AUDIT PANEL			
Report Title	Internal audit report for the School Forum for 2016-17		
Key Decision	No		Item No. 5
Ward	All		
Contributors	Head of Corporate Resources		
Class	Part 1	Date: 22 June 2017	

1. Purpose of this report

1.1. This report presents the Schools' Forum with a summary of the 2016-17 (fiscal year) internal audit work in schools.

2. Recommendations

2.1. That the Schools' Forum note the report.

3. Background

3.1. All schools maintained by the Council currently have an internal audit every three years. Members' agree the schools' audit plan around February / March for the following fiscal year (April to March). The Royal Borough of Greenwich, along with the new in-house team conducted the audits during 2016-17.

3.2. Internal audit use the same scope for testing at each school. The scope covers nine high-risk (non-teaching) areas which include; Procurement (purchasing), Governance, Asset Management, Banking, Budget Monitoring, Income, Recruitment, Payroll, and Data Security (DPA).

3.3. Internal audit assesses the controls in these risk areas and provides an opinion on the effectiveness of them to Governors, School Senior Management, and Senior Management at Lewisham Council. The overall assurance opinion categories are Substantial, Satisfactory, Limited and No Assurance.

3.4. Where appropriate, internal audit will make recommendations to help management improve these controls to minimise the risks. Recommendations are ranked using three levels, High, Medium and Low.

3.5. At the time of writing this report, three school reports were still at draft. However, they are included in the report as if they are finalised as the content and assurance opinion is not to expected to significantly change, if at all.

4. Audit assurance opinion

4.1. In 2016-17, 27 schools had an internal audit review. The number of schools with a Limited or No assurance opinion remains low.
   - No Assurance - one school (still at draft)

- Limited - one school
- Satisfactory - 14
- Substantial - 11

The definitions of the assurance opinions and the categories of the recommendation are in Appendix 2.

4.2. <u>The overall assurance opinion for the year for all the schools' is Satisfactory</u>. This is consistent with previous years. Councillors are informed of this opinion in the annual assurance report to be presented to them at the June 2017 Audit Panel meeting. The annual assurance report feeds into the Annual Governance Statement (AGS), which forms part of the Council's financial accounts.

4.3. A list of the schools that had an audit can be found in Appendix 1. It details the audit opinion, number of recommendations made, and the date of the final report (where applicable).

5. Direction of travel

5.1. In addition to providing an assurance opinion, internal audit also notes the direction of travel for each school. It compares the audit assurance opinion from the last audit (normally three years earlier) to the current assurance opinion.

5.2. The graph below (graph 1) show the direction of travel for schools for the last three years and the cumulative direction of travel.
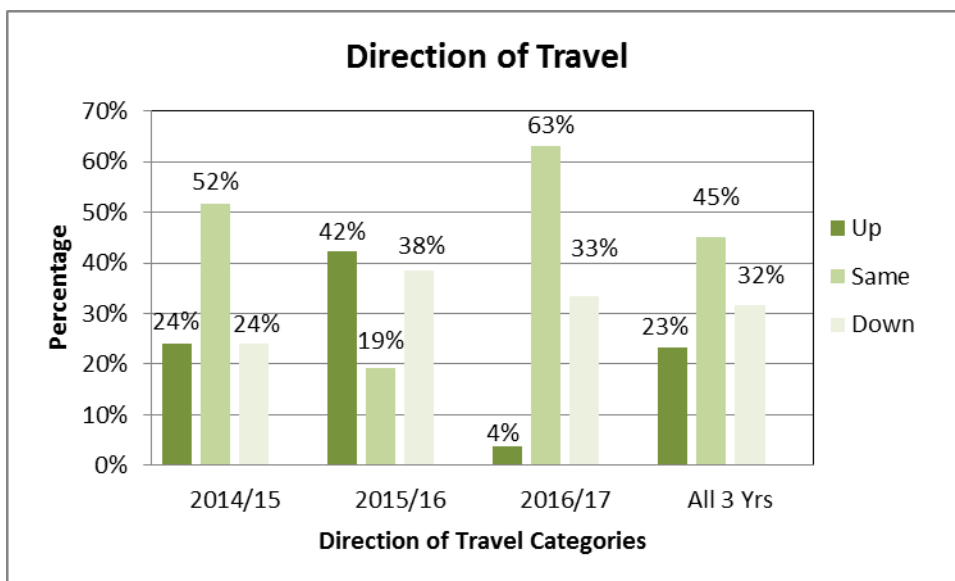
Graph 1

5.3. It shows that for 2016/17:

- 33% of audits have a lower audit opinion than last audit. This is in line with the cumulative total of 32%,
- 63% of audits have the same audit opinion. This is higher than the cumulative total of 45%, and
- 4% of audits had an improved audit opinion. This is lower than cumulative of 24%.

