



INTERNAL AUDIT AND ANTI-FRAUD PROGRESS REPORT

London Borough of Southwark

For presentation to the Audit, Governance and Standards Committee

20 September 2021



APPENDIX 2

INTERNAL AUDIT SUMMARY REPORT - SCHOOLS BUDGETS AND FINANCIAL STRATEGY REVIEWS 2021-22

AUGUST 2021

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1. BACKGROUND AND SCOPE

This report summarises the results of the six audits of schools' budgets and financial strategy undertaken from April to July 2021.

All maintained schools within the London Borough of Southwark are usually subject to an internal audit review at least every four years, covering key processes and controls across a range of governance and financial systems. However, due to the Covid restrictions this type of audit work was paused in the period April 2020 to April 2021. Instead, the Council took the opportunity to change the focus of the audits.

Due to the number of schools facing financial difficulties, which present a significant risk to the school and local authority, for a temporary period, BDO LLP as the Council's internal auditors, were asked to refocus attention onto the schools budget and school financial strategy.

The purpose of these audits was to review the adequacy and effectiveness of each school's financial management strategy and controls, and the extent to which the expectations set out in the Schools Financial Value Standards for School Strategy and Setting the Annual Budget were being met.

We analysed evidence related to the schools' budget and planning to ensure the Council's Education service can assist the school in both developing and implementing suitable management plans, in a timely manner, to ensure sound financial planning.

The internal audit programme assessed the design and operational effectiveness of the controls at each school to mitigate the key risks in the areas below, which are directly linked to the School Financial Value Standards (Appendix 1).

<ul style="list-style-type: none">• School's financial strategy• Financial strategy linked to raising standards and attainment• Budget setting process• Budget monitoring procedures• Pupil projections	<ul style="list-style-type: none">• Deficit recovery plan• Cash flow• Governing Body engagement• Recasting• End of year balance
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Our audit approach consisted of conducting interviews with Head Teachers, School Business Managers and Governing Body Chairs to establish the controls in operation for each of our areas of audit work.

- Review of documentary evidence to confirm that the controls were designed as described.
- Evaluation of the controls to provide assurance that they adequately addressed the identified risks.
- Testing to ensure that defined financial processes are operating effectively in practice.

With social distancing measures in place due to the Covid-19 pandemic, this review was undertaken remotely with communications via email and video conferencing.

Our work complies with Public Sector Internal Audit Standards.

2. SCHOOLS AUDITED FROM APRIL TO JULY 2021

The following schools were audited in the period 1 April 2021 to 31 July 2021.

<u>SCHOOL NAME</u>	<u>BACKGROUND INFORMATION</u>
<ul style="list-style-type: none"> Cobourg Primary 	<ul style="list-style-type: none"> Currently has a £126,285 deficit which was carried forward into the 2021-22 financial year. Recently gone through a reorganisation process which has resulted in reduced staff numbers and moved from a two form to a one form entry.
<ul style="list-style-type: none"> St Joseph's Infant School 	<ul style="list-style-type: none"> Forms part of a federation in conjunction with St Joseph's Junior School. Has a surplus budget of £102,619.41 which was carried forward into the 2021-22 financial year. Implemented staff restructuring to reduce the size of the senior leadership and therefore free up resources.
<ul style="list-style-type: none"> Comber Grove Primary 	<ul style="list-style-type: none"> Currently has a £144,674 deficit which was carried forward into the 2021-22 financial year. Initiating a restructuring process in September 2021 which is imperative to the school in eliminating the deficit within the 2022-23 financial year.
<ul style="list-style-type: none"> St Francesca Cabrini Primary 	<ul style="list-style-type: none"> Currently has a £26,883 deficit which was carried forward into the 2021-22 financial year. Due to limited finances the school does not have a Business Manager. Budget processes are overseen operationally by the Clerk to the Governors, who is supported by a Finance Assistant. Will officially become a one form school in September 2021.
<ul style="list-style-type: none"> Dog Kennel Hill Primary 	<ul style="list-style-type: none"> Dog Kennel Hill is part of the River Hill Federation which comprises of two Southwark schools, the other being Rotherhithe Primary. Currently has an overall deficit of £567,545 which was carried forward into the 2021-22 financial year.

	<ul style="list-style-type: none"> School was without a full time bursar for 15 months. A permanent officer has now been recruited
<ul style="list-style-type: none"> Rotherhithe Primary 	<ul style="list-style-type: none"> Rotherhithe Primary is part of the River Hill Federation which comprises of two Southwark schools, the other being Dog Kennel Hill Primary. Currently has a deficit of £397,556 which has been carried forward into the 2021-22 financial year. School was without a full time bursar for 15 months. A permanent officer has now been recruited

These six schools formed part of the original audit plan for 2021-22. They were selected at the request of the director of education due to emergent risks and concerns about financial management and controls.

