



LONDON BOROUGH OF SOUTHWARK

# SCHOOLS ANNUAL INTERNAL AUDIT SUMMARY REPORT

2018-19

August 2019

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# 1. BACKGROUND AND SCOPE OF SCHOOLS INTERNAL AUDIT

This report summarises the results of the work undertaken in 2018-19 relating to the internal audit of local authority maintained schools within the London Borough of Southwark. The report includes previous years' comparative information.

All maintained schools within the London Borough of Southwark are subject to an internal audit review at least every four years. The frequency may be increased where emergent risks and issues are identified, for example if the school is in deficit, there has been a change in leadership or where limited assurance has been provided in previous year.

An annual planning meeting is held with the Director of Education and key contacts within the Council's school development HR and finance teams. The schools to be audited and the terms of reference for each audit are agreed with the Director of Education at the start of each year. We allow some contingency days should the risk profile of specific schools change or additional work is required, such as training and awareness on internal audit to head teachers or school business managers.

The internal audit programme of work is designed to assess the design and operational effectiveness of the controls in place at each school to mitigate the key risks in the areas below.

- Governance
- Procurement
- Banking
- Data Security
- Budgeting
- Cash Handling
- Payroll and Pensions
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The scope of our work has the following limitations:

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

Our work complies with Public Sector Internal Audit Standards.

Our internal audit work for the 12 month period from 1 April 2018 to 31 March 2019 was carried out in accordance with the internal audit plan approved by management and the Audit, Governance and Standards Committee.

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## 2. SCHOOLS AUDITED IN 2018-19

The following schools were audited in the period 1 April 2018 to 31 March 2019.

- Ann Bernadt Nursery School
- Albion Primary School
- Bellenden Primary School
- Beormund Primary School
- Bessemer Grange Primary School
- Bethlem & Maudsley Hospital School
- Charles Dickens Primary School
- Cherry Garden School
- Dog Kennel Hill Primary School
- Dulwich Village Church of England Infants' School
- Dulwich Wood Nursery School
- English Martyrs' Catholic Primary School
- Highshore School
- John Ruskin Primary School
- Kintore Way Nursery School and Children's Centre
- Lyndhurst Primary School
- Michael Faraday Primary School
- Nell Gwynn Nursery School
- Notre Dame Roman Catholic Girls' School
- Oliver Goldsmith Primary School
- Spa School (pre Academy)
- St Anthony's Catholic Primary School
- St George's Church of England Primary School
- St James The Great Roman Catholic Primary School
- St Joseph's Roman Catholic Primary School - George Row
- St Jude's Church of England Primary School
- St Peter's Walworth Church of England Primary School

Of these 27 schools, the original internal audit plan included 24 to be audited during 2018-19. Three additional schools were added at the request of the director of education due to emergent risks and concerns about financial management and control.

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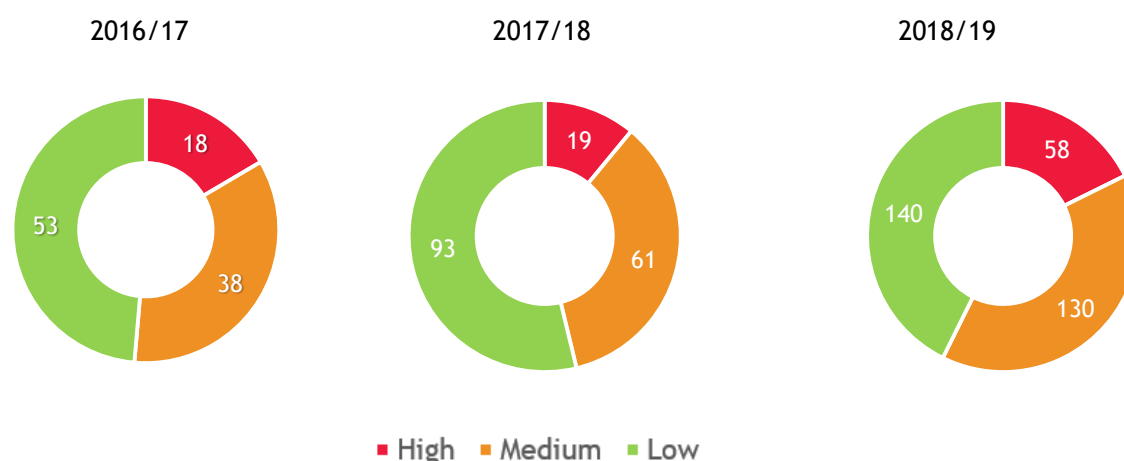
### 3. SUMMARY OF RECOMMENDATIONS AND LEVELS OF ASSURANCES PROVIDED

