

Annual review of schools internal audit work

1. Purpose of this report

- 1.1. The purpose of this paper is to provide the Schools Forum with an overview of the findings and recommendations from the schools internal audit work undertaken in the last financial year (2012/13).

2. Recommendations

- 2.1. Note this update.

3. Background

- 3.1. London Borough of Lewisham (LBL) internal audit service is part of the Audit & Risk Service, which also covers Insurance & Risk, Counter Fraud, and Health & Safety. Baker Tilly (previously RSM Tenon Ltd) conducts internal audits on behalf of the Council.
- 3.2. Currently, the internal audit schools programme is on a rolling three-year basis. The auditor identifies the high-level risks in the following areas: Governance, Assets, Financial recording and monitoring, Procurement, Budget monitoring, Income, Recruitment, Payroll and Data security. The risks identified then form the basis of the internal audit testing programme.
- 3.3. The costs for internal audits are re-charged to schools in line with the annual C&YP/Schools service level agreement.

4. Audit Completed in 2012/13

- 4.1. In 2012/13, 30 schools audits were undertaken. Overall, the position shows a deterioration in the level of positive assurance opinions (Satisfactory/Substantial) in schools, from 97% in 2011/12 to 87% in 2012/13. However, this also needs to be reviewed in the context of the schools being audited – see commentary at 5.2. The table below details the number of opinions per school type carried out in 2012/13.

| Type of School | No. Audits | No assurance | Limited | Satisfactory | Substantial |
|----------------|------------|--------------|---------|--------------|-------------|
| Nursery | 1 | - | - | 1 | - |
| Infant | 1 | - | - | - | 1 |
| Primary | 14 | 1 | 2 | 6 | 5 |
| Secondary | 13 | - | 1 | 1 | 11 |
| Special | 1 | - | - | - | 1 |

Schools Forum
20th March 2014
Information Item 1
Annual Review of Schools Internal Audit

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|-------|----|--------|---------|---------|----------|
| Total | 30 | 1 (3%) | 3 (10%) | 8 (27%) | 18 (60%) |
|-------|----|--------|---------|---------|----------|

- 4.2. Internal Audit conducts follow-up reviews nine months after the final report. We only conduct these follows-ups on Limited and No Assurance reports and only follow-up on High and Medium recommendations made. This in turn is monitored by the Council's Audit Panel.
- 4.3. The C&YP Directorate is responsible for monitoring the evidence for implementation of recommendations. This has proved a challenge for all concerned when schools are chased for overdue recommendations. It should be reiterated that schools must ensure they respond to requests for information from C&YP in a prompt manner.

5. Findings

- 5.1. A review of the 2012/13 internal audit recommendations compared to previous year's results is summarised below.

The proportion of high and low recommendations have increased while medium recommendations have decreased compared to the prior year. The number of recommendations raised per audit is in line with the prior year (5.7 in 2012/13 compared to 5.8 in 2011/12).

