AUDIT PANEL			
Report Title	**Internal Audit Report for the School Forum for 2017-18**		
Key Decision	**No**		**Item No. 6**
Ward	**All**		
Contributors	**Head of Corporate Resources**		
Class	**Part 1**	**Date: 21 June 2018**	

1. Purpose of this report

1.1. This report presents the Schools' Forum with a summary of the 2017-18 (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 2017-18.

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.

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, one school report was still at draft. However, they are included in the report as if they are finalised as the content and assurance opinion is not unlikely to change significantly.

4.   Audit assurance opinion

4.1.   In 2017-18, 27 schools had an internal audit review. These are listed in Appendix 1. This is the first year where no 'Limited' or 'No Assurance' opinion assurance reports were issued.
- No Assurance - None
- Limited - None
- Satisfactory – 10 (including the one at draft stage)
- Substantial – 17

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 July 2018 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 four years.
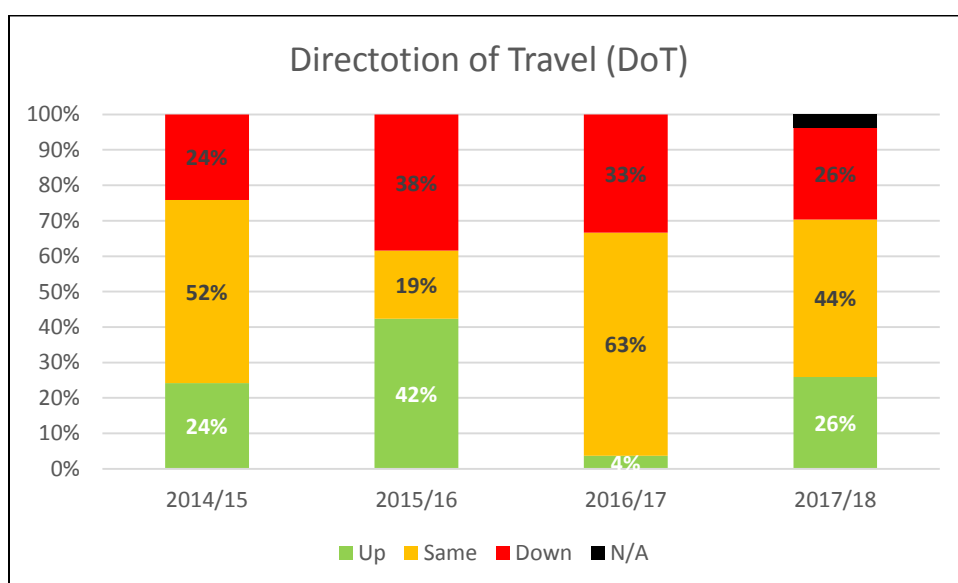
Graph 1

5.3. It shows that for 2017-18:

- 26% of audits have a lower audit opinion than last audit.
- 44% of audits have the same audit opinion,
- 26% of audits had an improved audit opinion, and
- 4% was not applicable. This means they had not been audited previously (in this case, an infant and junior merged into one school).

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 (although not in this year as there were no limited or no assurance opinions issued).

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 2017-18, the school that had negative opinions in 2016-17 had their follow up reviews done in January 2018. 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	Implemented	In Progress	Not Implemented	Total
Turnham Primary	No Assurance	04/07/17	22/01/18	9	18	6	33

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 17-18, by risk heading and category of recommendation. A definition of the categories can be found at appendix 2.

7.3.   The graph shows that high recommendations were made in respect of controls for Assets, Governance, Budget Monitoring and Data Security.

7.4.   The top four areas where the majority of Medium recommendations were made were in regarding Procurement, Income, Assets and Governance controls.
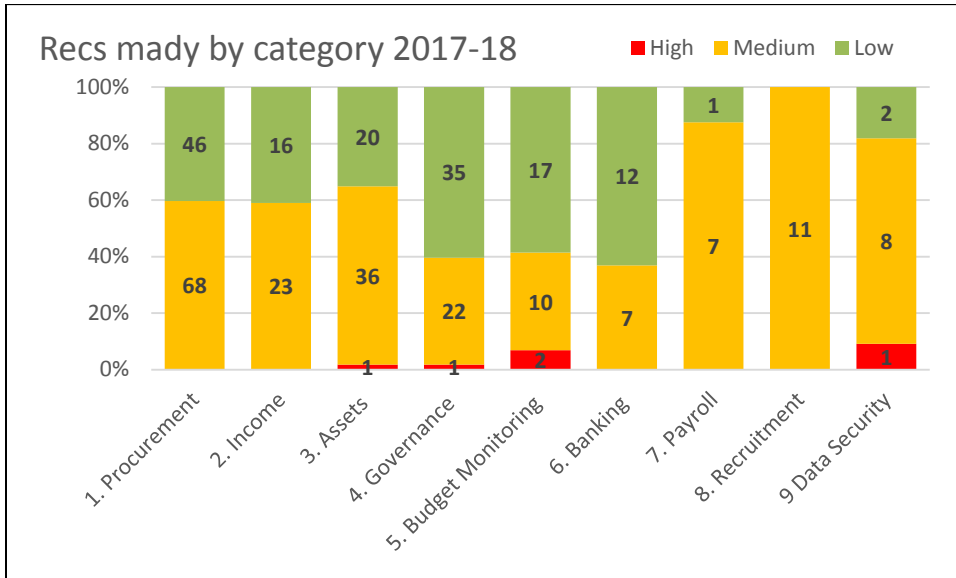
Graph 2