#### Number and category of recommendations

We raised a total of 328 recommendations across 27 schools in 2018-19, 173 recommendations across 20 schools in 2017-18 and 109 recommendations across 9 schools in 2016-17.

A total of 610 recommendations were raised across 56 schools audited in the past three years.

This calculates as an average of 11 recommendations raised per school across 2016-17, 2017-18 and 2018-19.



#### Assurance Opinions

We provide overall opinions to each school on the design of the controls in place and the operational effectiveness of those controls (see appendix 1 for the definitions).

The assurance levels provided during 2016-17, 2017-18 and 2018-19 are set out below. These results indicate that the year 2018-19 has seen a decline in the assurance levels when compared to the combined figures for 2016-17 and 2017-18.

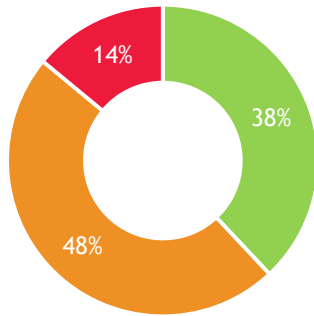
Overall, there has been a decrease in the levels of substantial assurance provided and an increase in the levels of limited assurance for both control design and effectiveness whereas there has been no significant change observed in the moderate assurance level.

In terms of this worsening position, it is important to note that a number of additional school audits were added during the year due to the council's concerns about areas such as financial performance, information within finance returns (or routinely late returns), change of leadership and other indicators around the school's internal control environment. Consequently, the results are slightly skewed towards a negative picture overall. This was coupled with the key change from the requirement to send in returns to finance from monthly to quarterly, which resulted in schools performing key tasks, such as bank reconciliations and accounting,

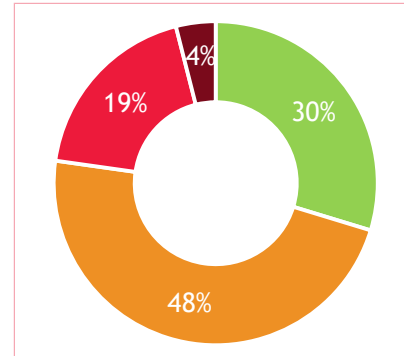
only on a quarterly rather than monthly basis. For those additional schools audited in 2018-19, cash collection seemed to be particularly poorly controlled.