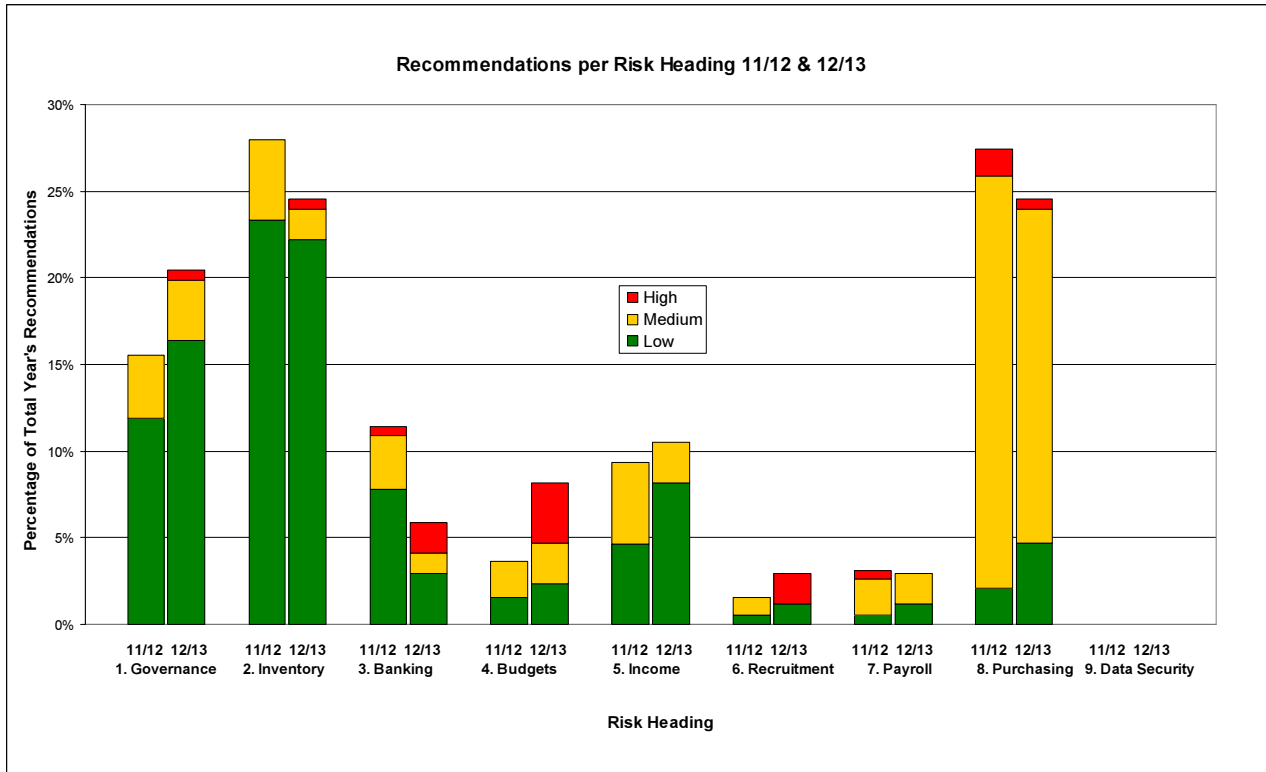
| Recommendation Category | 2011/12 (33 audits) | 2012/13 (30 audits) |
|--------------------------------|--------------------------------|--------------------------------|
| High (No. / %) | 5 (3%) | 15 (9%) |
| Medium (No. / %) | 87 (45%) | 55 (32%) |
| Low (No. / %) | 101 (52%) | 101 (59%) |

- 5.2. In respect of the specific schools audited, there is generally a positive direction of travel from the audit opinions given in 2012/13. Of the 30 schools audited, 37% received a higher assurance opinion than their previous audit. However, just over a quarter of schools received a lower opinion than their previous audit. For those schools which received a lower opinion than previously it is important they ensure controls are being consistently applied at all times. Please note the N/A is due to a new school not having a previous audit opinion.



- 5.3. As in 2011/12, the most common control weaknesses identified continue to be in the areas of governance, inventory and purchasing. Once again there have been no issues noted with data security this year, while there are also relatively few recommendations for the payroll, recruitment and budget monitoring areas. However, where recommendations have been raised there has been a notable increase in the number of high recommendations in the areas of budget monitoring and recruitment. A positive to note is the decrease in recommendations for schools' banking processes, although again the proportion of high recommendations in this area has increased.

5.4. The graph below details the percentage of recommendations per risk heading for



2012/13.

5.5. In summary the key findings with recommendations for improvement in 2012/13 were in the following areas:

Governance

- Policies and Procedures must be current, aligned with the School Finance Manual where necessary, and have been approved by the Governing Body.

Inventory

- Accurate and timely recording of assets, supported by annual stock checks.

Banking

- Completion of accurate and timely bank reconciliations (including writing back of cheques more than six months old).

Budget Monitoring

- The budget monitoring process should be undertaken on a monthly basis, reviewed and signed off by the Headteacher to ensure that income and expenditure is being properly monitored by senior management and reported to the Schools' Finance Committees.

