

**Annual review of schools internal audit work**

**Item 4**

**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 internal audit work undertaken in the last year.
- 1.2. The interim Head of Audit and Risk will present and is also open to discuss any wider issues arising from interaction with the Audit and Risk service – Internal Audit, Insurance & Risk, Counter Fraud, Health & Safety.

**2. Recommendations**

- 2.1. Note this update and the continued progress being made within Schools to enhance internal control.

**3. Background**

- 3.1. London Borough of Lewisham (LBL) audit team currently works to a rolling risk based three year internal audit programme. Previously the audit programme consisted of both internal audits and a FMSiS assessment. However, in November 2010, the Department of Education confirmed that the FMSiS audit process was to be discontinued with immediate effect.
- 3.2. The replacement for FMSiS is the Schools Financial Value Standard (SFVS). This is an annual statement on the governance, risks and controls and how they are being managed. It is independent of the internal audit process as it is a self-assessment of the schools internal control arrangements.
- 3.3. The focus of our internal audits are based on the Audit Commission's 'Keeping your balance' guidance and CIPFA internal audit standards and good practice guidance. Internal audits are scoped to a standard systems based audit approach and reports are prepared on an exception basis.
- 3.4. Schools should note that the Council's internal audit contract has just been retendered and the incumbent, RSM Tenon, reappointed. We have broadly managed to hold the rates we are paying for this support. Budgets for audits, recharged to schools at cost in line with 2011/12 CYP/Schools service level agreement, will therefore remain at their current levels this year and for the next financial year.

**4. Action to date**

- 4.1. For 2011/12 there are 32 schools audits scheduled, with an additional audit requested. To date 16 draft reports have been issued, with eight audits (24%) finalised. Of these, six have received Substantial and two Satisfactory assurance opinions with no Limited or No assurance opinions. Appendices A and B to this report provide the detail.
- 4.2. As noted in 2010/11 we are now following up all High and Medium recommendations six months after the final report is issued. The position for implementation of recommendations is presented at Appendix A. To date we are finding that recommendations are agreed and action proposed but not always implemented on a timely basis in line with management comments. For example, for both the 2010/11 and 2011/12 work, over 85% of open recommendations are overdue and 21% of 2010/11 recommendations remain open.

- 4.3. Audit and Risk were represented at the recent finance drop in session at the Civic Suite to take questions, listen to issues and offer advice and support to Schools.

## 5. Proposed action

- 5.1. Continue to review the findings and recommendations from recent audits to identify any recurring issues. A review of the eight 2011/12 internal audit recommendations compared to the previous year's results is summarised below, with the detail at Appendices A and C.
- 5.2. There is improvement in the distribution of recommendations by both area of activity and their seriousness.
- In terms of seriousness the 2011/12 recommendations to date show a split of 40:60 between Medium:Low recommendations. (The same split in 2010/11 was 50:50).
  - In terms of activity in 2011/12 the two areas of control weakness with most recommendations are 1) inventory management, and 2) purchasing. (This compares to the four areas of weakness highlighted for 2010/11: governance, inventory management, payroll and purchasing).
- 5.3. The particular control failings that repeat most frequently for both 2011/12 and 2010/11 (see Appendix C) are:
- Ensuring quotations are sought and retained prior to commissioning works in line with the revised finance manual, November 2010.
  - Conducting annual inventory checks of all assets in the school, and
  - Ensuring orders are raised for works and that these are subsequently receipted and invoices settled based on appropriate authorisation.
- 5.4. We also aim to continue to improve the impact of internal audit and keep under review the scope of schools audits based on the findings above, comparison with practice at other Authorities and more risk based audit practices.
- 5.5. In 2012/13, internal audit will undertake a risk based survey of all the directorates and divisions to identify the priorities, changes and risks around internal control. We are happy to take suggestions from Schools as part of this to help strengthen internal audit's support for maintaining and enhancing internal control arrangements in schools.
- 5.6. Schools can also, under the C&YP service level agreement, commission further assurance support from internal audit to assist with additional or more in depth audits, training for staff on risks and internal controls, and providing advice.

## 6. Conclusions

- 6.1. Based on the eight audits for 2011/12 completed to date, the overall assurance opinions continue to improve in schools. However, there continue to be recommendations in respect of inventory management and purchasing controls.
- 6.2. 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.
- 6.3. Vigilance around compliance with established policies and procedures should therefore suffice to limit the number and seriousness of audit recommendations raised in future.