

Schools - Internal Audit

1. Purpose of this report

- 1.1. The purpose of this paper is to provide the Schools Forum with an update on progress being made to enhance internal controls within Schools.
- 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 audit programme. As part of this Schools receive both an FMSiS and internal audit where possible.
- 3.2. The focus of the audits are based on the Audit Commission's 'Keeping your balance' guidance and CIPFA internal audit standards and good practice guidance. Audits are scoped to a standard systems based audit approach.
- 3.3. Previous reports to the Schools Forum have highlighted a number of challenges from both the Schools and Audit side. In summary they are:

Schools

- Criteria
- Timing and delays in receiving reports
- Time taken to complete the audit
- Extent of the audit
- Burden of having audit and FMSiS assessment at the same time

Audit

- Preparedness of working papers
- Delay in responding to draft report findings and recommendations

- 3.4. These have now been largely resolved and issues arising with the process now represent the exception rather than the rule. Where there remain areas for improvement these are commented on below.

4. Action to date

- 4.1. The March 2010 Schools Forum reported on the results for the 2009/10 audit programme.

- 4.2. For 2010/11 there are 26 schools audits scheduled – ten Audit & FMSiS, fifteen Audit, one FMSiS - of which twelve have been finalised to date. All four of the FMSiS assessments completed to date have been met. The assurance levels issued for the eleven audits completed to date are – nine substantial and two satisfactory. There have been no Limited or No assurance opinions issued in the financial year to date. This continues the improvements noted in 2009/10.
- 4.3. For 2010/11 we have changed the follow-up process. We are now following up all High and Medium recommendations six months after the final report is issued. This is rather than following-up only Limited or No assurance audits.
- 4.4. We are just beginning the 2010/11 follow-up work and to date two Schools audits have been reviewed. The results are all for medium recommendations and were; eight implemented, one in progress, one superseded and three not yet implemented.
- 4.5. Early indications are that recommendations are taken seriously and are being promptly implemented in line with agreed management actions.
- 4.6. 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. To review the findings and recommendations from recent audits to identify any recurring issues. An initial review of the ten 2009/10 full year secondary school and eleven 2010/11 year to date primary school recommendations is summarised below.

Summary of Rec'n	2009/10 FY Secondary Rec'ns	2010/11 YTD Primary Rec'ns	Total
Terms of reference and financial policy not up to date and approved	7	7	14
Asset register procedures and records not followed	13	9	21
Budget monitoring review not evidenced	5	3	8
Cash banking and reconciliations not timely	2	4	6
Payroll authorisation not evidenced	6	7	13
Controls for quotes, orders, goods received and invoicing not followed	12	7	19
Committed expenditure not recorded in budget reports	5	2	7
Management of cash and record keeping of receipts not adequate	10	3	13
New starter and staff documentation not completed or kept up to date	9	5	14
Other	6	-	6

- 5.2. As part of the ongoing work to improve the quality of internal audit we are reviewing the scope of schools audits based on the findings above, comparison with practice at other Authorities and more general good audit practices.
- 5.3. LBL is also in the process of retendering the audit contract, currently with RSM Tenon, with the appointed supplier to be in place for 1 April 2011. This may also bring in suggestions for improvement. As part of this review of the management of audit support, LBL is also assessing the practicalities and implications of operating the audit service to Schools on a full cost basis.
- 5.4. Though 2011/12 the audit service is proposing to undertake a risk based survey of all the directorates and divisions to identify the priorities, changes and risks around internal control. We would propose to consult with Schools to get their input and views as part of this.

6. Conclusion

- 6.1. Continuous improvements are being made to enhance internal controls within Schools. There do however remain some common areas of weakness. In particular in respect of:
 - 1) establishing and maintaining staff employment documentation,
 - 2) controls for managing quotes, orders, goods received and invoicing, and
 - 3) procedures being followed and records kept in support of asset registers.
- 6.2. Financial constraints and forced changes to working practices will continue to put pressure on LBL and Schools. Going forward keeping a risk based focus on internal controls will be critical to supporting Schools meet these challenges.

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