3. SUMMARY OF RECOMMENDATIONS AND LEVELS OF ASSURANCES PROVIDED

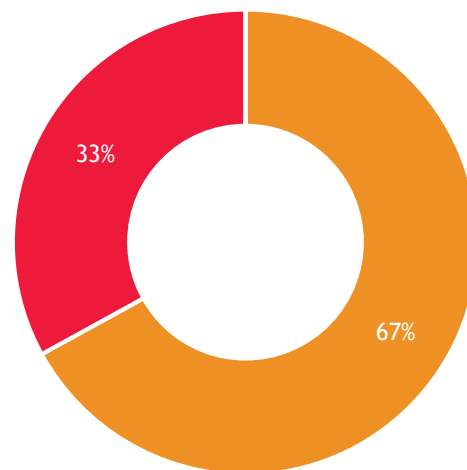
We provide overall opinions to each school on the design of the controls in place and the operational effectiveness of those controls.

We raised a total of 28 recommendations across the six schools audited.

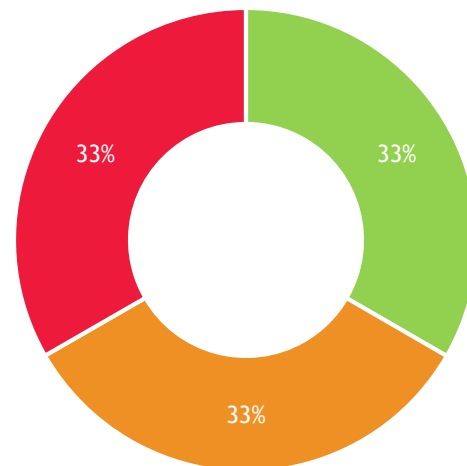
The charts below summarise our assurance opinions and recommendations.

See appendix 3 for the definitions.

Assurance Opinions - Design of the Control

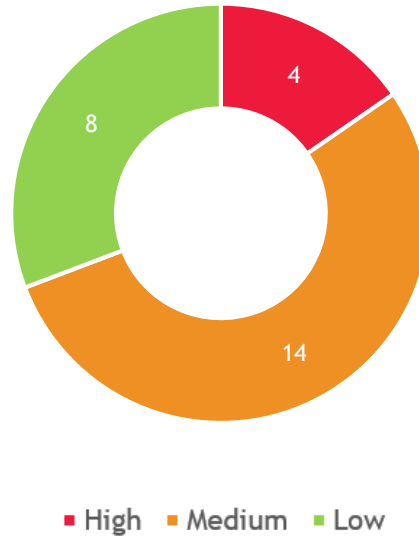


Assurance Opinions - Operational Effectiveness



■ Substantial ■ Moderate ■ Limited ■ No

Recommendations by Category



Summary of Findings by Risk Area

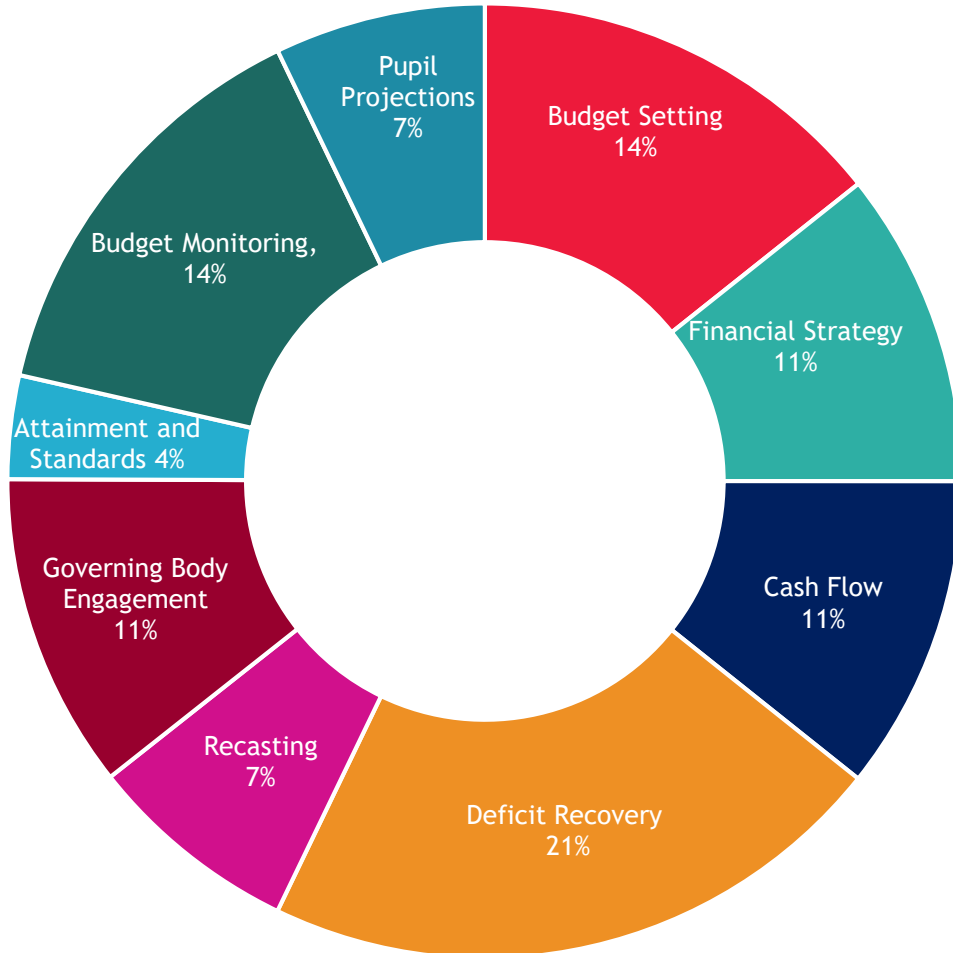
The main areas where schools do not have strong controls or do not comply with the council's expectations are deficit recovery planning, budget setting and monitoring, making up 21%, 14% and 14% of our recommendations overall.