### Control Design

2016-17 and 2017-18

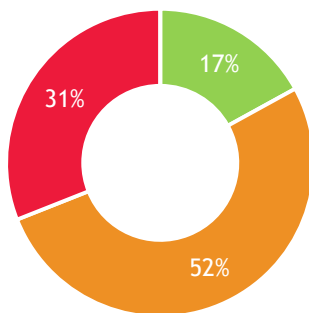


2018-19

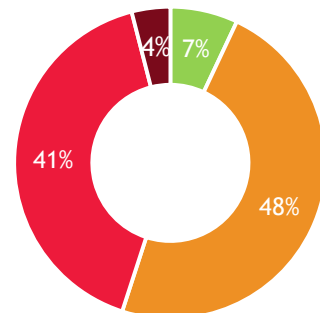


### Operational Effectiveness

2016-17 and 2017-18



2018-19



■ Substantial ■ Moderate ■ Limited ■ No

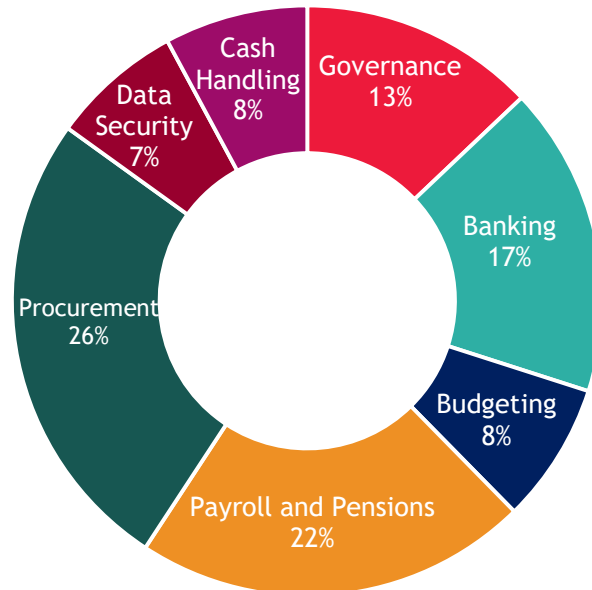
In respect of the school with no assurance, this audit was an additional request to the plan and followed suspicions about the absence of effective financial control. The director of finance, schools development and schools finance were involved in the planning and ongoing review of the issues raised as the audit progressed, including attendance at the closing meeting and subsequent follow up meeting with the head teacher and chair of governors. We have scheduled a further audit for October 2019.

One interesting point of note is that there does not appear to be a correlation between the strength of financial controls within a School and teaching standards. A review of the latest Ofsted reports for the schools in our plan last year identified that, with the exception of one school that requires improvement (and received Limited / Limited assurance), all other schools were rated as Good or Outstanding.

## Summary of Findings by Risk Area 2016-17 to 2018-19

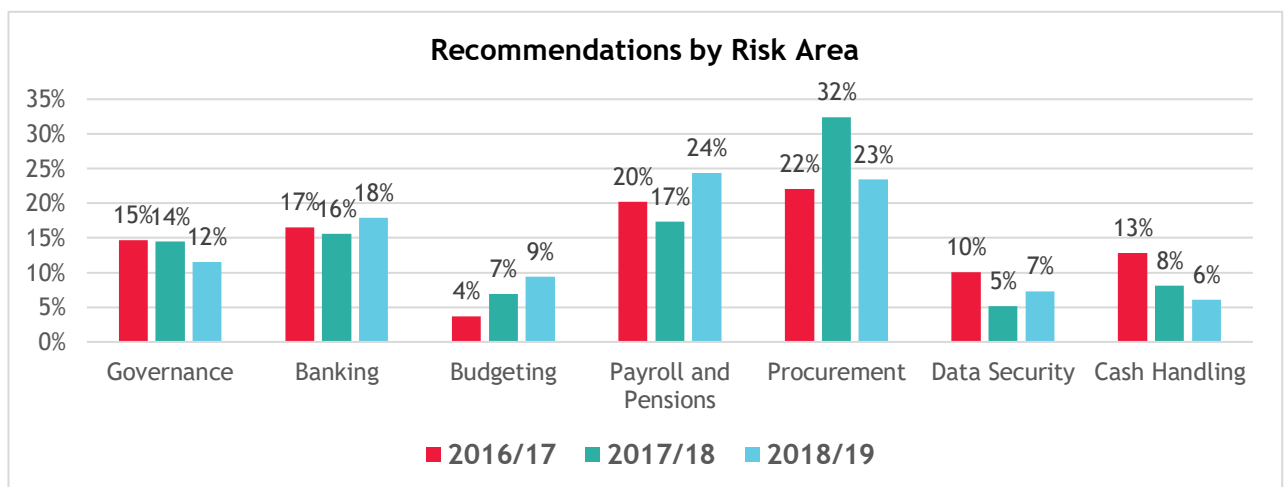
We have provided below charts that summarise the proportion of recommendations made across the risk areas reviewed over the last three years. In this time period, all of the maintained schools have been subject to an internal audit.

