

LONDON BOROUGH OF TOWER HAMLETS

**INTERNAL AUDIT SUMMARY REPORT
SCHOOLS PROGRAMME 2022-23**

June 2023

CONTENTS

	<i>Page</i>
1. Introduction and background	3-4
- <i>Purpose of report</i>	
- <i>Internal audit</i>	
- <i>Approach to internal audit of schools</i>	
- <i>Recommendations and assurance opinions</i>	
2. Schools audited from April 2022 to March 2023	5-6
3. Summary of recommendations raised in 2022/23 and assurance opinions	7-8
4. Common themes arising	9-10
Appendix - Definitions	11

1. INTRODUCTION AND BACKGROUND

PURPOSE OF REPORT

This report summarises the approach and key findings regarding the London Borough of Tower Hamlets school audits which were completed during 2022/23 by BDO LLP on behalf of the Council.

INTERNAL AUDIT

What is Internal Audit?

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.” (Source: *International Standards for the Professional Practice of Internal Auditing, the Institute of Internal Auditors*)

Why is Internal Audit needed?

- Legislation
- Public Accountability
- Risk management, governance, and control expertise
- Assurance on systems of control
- Fraud prevention, detection and/or investigation
- Objective advice
- Assistance in managing risks.

APPROACH TO INTERNAL AUDIT OF SCHOOLS

A cyclical plan to complete internal audits of every school over a three to four year period is in place. The programme of audits is agreed by the Chief Internal Auditor and completed on behalf of the Corporate Director of Children’s Services.

Due to the Covid-19 pandemic, schools audits were paused in the latter stages of 2019/20 which continued throughout 2020/21 and 2021/22. In 2022/23 the full programme of school audits was resumed, with 15 schools being audited between April 2022 and March 2023.

The purpose of a school audit is to assess whether adequate controls are in place to help prevent financial management weaknesses within the school that could result in budget overspend or inappropriate expenditure.

The work in 2022-23 was designed to assess the design and operational effectiveness of the controls in place to mitigate the key risks in eight areas:

1. **Governance Arrangements** are inadequate or not formally documented to support effective governance and decision making that is in the best interests of the school.
2. **The School's Budget** is not balanced or aimed at recovering a deficit or achieving a prudent, but not excessive, level of unspent balances resulting in inefficient use of school funds.
3. **The Bank Account** is not adequately controlled, monitored, and reconciled to avoid the

school becoming overdrawn or suffering financial loss.

4. **Procurement and Leasing** are not well controlled resulting in purchases of goods and services that are not appropriate or do not provide value for money.
5. **Income Collection and Banking** is not controlled leading to unidentified loss or theft.
6. **Payroll and Personnel Controls** are inadequate without appropriate checks and separation of duties for making changes to personnel and payroll data leading to invalid or inappropriate payments.
7. **Inventory Records** are not managed to enable the school to know its true asset base and identify losses.
8. **Data** is not adequately protected by allowing unauthorised access, leading to potential misuse or risk of harm to pupils and staff.

The limitations to the scope of our work are as follows:

- Testing is performed on a sample basis, selected from transactions processed in the previous 12 months.
- The audit does not assess the adequacy of teaching arrangements at the school.
- Our work does not provide any guarantee against material errors, loss, or fraud, nor provide an absolute assurance that material error, loss or fraud do not exist.

RECOMMENDATIONS AND ASSURANCE OPINIONS

Recommendations are rated based on the risks associated with the findings arising from our audit work, where controls are not in place or not being complied with. Recommendations are rated as High, Medium, or Low.

We provide an overall assurance opinion on all school audits undertaken based on the categories and numbers of recommendations.

- The highest opinion is Substantial Assurance - A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
- The lowest opinion is No Assurance - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and/or control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Please refer to Appendix 1 for all definitions for recommendations and assurance opinions.

2. SCHOOLS AUDITED FROM APRIL 2022 TO MARCH 2023

The table below provides the financial context at the date that the final report was issued, and summarises the recommendations raised, and audit assurance opinion provided.

SCHOOL	FINAL REPORT	FINANCIAL CONTEXT	High	Medium	Low	ASSURANCE OPINION
William Davis Primary School	July 2022	Deficit of £49,554. A licensed deficit agreement is in place with the Council	-	1	2	Reasonable
Hague Primary School	August 2022	Surplus of £164,060 forecast.	-	3	-	Reasonable
Mowlem Primary School	September 2022	Small surplus of £2,556 for 2022/23.	-	7	-	Reasonable
Blue Gates Field Junior School	November 2022	Surplus of £107,974 which was carried forward into the 2023-24 financial year.	2	2	2	Limited
Central Foundation Girl's School	November 2022	Surplus of £448,217 forecast.	-	11	5	Reasonable
Hermitage Primary School	November 2022	The surplus bought forward from 2021/22 was £199,852 resulting in a cumulative budgeted surplus of £200,090.	-	4	3	Reasonable
Stepney All Saints Church of England Secondary School	November 2022	Surplus of £478,500.	1	4	2	Limited
English Martyrs	December 2022	The budget for 2022/23 was £1,649,204 which	-	4	2	Reasonable