Income

- Have an appropriate charging policy in place and chase debtors promptly.

Recruitment

- Ensure relevant documents relating to references, Disclosure and Barring Service (DBS) certificates and Clear to Recruit forms are obtained and retained where necessary. Evidence for DBS certificates should be retained for up to 6 months (longer in exceptional circumstances, in consultation with the DBS), however evidence pertaining to an employee's right to work in the UK must be retained.

Purchasing

Improvement is necessary in all areas.

- Three quotations should be obtained for all purchases between £3,000 and £4,999,
- four quotations for purchases between £5,000 and £9,999, and
- full tendering process for purchases in excess of £10,000.

In line with the Schools' Finance Manual official orders must be raised for all work, goods or services required except for utilities, rent, petty cash purchases, refunds, grants, compensation and specified exemptions.

Orders must then be properly authorised and the goods/services receipted by the relevant member of staff. This system is designed to ensure that the fundamental principle of segregation of duties is properly safeguarded.

- 5.6. As well as looking at specific risk areas, we also examine the design of and compliance with controls in these areas. Recommendations are made with these categories in mind. So:
- if a recommendation is categorised as 'design of control' this is where an internal control is inherently weak. For example, an asset register not including categories such as cost, the serial number or make and model.
 - A recommendation under 'comply with control' would be due to asset register entries being incomplete. For example not entering the all information required, or failing to put an asset on the register.
- 5.7. Historically the position has been that 30% of internal control failings are due to their design, with 70% due to compliance. In 2012/13, in line with the expected figures, 30% of recommendations made were regarding the design of controls (51 out of 171) and 70% regarding compliance (120 out of 171).
- 5.8. We continue to work to improve the impact of internal audit and regularly review the scope of schools audits. We review the findings listed above and, alongside comparison with practices at other Authorities, employ a more risk-based audit approach, and seek feedback from schools on their experience of the audit process.

6. Conclusions

- 6.1. The 2012/13 audit programme shows the majority (87%) of assurance opinions continues to be positive in schools. However, we also continue to identify similar

- 6.2. weaknesses and raise common recommendations on a regular basis. In particular, in respect of the important areas of inventory management and purchasing controls.
- 6.3. Overall it remains that, where control weaknesses are identified they highlight matters of compliance with established procedures, rather than concerns about the fundamental control framework in place.
- 6.4. Therefore as reported in previous years, learning the lessons raised here and vigilance around compliance with established policies and procedures should suffice to limit the number and seriousness of audit recommendations raised in future.

Appendix A

Schools Audited in 2012/13

| Primary | Audit Opinion |
|--------------------------------------|----------------------|
| Adamsrill Primary | Substantial |
| Athelney Primary | Satisfactory |
| Edmund Waller Primary | Satisfactory |
| Fairlawn School | No Assurance |
| Forster Park Primary | Substantial |
| Holbeach Primary | Limited |
| Kender Primary | Limited |
| Kilmore Primary | Satisfactory |
| Launcelot Primary | Satisfactory |
| Our Lady & St Philip Neri Primary | Satisfactory |
| St Josephs Primary | Substantial |
| St Mary Magdalene's Primary | Substantial |
| St Michaels Primary | Satisfactory |
| St Stephens Primary | Substantial |
| | |
| Secondary | |
| Abbey Manor Secondary PRU | Substantial |
| Addey and Stanhope School | Substantial |
| Bonus Pastor RC Secondary | Substantial |
| Conisborough College Secondary | Substantial |
| Crossways Secondary | Limited |
| Deptford Green School Secondary | Substantial |
| Forest Hill Secondary | Satisfactory |
| Prendergast - Hilly fields Secondary | Substantial |
| Prendergast - Ladywell Secondary | Substantial |
| Prendergast - Vale College | Substantial |
| Sedgehill Secondary | Substantial |
| Sydenham Secondary | Substantial |
| Trinity School Secondary | Substantial |
| | |
| Other | |
| Clyde Nursery | Satisfactory |
| Sandhurst Infant | Substantial |
| Watergate Special School | Substantial |