

INTERNAL AUDIT SCHOOLS ANNUAL SUMMARY REPORT

London Borough of Southwark

2023-24

*For presentation to the Audit, Governance and Standards
Committee 5 September 2024*

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SUMMARY OF 2023-24 WORK

1. INTRODUCTION AND BACKGROUND

PURPOSE OF REPORT

This report summarises the outcomes of the London Borough of Southwark school audit programme completed during 2023/24 by BDO LLP on behalf of the Council. It draws together the assurance ratings and number of recommendations made across each risk area, highlights common themes, and compares these to those summarised in the 2022-23 report.

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

APPROACH TO INTERNAL AUDIT OF SCHOOLS

A cyclical plan is followed that aims to complete an internal audit of all schools over a four year period. The programme of audits is agreed with the Director of Children and Families. A programme of 17 schools was completed in 2023/24.

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 2023-24 followed the same programme as that in 2022-23 and 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 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 were as follows:

- Testing was performed on a sample basis, selected from transactions processed in the previous 12 months.
- The audit did not assess the adequacy of teaching arrangements at the school.

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- In addition, the work of internal audit 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 the internal audit work and are linked to controls that are not in place or are not being complied with. Recommendations are rated as High, Medium, or Low priority.

We provide an overall assurance opinion based on the priority and numbers of recommendations.

- The highest opinion is Substantial Assurance - A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
- The lowest opinion is No Assurance - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and/or control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

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

2. SCHOOLS AUDITED IN 2023-24

The table below provides the financial context for the year and summarises the recommendations raised, and audit assurance opinions provided for each school audited in 2023-24.

The results of our work highlights that the financial control environment operating in the Borough's schools continue to require strengthening. However, overall there has been year on year improvement, shown by the levels of assurance and number of recommendations raised (see section 3 for more details).

SCHOOL	FINAL REPORT	H	M	L	DESIGN	OPERATIONAL EFFECTIVENESS
Alfred Salter Primary School	Draft	2	5	2	Moderate	Moderate
Bellenden Primary School	May 2024	0	6	1	Moderate	Moderate
Brunswick Park Primary School	April 2024	1	2	5	Moderate	Moderate
Comber Grove Primary School	Draft	3	8	4	Moderate	Limited
Crampton Primary School	May 2024	2	9	4	Moderate	Moderate
Evelina Hospital School	January 2024	0	1	5	Substantial	Moderate
Friars Primary School	June 2024	0	5	6	Moderate	Moderate
Grange Primary School	May 2024	1	3	6	Moderate	Moderate
Hollydale Primary School	April 2024	0	2	5	Substantial	Moderate
Ivydale Primary School	May 2024	2	5	5	Moderate	Moderate
Riverside Primary School	April 2024	1	5	2	Moderate	Moderate
Robert Browning Primary School	May 2024	0	2	2	Substantial	Moderate
Rye Oak Primary School	March 2024	0	3	2	Moderate	Moderate
St George's Cathedral RC Primary School	May 2024	0	4	4	Moderate	Moderate
St James Church of England Primary School	December 2023	0	7	1	Moderate	Moderate
Tower Bridge Primary School	April 2024	0	2	1	Substantial	Moderate
Victory School	Draft	1	3	0	Substantial	Moderate
Totals	-	13	72	55		

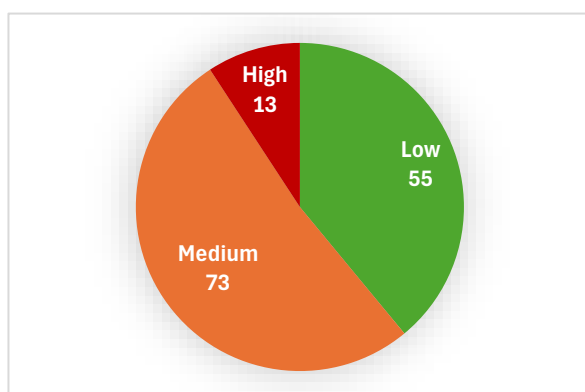
3. SUMMARY OF RECOMMENDATIONS AND ASSURANCE OPINIONS

The summaries of recommendations and assurance opinions for 2023/24 and 2022/23 for comparison purposes are shown in the pie-charts below.