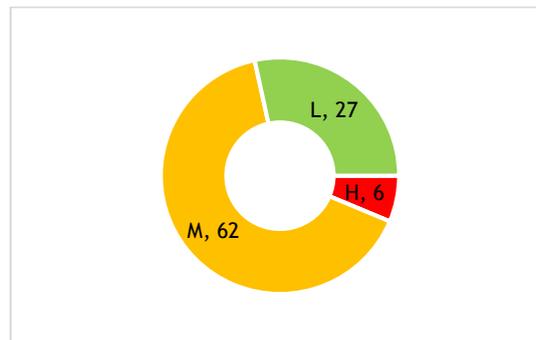
SCHOOL	FINAL REPORT	FINANCIAL CONTEXT	High	Medium	Low	ASSURANCE OPINION
Primary School		the school forecast a breakeven position.				
St Marys & St Michaels RC School	December 2022	Surplus of £23,312.	1	6	1	Limited
Stewart Headlam Primary School	December 2022	Surplus of £225,453 for 2022/23.	-	5	1	Reasonable
Bangabandhu Primary School	January 2023	Surplus of £74,188 which was carried forward into the 2023/24 financial year.	1	5	-	Limited
Chisenhale Primary School	January 2023	Deficit of approximately £30,000 forecast in 2022/23.	-	1	2	Reasonable
St Peters London Docks Primary School	February 2023	Surplus of £243K. The brought forward balance from 2021/22 was £231,476 which was planned to be used for various projects at the school	-	4	2	Reasonable
Bow Secondary School	March 2023	The bought forward balance from 2021/22 was £1,275,543, resulting in a cumulative budgeted surplus for 2022/23 being £1,275, 926	1	4	3	Reasonable
Stepney Park Primary School	March 2023	Surplus budget of £480,130 for 2023/24.	-	1	2	Substantial

3. SUMMARY OF RECOMMENDATIONS RAISED IN 2022/23 AND ASSURANCE OPINIONS

The summaries of findings within this report are based on all school audits completed between April 2022 and March 2023.

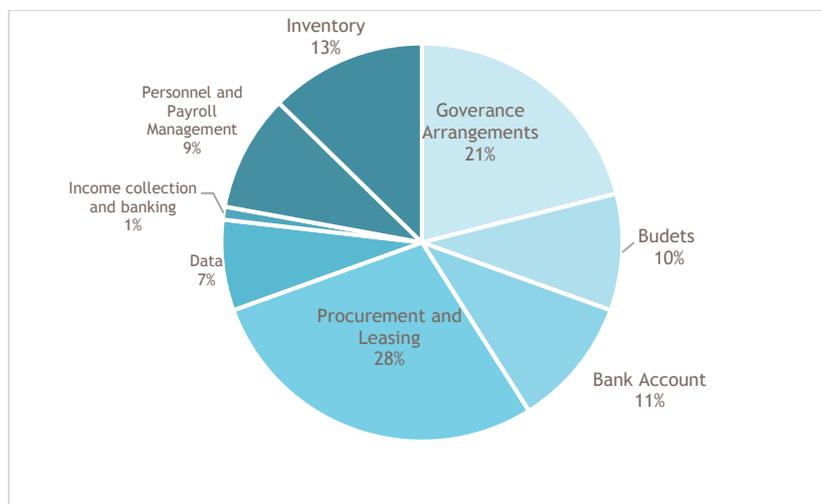
Number of Recommendations

The number of recommendations raised and the ratings of High, Medium, or Low is summarised below:



In 2022-23 a total of 95 recommendations were raised across 15 schools. This represents an average of six recommendations raised per school with the Borough. This compares to an average number of 12 recommendations made in the last full round of school audits, indicating improvement in general terms.

A summary of the relative proportion of recommendations raised in each risk area is shown below:



As in previous audit cycles, most recommendations continue to be raised in the areas of governance arrangements and procurement, with Budgets and Bank Accounts also showing similarity to previous reports.

Assurance Opinions

The assurance levels provided during 2022-23 are summarised below.

Overall Audit Opinion	Percentage of schools
Substantial	6.67% - 1 school
Reasonable	66.67% - 10 schools
Limited	26.67% - 4 schools
No	0%

The assurance opinions have been refreshed since the last summary report; therefore, the numbers are not directly comparable. However, the relative proportions across assurance opinions is similar to that previously reported.

The results indicate that whilst the number of recommendations has on average reduced, there are several key areas of improvements that were identified and require addressing, to ensure that the schools audited have a well-controlled financial environment.

