACS files. HR document retention does not always provide a complete audit trail of the new starter process. Starter and leaver forms are not being authorised and kept on file. Overtime claims are not supported by timesheets, or appropriately approved by senior management. Pension opt-out forms are not stored on file for all employees who optout of the pension scheme DBS checks are not being evidenced as obtained prior to employment commencing 		
Procurement	14	38	28	 Purchase Order forms are not being used correctly, completed in full or authorised and raised in line with Financial Regulations (i.e. separate officers) Online purchasing is not subject to adequate checks. Separation of duties in authorisation is not taking place or evidenced. Lack of evidence that goods are being checked upon delivery and signed as received. Insufficient quotes are being obtained in the tendering process (a breach of Financial Regulations). Credit card statements are not being separately reviewed and expenditure is not being monitored. 		
Data Security	2	12	6	 ICT provider contracts are sometimes nearing expiration and do not specify the need for remote back-ups Users of the finance system are not being reviewed on at least an annual basis Risk assessments are not evidenced where staff have started at the school prior to DBS clearance 		
Cont.						

SUMMARY OF KEY FINDINGS BY AREA

Cont.				
Cash Handling	6	11	11	 Robust controls for the proper recording of cash transactions are not in place. This includes recording of transactions, use of receipts and independent reconciliations. Petty cash storage is vulnerable to unauthorised access
TOTAL	37	99	146	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

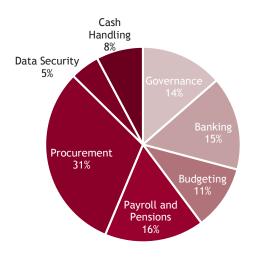


The pie chart reflects that the highest number of recommendations were raised for the area of Procurement, while the lowest number of recommendations were raised for the area of Budgeting across all schools audited. The schools should look to implement the recommendations suggested in the audit reports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

2016-17

Cash Handling Governance 15% Security 10% Procurement 21% Payroll and Pensions 4% 20%

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.

AREAS SUBJECT TO AUDIT

Area	
Governance	 Declaration of business interest forms for governors Governors are given opportunities to declare interests at each meeting Meetings are quorate and held at least termly
Banking	 Who the school banks with The school has not been overdrawn Bank Mandate and cheque signatories conform to the school's scheme of delegation Bank reconciliations are undertaken on a monthly basis and appropriately signed and authorised Controls on the security over cheque stationery, their storage location and cheques are not pre-signed.
Budgeting	 Agreement of the budget in line with required timeframes Budget monitoring Reporting of budgeting monitoring to governors Commitment of expenditure to individual budget areas Budgets set result in prudent but not excessive levels of unspent balances
Payroll and Pensions	 Contract with payroll provider Payroll process Separation of duties Accuracy and authorisation of payments Overtime claims Amendments to pay Starters Leavers Accuracy of deductions Pension opt-out forms Payroll provider responsibility Process for informing LBS pensions team of changes to payroll data
Procurement	 The full purchasing process from the use of purchase order forms to invoice authorisation Process for procurement over thresholds set in the school's financial procedures Direct debits and control over payments Online purchasing Procurement cards / credit cards and control over payment
Data Security	 Access to the finance system Password security Back ups of data DBS checks and risk assessments are complete
Cash Handling	 Receipting of cash and cheques received Records of monies due and received Banking records Reconciliation processes of monies collected to those banked Whether the cash in the safe agrees with records Physical security over cash held on the premises / access to keys

APPENDIX II

OPINION AND RECOMMENDATION SIGNIFICANCE DEFINITION

LEVEL OF ASSURANCE	DESIGN of internal cor	ntrol framework	OPERATIONAL EFFECTIVENESS of internal controls		
ASSURANCE	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 inyear.	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 inyear.	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.	

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. Mediu Mediu Mediu Description 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.

FOR MORE INFORMATION:

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