Controls in the areas of cash flow, governing body engagement and financial strategy areas also require improvement to effectively manage the risks, each making up contributing 11% of total recommendations.

We are conducting a separate review regarding the Council's departmental response to schools in financial difficulties. This will directly address the findings and issues raised in the six reports and determine the appropriate processes by which the Council can support these schools.

Summary of recommendations categorised by Risk Percentages

The chart below summarises the proportion of recommendations made across the risk areas reviewed.



4. COMMON THEMES ARISING

The table below summarises the key findings arising from our reviews, along with the total number of each category of recommendation made in each area.

Area	Recommendations and significance			Summary of Key Findings
	H	M	L	
Deficit Recovery	-	4	2	<ul style="list-style-type: none"> There is no projected date/ timeline for the school's elimination of the overarching deficit School restructuring plan is a key part of the overall strategy projection and deficit recovery plan. If restructuring plan is delayed projections will materially alter and the deficit reduction will be delayed, causing additional financial hardship on the school.
Budget Setting	2	2	-	<ul style="list-style-type: none"> Guidance outlining key steps on how the budget should be set is not documented
Budgeting Monitoring	2	2	-	<ul style="list-style-type: none"> Budget monitoring processes are not documented. If key financial staff were to be absent there is a risk that these processes would not continue to be managed in an effective manner resulting in unreliable financial data and large variances.
Cash Flow	-	2	1	<ul style="list-style-type: none"> Cash reserves are low and will remain a concern while schools are in a financial deficit. However, the cash flow forecast is not presented and discussed as a standing agenda item at Governing Body meetings.
Governing Body	-	-	3	<ul style="list-style-type: none"> Variations and financial issues are discussed at the Governing Body and Resources Committee, however, there is not a consistent defined follow up process stating how these issues have been addressed or steps taken to rectify them.
Financial Strategy	-	2	1	<ul style="list-style-type: none"> Head teachers expressed concern that when they were not provided any standardised financial training. This resulted in them requiring a few months before they were fully proficient in overseeing the school's financial processes.
Recasting	-	2	-	<ul style="list-style-type: none"> There was no evidence of recasting in the financial reports, resulting in variances and unexpected end of year outturns.
Financial Strategy links to Attainment	-	-	1	<ul style="list-style-type: none"> The key drive of the financial strategy is reducing the deficit and school costs. While Curriculum remains a priority, these links should be highlighted going forward to ensure they remain consistently visible.
Pupil Projections	-	-	2	<ul style="list-style-type: none"> Financial forecast reports did not contain a breakdown of the estimated pupil intake in upcoming years.
TOTAL	4	14	10	<ul style="list-style-type: none"> A total of 28 recommendations were raised across six schools audited

5. FORWARD LOOK: INTERNAL AUDIT SOUTHWARK SCHOOLS PROGRAMME

1. Review of Southwark's departmental response to schools in financial difficulty will commence in August 2021. This will incorporate follow up to some of the common issues raised during the recent financial school reviews.
2. Southwark schools compliance audits will resume in the forthcoming winter term (pending any unexpected covid restrictions).
3. Additional budgets and financial strategy reviews will be discussed with Southwark Council for inclusion on this year's internal audit programme.