4. COMMON THEMES ARISING

Area	Number of Recommendations			Common Themes 2022/23
	H	M	L	
Governance Arrangements	1	8	11	<ul style="list-style-type: none"> Key strategic documents, including the Scheme of Delegation, Terms of Reference and Financial Procedures Manual were all in place, however, in several cases they were not up to date with evidence of regular review by the Governing Body. In several schools, the Register of Business Interests was not up to date with missing declarations or incomplete declarations for Governors on the Governing Body and staff with financial management responsibilities. The key policy and procedure documents were not formally reviewed and approved by the full Governing Body and a Register of Policies was not maintained to aid the timely review of policies. There were instances where evidence of the Governing Body and sub-committee meeting minutes being approved by the appropriate Chair could not be evidenced.
Budgets	-	4	5	<ul style="list-style-type: none"> In most cases, budget monitoring reports had not been evidenced as reviewed by the Head Teacher and were not appropriately signed to evidence the review. In some instances, the budget plan approval was not evidenced adequately in minutes of meetings. In addition, the plan did not always include resource requirements and relevant costings where appropriate.
Bank Accounts	-	8	2	<ul style="list-style-type: none"> Bank reconciliations had not been signed by both the individual performing the reconciliation and the individual carrying out its independent review to evidence the segregation of duties.

Personnel and Payroll Management	-	7	2	<ul style="list-style-type: none"> From the examination of samples of payments made to self-employed individuals, there was no evidence that the suppliers have confirmed that they are fully responsible for their NI and Tax payments. Evidence of pre-recruitment checks was not always obtained / retained, such as identity checks, references, right to work checks, medical checks, and qualifications checks. Letters of resignation / termination and other relevant documentation were not always held on file in respect of leavers. Payroll reconciliations were undertaken in all schools. However, in many cases there was no evidence of a staff having performed an independent review of the reconciliation.
---	---	---	---	--

Area	Number of Recommendations			Common Themes 2022/23
	H	M	L	
Procurement and Leasing	5	19	3	<ul style="list-style-type: none"> Purchase orders were not always raised for all appropriate purchases and authorised in accordance with the Financial Procedures Manual. In addition, a clear segregation of duties was not always evident between the raising of purchase order and the receipting of goods/services. Some invoice payments were more than 30 days overdue, and some purchases were not supported by a valid invoice. There was a lack of documentary evidence in some instances that the goods received are checked for accuracy and that delivery documentation was appropriately annotated. In several instances, the appropriate number of quotes were not obtained as part of the procurement process and retained on file in line with the School's Financial Procedures. In several instances an adequate audit trail was not maintained for final supplier selection. In some cases, Governing Body approval was not obtained for higher value purchases. Weaknesses in the petty cash process were identified relating to vouchers not being authorised, no petty cash reclaim limit being in place, missing petty cash banking

				documentation, etc.
Income Collection and Banking	-	1	-	<ul style="list-style-type: none"> No cash handling procedure document in place to ensure a consistent approach to handling and recording cash.
Inventory	-	12	-	<ul style="list-style-type: none"> There were cases where the asset register of the school needed to be updated. Furthermore, there were also instances of assets not being security marked which made it difficult to reconcile to the register. Inventory checks are not always performed to confirm the accuracy and completeness of inventory records and disposals, and the results of the inventory check are not always reported to the Governing Body. Equipment loan forms are not always being completed fully in respect of equipment loaned to staff.
Data	-	4	3	<ul style="list-style-type: none"> There were cases identified where there was no formal system in place for notifying the ICT of leavers. In some instances, password controls were inadequate, as passwords were not changed periodically due to system constraints. School's Disaster Recovery/Business Continuity Plan/Data Protection Policy documents had not been reviewed or subject to approval by the Governing Body annually.
TOTALS	6	62	27	

APPENDIX 1- DEFINITIONS

The table below sets out the Council's definitions of assurance opinions and risk ratings, which are used for all internal audit assurance engagements.

Assurance Opinions

 Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
 Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
 Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and/or control to effectively manage risks to the achievement of objectives in the area audited.
 No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and/or control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Risk Ratings

 High	Fundamental weaknesses in governance, risk management and/or control where there is substantial risk of loss, fraud, error, impropriety, poor value for money, or failure to achieve organisational objectives. If these risks materialise it could lead to a significant adverse impact on the Council. Urgent remedial action is requirement by management.
 Medium	A weakness in the governance, risk management and/or controls which, although not fundamental, relate to shortcomings which expose individual systems to a less immediate level of risk and/or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.



Low

A minor weakness in governance, risk management and/or control that individually has little impact but would benefit from improvement to develop effectiveness and/or efficiency.

FOR MORE INFORMATION:

Greg. Rubins

Partner, Public Sector
0238 088 1892 (DDI)
Mobile: 07710 703441

greg.rubins@bdo.co.uk

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO LLP to discuss these matters in the context of your particular circumstances. BDO LLP, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

BDO LLP, a UK limited liability partnership registered in England and Wales under number OC305127, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. A list of members' names is open to inspection at our registered office, 55 Baker Street, London W1U 7EU. BDO LLP is authorised and regulated by the Financial Conduct Authority to conduct investment business.

BDO is the brand name of the BDO network and for each of the BDO Member Firms.

BDO Northern Ireland, a partnership formed in and under the laws of Northern Ireland, is licensed to operate within the international BDO network of independent member firms.

© 2023 BDO LLP. All rights reserved.

www.bdo.co.uk