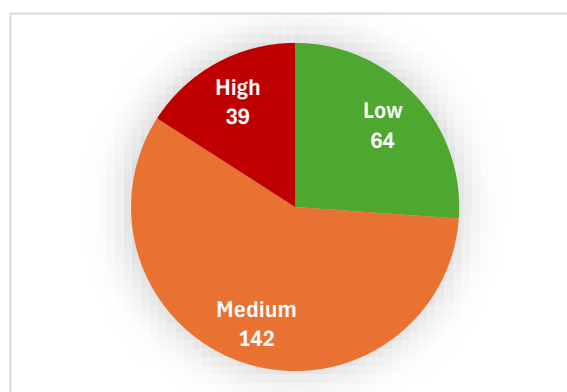
TOTAL NUMBER OF RECOMMENDATIONS

The number of recommendations raised for each priority rating of High, Medium, or Low were as follows:

2023-24



2022-23

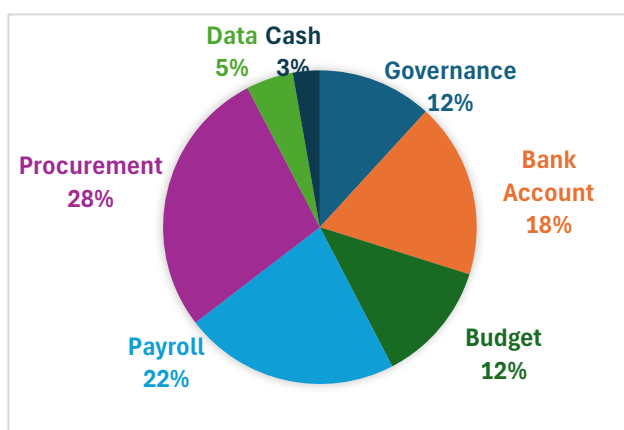


In 2023-24 a total of 141 recommendations were raised across 17 schools. This represents an average of eight recommendations raised per school. This compares to an average number of 12 recommendations made in 2022-23, indicating that schools have improved the control environments in the areas subject to internal audit.

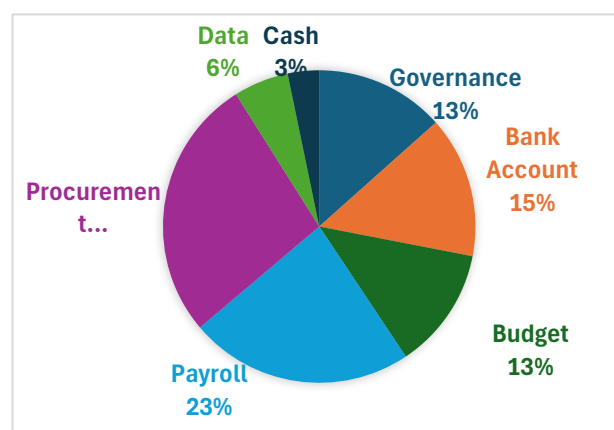
PROPORTION OF TOTAL RECOMMENDATIONS BY RISK AREA

The proportion of recommendations raised in each risk area were as follows:

2023-24



2022-23



As in previous audit cycles, the highest proportion of recommendations continues to be in the areas of Payroll and Procurement, with Budget, Bank Account and Governance also showing similar relative proportions in 2023-24 compared to 2022-23.

ASSURANCE OPINIONS

The percentage of each assurance levels provided to schools during 2023-24 is summarised in the table below:

Overall Design Opinion	Percentage of schools 2023-24	Overall Operational Effectiveness Opinion	Percentage of schools 2023-24
Substantial	29% - 5 schools	Substantial	0%
Moderate	71% - 12 schools	Moderate	94% - 16 schools
Limited	0%	Limited	6% - 1 school
No	0%	No	0%

The percentage of each assurance levels provided to schools during recent previous years, 2019-20 and 2022-23 are summarised in the table below:

Note that due to the impact of Covid-19 on access and working arrangements, no school audits were completed in 2020-21 and our reviews throughout 2021-22 were different to our regular school reviews, focussing on financial management strategy and controls.

