

Meeting of the Group Audit and Risk Committee

4.00 pm on Thursday, 13 February 2020
in Technopark, SE1 6LN

Supplement:

- Internal audit: SBA key financial controls
- Internal audit: SBC key financial controls

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	CONFIDENTIAL
Paper title:	Internal Audit – South Bank Academies Key Financial Controls
Board/Committee:	Group Audit and Risk Committee
Date of meeting:	13 February 2020
Author(s):	BDO
Sponsor(s):	Richard Flatman, Chief Financial Officer
Purpose:	For Information
Recommendation:	The Committee is requested to note the report and its findings.

Summary

This report reviews the key financial controls in place at South Bank Academies and gives limited assurance over both the design and operational effectiveness. Four high risk and four medium risk recommendations have been made.

This report is for information and will be reviewed in detail by the SBA Audit Committee at its March 2020 meeting.

Recommendation:

The Committee is requested to note this report

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LONDON SOUTH BANK UNIVERSITY GROUP

INTERNAL AUDIT REPORT - FINAL

FINANCIAL CONTROLS - SOUTH BANK ACADEMIES
JANUARY 2020

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Limited	Limited



LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

EXECUTIVE SUMMARY	2
DETAILED FINDINGS	6
OBSERVATIONS	17
STAFF INTERVIEWED	18
APPENDIX I - DEFINITIONS.....	19
APPENDIX II - TERMS OF REFERENCE	20

DISTRIBUTION

Helena Abrahams	Trust Business Manager
Natalie Ferer	Group Financial Controller



REPORT STATUS LIST

Auditors:	Raeshan Downer and Anthony Higginson
Dates work performed:	2 December - 6 December 2019 (further evidence received 17 December 2019)
Draft report issued:	20 January 2020
Final report issued:	30 January 2020






LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)

Design		System of internal controls is weakened with system objectives at risk of not being achieved.
Effectiveness		Non-compliance with key procedures and controls places the system objectives at risk.

SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I)

High			4
Medium			4
Low			

TOTAL NUMBER OF RECOMMENDATIONS: 8

BACKGROUND:

Management requested that a review of financial controls in South Bank Academies (SBA) was included within the 2019/2020 Internal Audit Plan. There were a number of findings from the previous financial controls audit (performed during 2018/19) in the areas of accounts receivable and therefore it was decided this area would be revisited. Management also requested income from school meals was also included in the review.

The Trust Business Manager joined SBA in November 2019, shortly before the audit commenced. The planned timing of this audit was kept as it would help support the Trust Business Manager in identifying areas where improvements were required.

Accounts payable

Total AP spend for the 2019/20 academic year to 2 December 2019 is £116,131 and 309 invoices have been processed.

The Accounts Payable team at SBA consists of two individuals; the Finance Officer and the Finance Assistant. The Finance Officer operates the accounts payable process at UAE and the Finance Assistant operates the accounts payable process at UTC. Both roles have the same authorities and responsibilities. For the below process, unless specified, the Finance Officer and Finance Intern will be referred to as the AP team as the process is the same at both schools.

The purchase to pay process starts with a purchase order (PO) being raised by a member of staff at the school for the goods or services required. There is a form which is completed and signed off by the Head of Department and then passed on to the AP team. The PO is reviewed by the AP team and posted onto PS Financials and the goods are ordered by the AP team. When the goods are received, the Finance Officer will inspect the goods and check the quantities and price match the PO and will then goods-receipt them on PS Financials.

Once the goods receipt note has been posted, an invoice can be uploaded to PS Financials. The invoice then requires manual approval from the Principal or Vice Principal of the

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

respective school where they will sign the physical invoice. Once completed, the AP team posts the invoice for payment in PS Financials.

PS Financials has been observed to not allow the processing of invoices unless there is a three way match.

A payment list of posted invoices is generated from PS Financials which prevents invoices that have not been posted from being added to a payment list which needs to be approved by two of the following three individuals - Trust Business Manager, Executive Principal and Group Financial Controller. The Finance Officer then uploads the payment list to the Lloyds banking portal and it is sent for electronic approval by two of the three individuals who approved the payment list. Following this, the payments are released from the banking portal by the Finance Officer.

School meal income

The ParentPay software is used to record school meals across both UAE and UTC. The software gives parents the ability to load money on to their child's student card to pay for a school meal. Parents have two options to pay into their ParentPay accounts; electronically via the website using a debit/credit card or physically paying cash at the reception desk of the school (this is only available at UAE). Due to issues with historical debt across SBA, a credit limit of £13.62 has been imposed to prevent parents accruing significant arrears. However, due to the demographic of children the SBA caters for and their ethical responsibility to ensure all children are fed at lunchtime, they do not always enforce this requirement.

Each school takes a different approach to administering ParentPay although both schools' lunch service is managed by a catering contractor, JPL.