5.4. It should be noted however, that having a lower opinion, does not necessarily mean they have a negative opinion. They could have moved from Substantial to Satisfactory, which are both positive opinions.

5.5. Equally, those schools' whose opinion remained the same, could mean the school continues to have a negative opinion.

6. Follow-up reviews

6.1. Where a school has had a negative assurance opinion, (Limited or No Assurance), internal audit will conduct a formal follow-up review, normally nine months after the final report. This allows time for the agreed actions to be implemented and assessed.

6.2. The auditor will review the status of all the agreed High and Medium recommendations made. A brief report is provided to Senior Management at the school, Chair of Governors, and relevant Senior Management at the Council. These follow-up reviews are is in addition to any updates provided by the school to the CYP Directorate.

6.3. For 2016-17, the two schools that had negative opinions in 2015/16 had their follow up reviews done in April and May 2016. The status of the recommendations at the time of the follow-up are set out in the table below.

| Audit Followed – Up	Original Opinion	Original Final Rpt Date	Follow-up Rpt Date	Implem-ented	In Progress	Not Implem-ented	Total
Adamsrill Primary	Limited	26/08/15	26/04/16	9	5	2	16
Watergate Special	Limited	11/08/15	09/05/16	11	1	1	13

7. Recommendations and Audit Opinions by Risk Headings.

7.1. The auditor will make recommendations where improvements to controls are required. These are categorised as High, Medium and Low.

7.2. The graph below (graph 2), shows the percentage of recommendations made during 16/17, by risk heading and category of recommendation. A definition of the categories can be found at appendix 2.

7.3. The graph shows the highest percentage of High recommendations made were in Banking, Payroll and Data Security.

7.4. The highest percentages of Medium recommendations were made in Procurement, Assets, Payroll and Recruitment
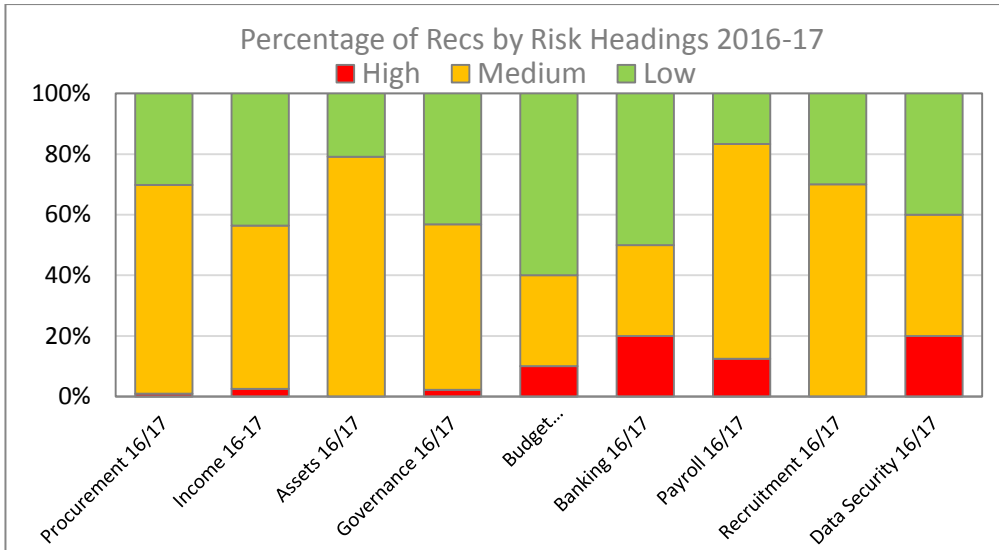
Graph 2