Overall Design Opinion	Percentage of schools 2019-20 and 2022-23	Overall Operational Effectiveness Opinion	Percentage of schools 2019-20 and 2022-23
Substantial	15%	Substantial	0%
Moderate	85%	Moderate	74%
Limited	0%	Limited	26%
No	0%	No	0%

The tables above show that the relative proportions across assurance opinions have improved during 2023-24. There were more substantial assurance opinions for the design of the control framework (29% compared to 15%) and fewer limited assurance opinions for the operational effectiveness of the controls in place (6% compared to 26%).

4. COMMON THEMES 2023-24





Area	Number of Recommendations			Common Themes 2023-24
	H	M	L	
Governance Arrangements	-	6	11	<ul style="list-style-type: none"> Key strategic documents, including the Scheme of Delegation, Terms of Reference and Financial Procedures Manual were all in place, however, in several cases they were not up to date with evidence of regular review by the Governing Body. In several schools, the Financial Procedures Manual and the Scheme of Delegation did not reconcile. In some cases, key information such as the procurement card limits, and up-to-date bank mandate signatories were not included in the Financial Procedure or Scheme of Delegation. There were instances where Declaration of Interests was not a standing item in the Governing Body meeting, and evidence of the Governing Body and sub-committee meeting minutes being approved by the appropriate Chair was not available.
Bank account	-	12	14	<ul style="list-style-type: none"> Bank reconciliations had not been signed by both the individual performing the reconciliation and the individual conducting the independent review to evidence segregation of duties. In some cases, the Bank mandate signatories were not in line with the Scheme of Delegation. In many instances, Direct Debit mandates were not signed and retained, were only signed by one signatory, or were signed by non-current staff.
Budgeting	3	11	4	<ul style="list-style-type: none"> In many schools, cashflow forecasting was not undertaken. In some instances, the annual budget was approved after the Council's deadline. In some instances, the approval of variations against the annual budget plan was not evidenced adequately in minutes of meetings.
Payroll and pensions	1	15	14	<ul style="list-style-type: none"> Employee personnel files were not always obtained / retained, such as starter forms, signed contracts, letters of appointment, and up-to-date salary information. Leaver forms and other relevant documentation were not always held on file in respect of leavers.

				<ul style="list-style-type: none"> • In some cases, the overtime form was not signed and approved. • Payroll reconciliations were undertaken in all schools. However, in many cases, there was no evidence of who performed the reconciliation and the independent review.
Procurement	8	23	8	<ul style="list-style-type: none"> • Purchase orders were not always raised for all appropriate purchases and authorised in accordance with the Financial Procedures Manual. In addition, clear segregation of duties was not always evident between the raising of purchase orders and the receipt of goods/services. • Some invoice payments were more than 30 days overdue, and some purchases were not supported by a valid invoice. Some payments were made prior to receiving the invoice. • There was a lack of documentary evidence in some instances that the goods received were checked for accuracy and that delivery documentation was appropriately annotated. • In several instances, for higher level spend, the appropriate number of quotes were not obtained as part of the procurement process and retained on file in line with the School's Financial Procedures.
Data security	-	3	4	<ul style="list-style-type: none"> • In some cases, ICT back-up contracts and terms were not retained, or had not been retendered for years. • In several schools, where the back-ups were saved, these were not always secure or fireproofed.
Cash handling	1	2	-	<ul style="list-style-type: none"> • In a few schools, issues were found in the cash handling procedures in place. Cash was collected, reconciled, and deposited by the same officer. There was no receipt book or safe log to record cash collected and reconcile with bank statements.
TOTALS	13	72	55	

APPENDIX 1

OPINION SIGNIFICANCE DEFINITION

ANNUAL OPINION DEFINITION	
Substantial - Fully meets expectations	Our audit work provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the areas under review. There is only a small risk of failure or non-compliance.
Moderate - Significantly meets expectations	Our audit work provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the areas under review. There is some risk of failure or non-compliance.
Limited - Partly meets expectations	Our audit work provides assurance that the arrangements will deliver only some of the key objectives and risk management aims of the organisation in the areas under review. There is a significant risk of failure or non-compliance.
No - Does not meet expectations	Our audit work provides little assurance. The arrangements will not deliver the key objectives and risk management aims of the organisation in the areas under review. There is an almost certain risk of failure or non-compliance.

REPORT OPINION SIGNIFICANCE DEFINITION				
Level of Assurance	Design Opinion	Findings	Effectiveness Opinion	Findings
 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 noncompliance 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 DEFINITION	
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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