Taking the three years in totality, the key areas where schools do not have strong controls or do not comply with the council's expectations are procurement and payroll, making up 26% and 22% of recommendations overall. Banking and governance are the other main areas where the control frameworks within schools need to be strengthened, making up 17% and 13% of total recommendations across the three years.



## Summary of Findings by Risk Area 2016-17 to 2018-19

The chart below shows the relative proportion of recommendations made in each risk area for the three years 2016-17, 2017-18 and 2018-19.



## 4. COMMON THEMES ARISING IN 2018-19

The table below summarises the key findings arising from our internal audit of schools during 2018-19, along with the total number of each category of recommendation made in each area.

Area	Recommendations and significance			Summary of Key Findings / Recommendations
	H	M	L	
<b>Governance</b>	2	7	29	<ul style="list-style-type: none"> <li>Schemes of delegation and financial procedures are not always up to date and evidenced as approved by the governing body. The documents do not always agree with each other.</li> <li>Declaration of business interest forms are not up to date and have not been completed and signed by all governors.</li> <li>There is a lack of evidence of advanced circulation (at least one week) of papers to governing body and committee meetings.</li> </ul>
<b>Banking</b>	8	20	31	<ul style="list-style-type: none"> <li>Formal monthly bank reconciliations have not been completed.</li> <li>Direct debit mandates are not retained.</li> <li>Explanatory notes for significant variations are not always recorded on the quarterly returns to the council.</li> <li>Bank statements were being addressed to a former staff member.</li> </ul>
<b>Budgeting</b>	12	9	10	<ul style="list-style-type: none"> <li>The annual budget is not always available for review with lack of evidence that this has been approved by the governing body before the council's deadline.</li> <li>Budget virements are not always evidenced as approved per the scheme of delegation.</li> <li>Budget monitoring reports do not always include explanatory notes for significant variations.</li> <li>Limited scrutiny of overspends and underspends by the business managers and head teachers.</li> </ul>
<b>Payroll and Pensions</b>	11	33	36	<ul style="list-style-type: none"> <li>The payroll contract for the current year is not retained</li> <li>The draft and final payroll reports are not signed by the preparer or an independent reviewer.</li> <li>Up to date salary information is not retained on the staff personnel files</li> <li>Overtime claims forms are not always sufficiently detailed including the reason and the month of claim.</li> <li>Starter and leaver forms are not being authorised and retained on personnel files.</li> <li>Pension opt-out forms are not being retained.</li> </ul>



Area	Recommendations and significance			Summary of Key Findings / Recommendations
	H	M	L	
<b>Procurement</b>	12	47	18	<ul style="list-style-type: none"> <li>• Purchase orders are not being raised for all orders and not appropriately authorised evidencing lack of segregation of duties</li> <li>• Invoices are not being evidenced as approved for payment and not being paid within 30 days of the invoice date.</li> <li>• Commitment accounting is not being undertaken or lack of understanding around how details relating to committed orders can be generated from the financial management system.</li> <li>• Tendering for high value transactions including ICT back-up services is not being undertaken per the Financial Procedures.</li> <li>• Credit card statements are not being evidenced as reviewed by the cardholder and an independent reviewer.</li> </ul>
<b>Data Security</b>	4	11	8	<ul style="list-style-type: none"> <li>• Staff and Governors are not always DBS checked prior to commencement of employment.</li> <li>• Risk assessments are not evidenced where staff have started at the school prior to DBS clearance.</li> </ul>
<b>Cash Handling</b>	9	3	8	<ul style="list-style-type: none"> <li>• Inadequate cash handling procedures including a receipt book and safe log not being maintained, central record of collected cash is not in place, reconciliation between the receipt book, central record and bank statements is not undertaken.</li> </ul>
<b>TOTAL</b>	58	130	140	A total of 328 recommendations were raised across 27 schools audited in the year 2018-19.

**FOR MORE INFORMATION:**

**Greg. Rubins**

Partner, Public Sector  
0238 088 1892 (DDI)  
Mobile: 07710 703441

[greg.rubins@bdo.co.uk](mailto:greg.rubins@bdo.co.uk)

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