7.5. In addition to the overall assurance opinion, an assurance opinion on the individual risk areas are also provided. This gives the stakeholders a more detailed look at what areas they need to concentrate their resources to improve controls. The graph below, (graph 3)
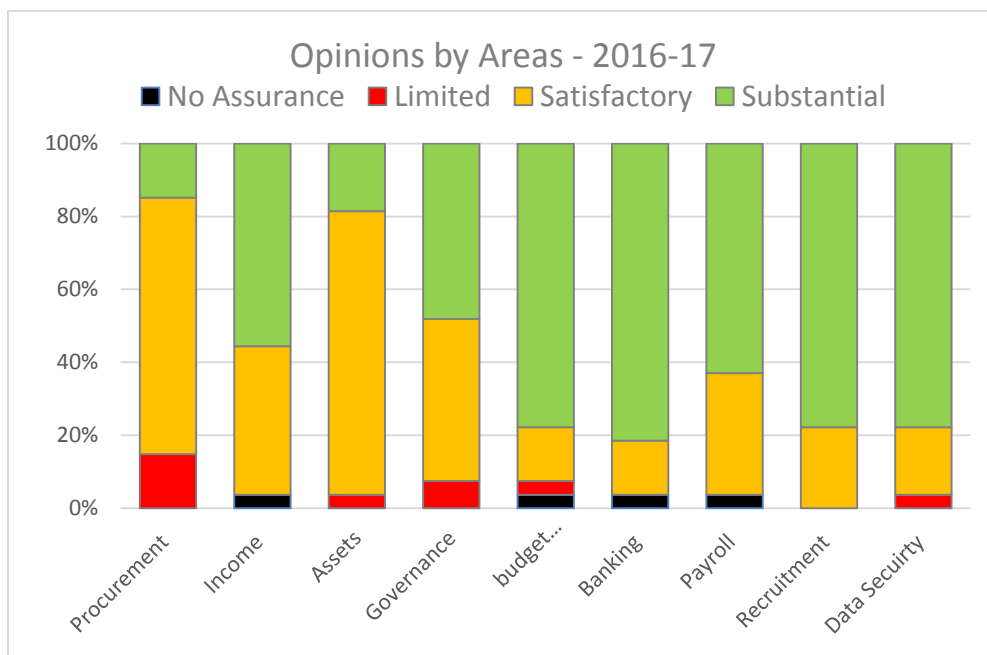
Graph 3

7.6. Here you can see that the risk areas where the negative opinions were given are mainly in Procurement, Governance and Budget Monitoring.

7.7. The main areas where the majority of recommendation are made are Procurement, Governance, and Assets.

7.8. The main findings in Procurement are:
- Non-compliance with the procurement levels set by the Council, EU regulations and the school's own procurement levels.

- Purchase Orders (PO) not being raised (and therefore commitment to spend not approved).
- POs not completed prior to purchasing the goods or receiving the invoice.
- Lack of separation of duties in the procurement process.
- Not obtaining authorisation from the Council's payroll department to pay individuals from the schools bank account (rather than through payroll).
- Purchasing alcohol, gift vouchers, payment to staff social events and leaving / birthday presents out of schools main bank account.

7.9. The main findings in Governance:
- Lack of approval from Governing body for finance policy and / or local scheme of delegation.
- Finance policy not being updated with key changes.
- Register of interest forms not completed by governors or staff with financial responsibility (or staff that can influence spend).
- Voluntary Fund / School Fund not audited and/or presented to governors for approval.

7.10. The main findings for Assets Management:
- Lack of segregation of duties - the officer who maintains the asset register also completes the stock take.
- Asset register not in place or not containing all the appropriate assets.
- Annual stock take not done.
- Write off policy not in place.
- Write off of assets not documented or authorised.
- Assets not appropriately security marked.

7.11. The main findings for Budget Monitoring:
- Budgetary forecasting not done monthly
- Virements not approved, or authorised over officers limit
- Governors' not approving the budget on time, or minuting their approval
- Budget monitoring procedures not in place
- Incorrect input of agreed budget or revised budget on to the Finance system

7.12. Internal audit had previously stated that they would revise their assurance reporting. It was proposed that from 2017/16 to include specific assurances on these three areas on the front of the report.

7.13. However, on reviewing the audits in 16/17, Internal Audit felt that focussing on these three areas only, may divert the school's resources from where they most need to improve controls.

7.14. It was therefore agreed to include an assurance of the school's weakest areas of controls on the front page, rather than just Procurement, Assets, or Governance. It is envisaged however, that the majority of reports will include these on the front page.

8. Conclusion

8.1.	Overall, although the assurance opinions remain positive for the majority of schools the same types of recommendations continue to be made in a significant proportion of schools in the same areas - governance, assets and procurement.

8.2.	For the next round of audit reviews an assurance opinion on the main risks areas where controls need to be improved at the individual school, will be provided. This is in addition to the overall opinion for the whole audit.

8.3.	To improve controls in schools and avoid the financial and reputational risks associated with any failure for these reasons, internal audit recommends that the Governors consider including a review of recommendations from internal audit and/or other reports as a regular agenda item. This will enable them to monitor the progress of actions to address recommendations and respond to any issues that may arise.

