

# INTERNAL AUDIT SUMMARY REPORT

LONDON BOROUGH OF TOWER HAMLETS

SCHOOLS PROGRAMME 2023-24

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# 1. INTRODUCTION AND BACKGROUND

## PURPOSE OF REPORT

This report summarises the outcomes of the London Borough of Tower Hamlets (the “Council”) school audit programme completed during 2023/24 by BDO LLP on behalf of the Council. It draws together the assurance ratings and number of recommendations made across each risk area, highlights common themes, and compares these to those summarised in the 2022/23 report.

## APPROACH TO INTERNAL AUDIT OF SCHOOLS

A cyclical plan is followed that aims to complete an internal audit of all schools over a three to four year period. The programme of audits is assigned to BDO LLP by the Council’s Head of Internal Audit, Anti-Fraud and Risk following agreement with the Corporate Director of Children’s Services. A programme of 14 schools was completed in 2023/24.

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 school audit work programme for 2023/24 was consistent with that applied in 2022/23 and 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. **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 were as follows:

- Testing was performed on a sample basis, selected from transactions processed in the previous 12 months.
- The audit did not assess the adequacy of teaching arrangements at the school.

In addition, the work of internal audit 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 the internal audit work and are linked to controls that are not in place or are not being complied with. Recommendations are rated as High, Medium, or Low priority.

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We provide an overall assurance opinion based on the priority and numbers of recommendations. The definitions for the highest and lowest definitions are provided below. Please refer to Appendix 1 for all definitions of assurance opinions and 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.

## 2. SCHOOLS AUDITED IN 2023/24

The table below provides the financial context for the year and summarises the recommendations raised, and audit assurance opinions provided for each school audited in 2023/24.

The results of our work highlights that the financial control environment operating in the Borough's Council-maintained schools continue to require strengthening. However, overall there has been year on year improvement, shown by the levels of assurance and number of recommendations raised (see section 3 for more details).

SCHOOL	FINAL REPORT	FINANCIAL CONTEXT	H	M	L	ASSURANCE OPINION
Ben Jonson Primary School	February 2024	The agreed budgeted income for 2023/24 was £5,705,553 and expenditure was £5,658,520, resulting in a planned in-year surplus of £47,034.  The brought forward balance from 2022/23 was £234,952, resulting in a cumulative budgeted surplus of £281,986.	2	3	4	Reasonable
Bonner Primary School	February 2024	The agreed budgeted income for 2023/24 was £6,453,394.21 and expenditure was £6,453,213.38 resulting in a planned in-year surplus of £180.83.  The brought forward balance from 2022/23 was a surplus of £225,472.42 resulting in cumulative budgeted surplus for 2023/24 being £225,653.25.	-	-	4	Substantial
Cayley Primary School	October 2023	The agreed budgeted income for 2023/24 was £4,178,616 and expenditure was £4,269,581 resulting in a planned in-year deficit of £90,965.  The brought forward balance from 2022/23 was £381,485 resulting in cumulative budgeted surplus for 2023/24 being £290,520.	-	4	2	Reasonable
Columbia Primary School	July 2023	The agreed budgeted income for 2023/24 was £3,463,793 and budgeted expenditure was £3,482,274 resulting in a planned in-year deficit of £18,481.  The brought forward balance from 2022/23 was a surplus of £163,350 resulting in cumulative budgeted surplus for 2023/24 being £144,868.	1	5	3	Reasonable
Halley Primary School	November 2023	The agreed budgeted income for 2023/24 was £1,706,431 and expenditure was £1,725,436 resulting in a planned in-year deficit of £19,005.	-	4	6	Reasonable

SCHOOL	FINAL REPORT	FINANCIAL CONTEXT	H	M	L	ASSURANCE OPINION
		The brought forward balance from 2022/23 was £26,956 surplus resulting in cumulative budgeted surplus for 2023/24 being £7,951.				
Malmesbury Primary School	February 2024	The agreed budgeted income for 2023/24 was £4,066,080 and expenditure was £3,966,447 resulting in a planned in-year surplus of £99,633.  The brought forward balance from 2022/23 was a deficit of £97,654 resulting in cumulative budgeted surplus for 2023/24 being £1,979.	2	4	2	Limited
Langdon Park School	May 2024	The agreed budgeted income for 2023/24 was £10,961,812 and expenditure was £10,931,773 resulting in a planned in-year surplus of £30,039.  The brought forward balance from 2022/23 was £1,545,802 resulting in cumulative budgeted surplus for 2023/24 being £1,575,841 and a formal plan is in place on the use of this amount.	1	4	2	Reasonable
Olga Primary School	February 2024	The agreed budgeted income for 2023/24 was £4,841,838 and expenditure was £4,736,514 resulting in a planned in-year surplus of £105,324.  The brought forward balance from 2022/23 was £21,453 resulting in cumulative budgeted surplus for 2023/24 of £126,778.	-	2	2	Reasonable
Phoenix Primary and Secondary Schools	February 2024	The agreed budgeted income for 2023/24 was £18,195,126, the budgeted expenditure was £19,415,651 resulting in a planned in-year deficit of £1,220,525.  The brought forward balance from 2022/23 was a surplus of £3,950,910 resulting in cumulative budgeted surplus for 2023/24 being £2,730,385.	1	3	2	Reasonable
St Anne's and Guardian Angels Catholic Primary School	September 2023	The agreed budgeted income for 2023/24 was £2,110,167 and expenditure was £2,275,940 resulting in a planned in-year deficit of £165,773.  The brought forward balance from 2022/23 was £298,770 resulting in	1	4	2	Reasonable