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. Please see the graph below, (graph 3.
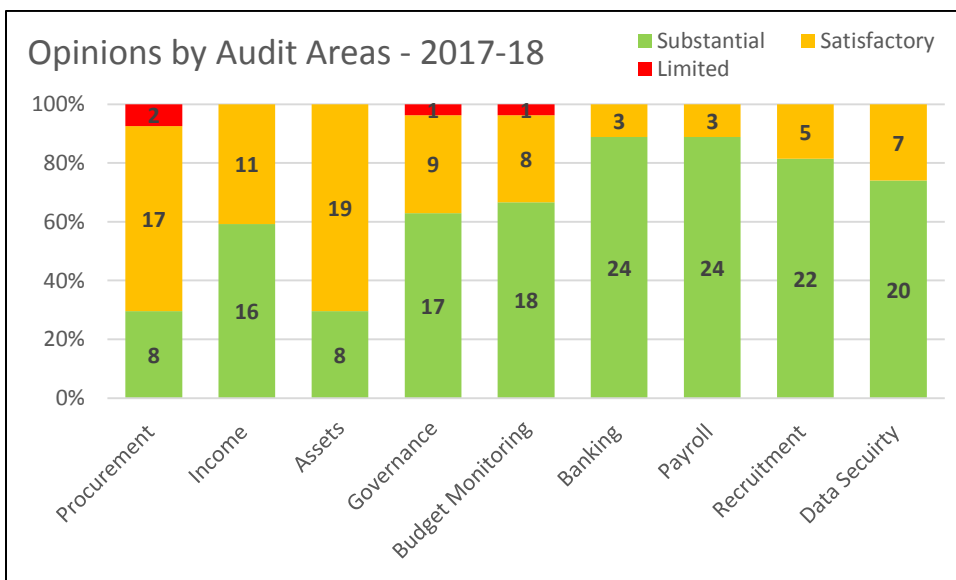
Graph 3

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

7.7. The main areas where the most recommendations are made, (including low), are in 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.
- IR35 rules around contractor payments are not adhered to (i.e. are they classed as contractors or do they need to be paid via the school's payroll so that correct deductions can be made).
- 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, or not fit for purpose.
- 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 prior to disposal.
- Assets not appropriately security marked.

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

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, budget monitoring and procurement.

8.2. Given the growing financial pressures on schools, any lack of detailed budget monitoring is a concern. This issue increases the risk of school budget failure, that

could result in deficit / or lower than expected carried forwards. Due to this, internal audit will categorise recommendations made about budget forecasting from Low to Medium from 2018-19. This may impact on the number of Medium recommendations or opinions given in 2018-19.

Internal audit suggest some points to improve the budget monitoring and therefore reduce the risk of overspend, please see below.

- Perform monthly budget forecasting, and not just relying on the returns sent to the Council twice a year.
- Input the budget for the year on the finance system as agreed by Governors. This includes all income, not just expenditure.
- Not just concentrating on expenditure budgets. While this of course is important, without knowing the income, the school would be at risk of overspending. If income does not come in as expected, then the school is in danger of overspend, even if the expenditure budget appears to be under control.

8.3.   Internal audit continues to recommend 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	All Saints Primary School	Substantial	-	3	11	Procurement, Income, Assets, Governance, Budget Monitoring, Banking, Payroll, Recruitment and Data Security.	06/03/18
SCH	Brindishe Lee Primary School	Substantial	-	6	7	As above	30/04/18
SCH	Childeric Primary School	Substantial	-	3	8	As above	24/07/17
SCH	Eliot Bank Primary School	Substantial	-	-	2	As above	20/12/17
SCH	Gordonbrock Primary School	Substantial	-	1	1	As above	09/02/18
SCH	Grinling Gibbons Primary School	Substantial	-	1	1	As above	19/04/18
SCH	Greenvale Special School	Substantial	-	5	10	As above	10/10/17
SCH	Haseltine Primary School	Substantial	-	4	3	As above	28/09/17
SCH	Kelvin Grove Primary School	Substantial	-	8	4	As above	22/11/17
SCH	New Woodlands Special School	Substantial	-	3	2	As above	19/04/18
SCH	Perrymount Primary School	Substantial	-	7	6	As above	12/09/17
SCH	St Bartholomew's CE Primary School	Substantial	-	5	3	As above	19/04/18
SCH	Sir Francis Drake Primary School	Substantial	-	9	6	As above	22/05/18
SCH	St John the Baptist	Substantial	-	5	3	As above	19/10/17
SCH	St George's C of E Primary School	Substantial	-	1	2	As above	08/03/18

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	St William of York Primary School	Substantial	-	6	1	As above	07/03/18
SCH	St Winifred's Catholic Primary School	Substantial	-	4	1	As above	02/05/18
SCH	Baring Primary School (Draft)	Satisfactory	3	12	3	As above	DRAFT
SCH	Beecroft Garden Primary School	Satisfactory	-	16	4	As above	14/05/18
SCH	Brent Knoll School	Satisfactory	-	15	10	As above	25/01/18
SCH	Coopers Lane Primary School	Satisfactory	-	10	9	As above	14/03/18
SCH	Downderry Primary School	Satisfactory	-	9	7	As above	26/07/17
SCH	Elfrida Primary School	Satisfactory	-	12	6	As above	06/03/18
SCH	Holy Trinity CE Primary School	Satisfactory	-	9	11	As above	06/12/17
SCH	John Ball Primary School	Satisfactory	-	9	9	As above	26/09/17
SCH	St James Hatcham CE Primary School	Satisfactory	-	18	10	As above	01/05/18
SCH	St Saviour's RC Primary School	Satisfactory	-	12	10	As above	19/12/17

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.