## 9.	Financial implications

There are no financial implications arising directly from this report.

## 10.	Legal implications

There are no legal implications arising directly from this report.

## 11.	Crime and disorder implications

There are no crime and disorder implications arising directly from this report.

## 12.	Equalities implications

There are no equalities implications arising directly from this report.

## 13.	Environmental implications

There are no environmental implications arising directly from this report.

## 14.	Background Papers

If there are any queries on this report, please contact David Austin, Head of Corporate Resources, on 020 8314 9114, or email him at: david.austin@lewisham.gov.uk .

Appendix 1 - Schools' audited in 2015/16

Lead Dir.	School	Assurance level given	H	M	L	Areas / Risks tested during the review	Date of final report
SCH	Turnham Primary	No Assurance	8	24	6	Procurement, Banking, Budget Monitoring, Governance, Recruitment, Payroll, DPA, Income and Asset Management	At Draft
SCH	Lucas Vale Primary	Limited	3	19		As above	01/09/17
SCH	Clyde Nursery	Satisfactory	-	8	-	As above	25/11/16
SCH	Dalmain School	Satisfactory	1	5	-	As above	20/01/17
SCH	Deptford Park Primary	Satisfactory	-	6	2	As above	06/12/16
SCH	Marvels Lane Primary	Satisfactory	-	11	4	As above	09/03/17
SCH	Rangefield Primary	Satisfactory	-	6	12	As above	06/02/17
SCH	Rushey Green Primary	Satisfactory	-	10	5	As above	22/07/16
SCH	St Joseph's Catholic Primary	Satisfactory	-	9	8	As above	10/02/17
SCH	St Stephen's CE Primary	Satisfactory	-	11	2	As above	15/12/16
SCH	Torridon Infant	Satisfactory	-	8	7	As above	13/01/16
SCH	Horniman Primary	Satisfactory	-	9	5	As above	01/06/17
SCH	John Stainer Primary	Satisfactory	-	7	1	As above	03/02/17
SCH	Sandhurst Junior	Satisfactory	-	9	9	As above	15/03/17
SCH	Stillness Jnr	Satisfactory	-	11	2	As above	15/05/17

Appendix 1 - Schools' audited in 2015/16

Lead Dir.	School	Assurance level given	H	M	L	Areas / Risks tested during the review	Date of final report
SCH	Torridon Junior	**Satisfactory**	-	15	9	As above	16/03/17
SCH	Brindishe Green Primary	**Substantial**	**-**	**3**	**3**	As above	20/10/16
SCH	Brindishe Manor	**Substantial**	-	3	-	As above	20/10/16
SCH	Holy Cross Catholic Primary	**Substantial**	-	3	2	As above	22/07/16
SCH	Good Shepherd Catholic School	**Substantial**	-	3	1	As above	11/11/16
SCH	Myatt Garden Primary	**Substantial**	-	4	3	As above	25/11/16
SCH	St Mary's CE Primary	**Substantial**	-	3	7	As above	23/12/16
SCH	Drumbeat School (Special)	**Substantial**	-	7	10	As above	28/03/17
SCH	Rathern Primary	**Substantial**	-	4	3	As above	20/01/17
SCH	Sandhurst Infant	**Substantial**	-	8	7	As above	28/02/17
SCH	St Augustine's Catholic Primary	**Substantial**	-	2	10	As above	15/03/17
SCH	Stillness Infant	**Substantial**	-	6	5	As above	16/03/17

Appendix 2 - Definitions of audit opinions and categories of recommendations

Level	Definition
Substantial Assurance ★	A strong framework of controls is in place to ensure that the service area is more likely to meet their objectives. In addition, the controls in place are continuously applied or with only minor lapses.
Satisfactory Assurance ●	A sufficient framework of controls is in place, but could be stronger to improve the likelihood of the service area achieving its objectives. In addition, the controls in place are regularly applied, but with some lapses.
Limited Assurance ▲	There are limited or no key controls in place. This increases the likelihood of the service area not achieving its objectives. Where key do controls exist, they are not regularly applied.
No Assurance ■	There is no framework of key controls in place. This substantially increases the likelihood that the service area will not achieve its objectives. Where key controls do exist, they are not applied.

Definitions of Category of recommendations.

High	It is crucial that this recommendation is implemented immediately. This will ensure that service area will significantly reduce its risk of not meeting its objectives.
Medium	Implementation of this recommendation should be done as soon as possible, to improve the likelihood of the service area meeting its objective.
Low	Implementation of this recommendation would enhance control or improve operational efficiency.