SCHOOL	FINAL REPORT	FINANCIAL CONTEXT	H	M	L	ASSURANCE OPINION
		cumulative budgeted surplus for 2023/24 being £132,997.				
Stephen Hawking School	February 2024	The agreed budgeted income for 2023/24 was £4,779,884, resulting in a planned in-year deficit of £614,589.  The brought forward balance from 2022/23 was £804,527 resulting in a cumulative budgeted surplus for 2023/24 being £189,938.	-	-	3	Substantial
Thomas Buxton Primary School	December 2023	The agreed budgeted income for 2023/24 was £3,626,857 and expenditure was £3,626,857 resulting in a planned breakeven position.  The brought forward balance from 2022/23 was £93,972 resulting in cumulative budgeted surplus for 2023/24 of £93,972.	2	5	2	Reasonable
Wellington Primary School	October 2023	The agreed budgeted income for 2023/24 was £3,431,901 and expenditure was £3,424,414 resulting in a planned in-year surplus of £7,487.  The brought forward balance from 2022/23 was a surplus of £117,232 resulting in cumulative budgeted surplus for 2023/24 being £124,719.	-	-	1	Substantial
Woolmore Primary School	September 2023	The agreed budgeted income for 2023/24 was £5,518,621.56 and expenditure was £5,476,422.26 resulting in a planned in-year surplus of £42,199.30.  The brought forward balance from 2022/23 was £800,438.56 resulting in a cumulative budgeted surplus for 2023/24 being £842,637.86.	2	5	4	Reasonable

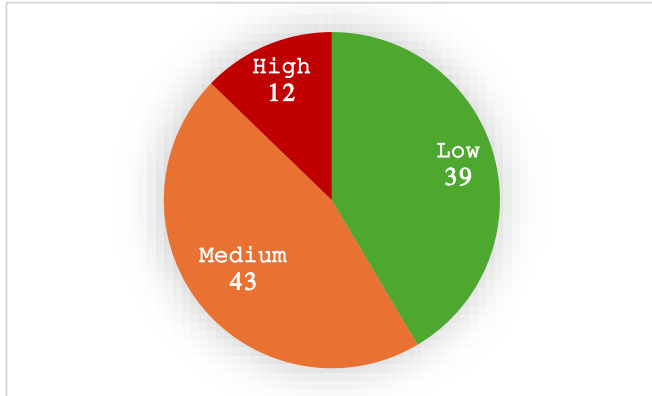
### 3. SUMMARY OF RECOMMENDATIONS AND ASSURANCE OPINIONS

The summaries of recommendations and assurance opinions for 2023/24 and 2022/23 for comparison purposes are shown in the pie-charts below.

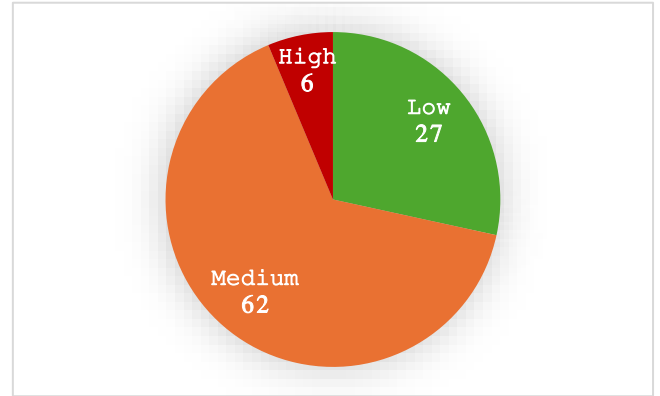
#### Total Number of Recommendations

The number of recommendations raised for each priority rating of High, Medium, or Low were as follows:

2023-24



2022-23

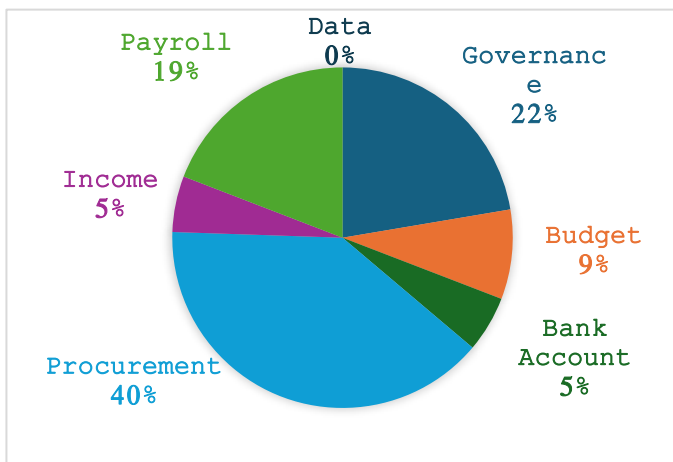


In 2023-24 a total of 94 recommendations were raised across 14 schools. This represents an average of seven recommendations raised per school with the Borough’s Council maintained schools. This compares to an average number of six recommendations made in 2022-23, indicating that schools have maintained similar levels of financial control.

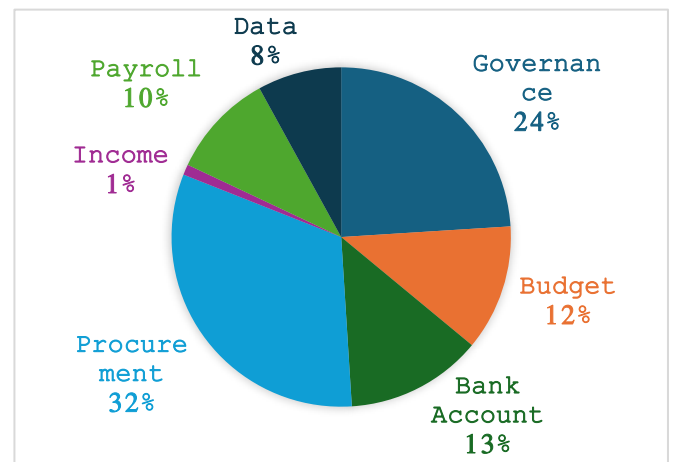
#### Proportion of Total Recommendations by Risk Area

The proportion of recommendations raised in each risk area were as follows:

2023-24



2022-23





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As in

previous audit cycles, most recommendations continue to be raised in the areas of governance and procurement. The number of findings relating to income and payroll have increased and those relating to all other areas have decreased.

### Assurance Opinions

The percentage of each assurance levels provided to schools during 2023-24 and 2022-23 are summarised in the table below:

Overall Audit Opinion	2023-24	2022-23
Substantial	21% - 3 schools	6% - 1 school
Reasonable	71% - 10 schools	67% - 10 schools
Limited	8% - 1 school	27% - 4 schools
No Assurance	0%	0%

The relative proportions across assurance opinions shows some improvement between the two years, with fewer limited opinions and more substantial opinions.

## 4. COMMON THEMES 2023/24

Area	Number of Recommendations			Common Themes 2023/24
	H	M	L	
<b>Governance Arrangements</b>	1	5	15	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> <li>There were instances where evidence of the Governing Body and sub-committee meeting minutes being approved by the appropriate Chair could not be evidenced.</li> </ul>
<b>Budgets</b>	-	4	4	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>
<b>Bank Accounts</b>	-	2	3	<ul style="list-style-type: none"> <li>Bank reconciliations had not been signed by both the individual performing the reconciliation and the individual conducting the independent review to evidence the segregation of duties.</li> </ul>
<b>Personnel and Payroll Management</b>	9	19	6	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> </ul>





Area	Number of Recommendations			Common Themes 2023/24
	H	M	L	
Procurement	2	5	2	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Some invoice payments were more than 30 days overdue, and some purchases were not supported by a valid invoice.</li> <li>• 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.</li> <li>• 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.</li> <li>• Weaknesses in the petty cash process were identified including vouchers not being authorised, no petty cash reclaim limit being in place and missing petty cash banking documentation.</li> </ul>
Income Collection and Banking	-	8	9	<ul style="list-style-type: none"> <li>• No cash handling procedure document in place to ensure a consistent approach to handling and recording cash.</li> </ul>
Data	-	-	-	<ul style="list-style-type: none"> <li>• N/A</li> </ul>
<b>TOTALS</b>	<b>12</b>	<b>43</b>	<b>39</b>	

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


## APPENDIX - 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

 <b>Substantial</b>	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.
 <b>Reasonable</b>	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.
 <b>Limited</b>	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.
 <b>No Assurance</b>	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

 <b>High</b>	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.
 <b>Medium</b>	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.
 <b>Low</b>	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.

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