Appendix 1 School Financial Value Standards Risk areas and key lines of enquiry conducted during testing

School Financial Value Standards Risk areas	Key lines of enquiry conducted during testing
School's Financial Strategy	<ul style="list-style-type: none"> • Confirm that the school has a realistic, sustainable and flexible financial strategy in place for at least the next 3 years, based on realistic assumptions about future funding, pupil numbers and pressures
Financial Strategy linked to raising standards and attainment	<ul style="list-style-type: none"> • Verify that schools plan their staffing based on multi-year projections of curriculum needs • Determine whether senior educational leads and school business professionals are involved in the discussions related to curriculum and the strategy
Budget setting process	<ul style="list-style-type: none"> • Confirm the school has set a well-informed and balanced budget • Determine whether the budget setting process allowed sufficient time for the governing body to scrutinize and challenge the information provided • Review documented procedures for setting budgets
Budget Monitoring procedures	<ul style="list-style-type: none"> • Confirm that the budget is monitored on a consistent basis • Review budget monitoring financial reports for the last two financial years. Confirm reports are logical and complete • For any variances within financial reports, confirm adequate narrative provided • Determine whether end of year outturn in line with budget projections
Deficit Recovery Plan	<ul style="list-style-type: none"> • Confirm that a Deficit Recovery Plan in place • Verify that the deficit recovery plan is being monitored effectively • If a deficit is in present, enquire whether restructuring is being considered as a cost reduction method • Confirm that the school is in liaison with Local Authority regarding their Deficit
Governing Body Engagement	<ul style="list-style-type: none"> • Determine whether the budget setting process allows sufficient time for the governing body to scrutinize and challenge the information provided • Determine whether there is evidence of governing body engagement and challenge

School Financial Value Standards Risk areas	Key lines of enquiry conducted during testing
	<p>to financial issues</p> <ul style="list-style-type: none"> • Confirm that the governing body should sign off budgetary and financial plans. • Verify that the governing body is alerted to significant budget variations in a timely manner
Pupil Projections	<ul style="list-style-type: none"> • Confirm that the school is realistic in its pupil number projections based on relevant data. • Verify that this information is reflected in financial documentation
Cash Flow	<ul style="list-style-type: none"> • Determine whether school's cash flow is monitored consistently throughout the year • Verify that low cash reserves are consistently discussed with the Governing Body and steps to manage issues are prioritized
Recasting	<ul style="list-style-type: none"> • Determine whether the school will be able to move quickly to recast its budget if the projections and the reality are materially different
End of Year Balance	<ul style="list-style-type: none"> • Confirm balances are at a reasonable level and the school have a clear plan for using the money it plans to hold in balance at the end of each year

APPENDIX 2 - School assurance ratings against the School Financial Value Standards (see appendix 3 for definitions)

SCHOOL FINANCIAL VALUE STANDARD PERFORMANCE SUMMARY	COBOURG PRIMARY	DOG KENNEL HILL PRIMARY	ROTHERHITHE PRIMARY	COMBER GROVE PRIMARY	ST FRANCESCA PRIMARY SCHOOL	ST JOSEPH'S CATHOLIC INFANTS
Does the school have a realistic, sustainable and flexible financial strategy in place for at least the next 3 years, based on realistic assumptions about future funding, pupil numbers and pressures?	Green	Amber	Amber	Green	Green	Green
Is the financial strategy integrated with the school's strategy for raising standards and attainment?	Green	Amber	Amber	Green	Green	Green
Does the school set a well-informed and balanced budget each year (with an agreed and timed plan for eliminating any deficit)?	Amber	Red	Red	Amber	Amber	Green
Does the budget setting process allow sufficient time for the governing body to scrutinise and challenge the information provided?	Green	Amber	Amber	Green	Green	Green
Is the school realistic in its pupil number projections and can it move quickly to recast the budget if the projections and the reality are materially different?	Green	Amber	Amber	Green	Green	Green
Is end year outturn in line with budget projections, or if not, is the governing body alerted to significant variations in a timely manner, and do such variations result from explicitly planned changes or from genuinely unforeseeable circumstances?	Green	Red	Red	Amber	Green	Green
Are balances at a reasonable level and does the school have a clear plan for using the money it plans to hold in balance at the end of each year?	No closing Balance due to deficit	No closing Balance due to deficit	No closing Balance due to deficit	No closing Balance due to deficit	No closing Balance due to deficit	Green

APPENDIX 3 - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF 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.			

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