UAE operates a pay-as-you-go approach to school meals whereby parents are required to top up their ParentPay accounts so their child can purchase school meals. Each student has a card which is linked to their ParentPay account. This card is scanned at the till and the cost of the meal (£2.35) is charged. Data collected at the till system is recorded on a system called Impact, which feeds directly into ParentPay and updates individual ParentPay balances. If a school meal is not taken on a day, no deduction from ParentPay is made.

On a weekly basis, the Administrative Assistant at UAE completes a review of ParentPay to identify debts and where the Trust-imposed limit has been reached. In these instances, the Administrative Assistant will contact the relevant parents in an attempt to recover the debt. The output from the weekly review is reviewed by the Trust Finance Manager and the Principal of UAE in order to manage UAE's position in regard to ParentPay debt. There is a policy in place where parents who are consistently at/over the Trust-imposed limit are blocked. However, this is rarely enforced in practice due to the ethical nature of the provision of school meals and the duty of care to children.

UTC works on a policy that assumes every child takes a school meal every day, irrespective of sickness or other absences. This process incurs a fixed cost per week to parents through their ParentPay account. There are no till systems at UTC and as such, no records are kept in regards to the number of meals served to children by UTC.

SBA recorded £91k of debtors from school meals in its accounts for 2018/19.

SCOPE AND APPROACH:

We interviewed staff based both at the Trust and also both schools to establish the controls in operation for the areas under review. We then assessed whether the controls were suitably designed to mitigate the risks identified and tested their effectiveness. We reviewed the access rights within the PS Financials to ascertain whether duties regarding

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

overarching finance activities are appropriately segregated. This included assessing whether administrator accounts were appropriately assigned and managed.

Accounts payable

We walked through the accounts payable process from raising a purchase order to paying an invoice at each school to establish the controls in place. We reviewed the appropriateness of the Supplier Engagement policy detailed within the Financial Controls and Regulations policy, which outlines the process for engaging with new suppliers. We obtained evidence of supplier due diligence completed by SBA when on boarding two new suppliers.

We reviewed the Financial Controls and Regulations policy to assess whether it outlines the procedure for adding and amending suppliers and assessed whether this was appropriate. Due to the limitation of PS Financials a report of new suppliers/ changes to supplier details could not be produced and therefore we were unable to perform any substantive testing of the supplier master file.

For a sample of ten transactions, we sought to verify whether:

- PS Financials contains the purchase order, goods receipt note and the invoice
- POs and invoices have been approved by those who are authorised in line with the delegations of authority
- An authorised individual approved the payment run.

We assessed whether PS Financials has the ability to identify potential duplicate invoices, and whether duplicate payments could subsequently be posted to the payment listing for payment.

We were due to perform data analytics on SBA's AP data and to compare supplier and staff bank details. However, SBA was unable to provide this information due to the limitations of PS Financials and therefore this testing could not be completed.

School meals income

We reviewed the Financial Regulations and carried out interviews to assess whether responsibility for the management of ParentPay has been assigned. We established whether there were procedures in place regarding the administration of ParentPay and assessed whether actual practice aligns with the documented approach.

We assessed how information regarding school meals taken in a day is recorded at point of sale at each school, how this is input into ParentPay and whether there is a periodic check against student balances and number of meals actually provided. We also assessed whether this information was being used to follow up debts with parents.

GOOD PRACTICE:

We noted the following areas of good practice:

- Access to the administrator account has been restricted by the Trust Business Manager. This was implemented to prevent individuals amending data through the admin account instead of their own personal log ins. This preventative measure was implemented as the account could previously be accessed by multiple individuals, removing transparency and traceability of amendments.
- PS Online will not allow duplicate payment of invoices to occur. Once an invoice has been added to a payment list in PS Online (from PS Financials) the invoice can no longer be added to payment listings.
- Dual authorisation to make payments is required in the Lloyds banking portal.

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

- ParentPay balances are monitored weekly by the Administrative Assistant at UAE. Parents with negative balances or those at the Trust-imposed limit are contacted.

KEY FINDINGS:

We have raised eight findings; four of high significance and four of medium significance.

PS Financials does not have the basic controls we would expect to see in a finance system nor has it been set up to operate appropriately. The system cannot produce exception or other reports and reports have to be requested from PS Financials which may restrict management's ability to monitor financial transactions in a timely manner. We requested a number of reports during the audit which could not be provided to us. The accounts payable process is manual and not supported by system enforced approvals or workflows. Too much access has been given to certain individuals regarding the set up and amendment of suppliers and for the accounts payable process. These segregation of duties issues are further exacerbated by the fact that exception reports cannot not generated and therefore checks cannot be performed.

There is currently no documented approach regarding ParentPay across the academies, and they operate ParentPay in different ways. UTC does not record which children are having meals each day and therefore it is assumed that all children have had a meal and are charged a fixed amount. UTC does not perform any debt collection activity.

Although UAE records meals taken and monitors ParentPay balances on a weekly basis, the reconciliation is not complete and not all meals may be being recorded.


CONCLUSION:

As a result of our review we are able to provide limited assurance over both the design and over the operational effectiveness of the controls in place at South Bank Academies to manage the key risks over accounts payable and school meal income.

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

DETAILED FINDINGS

RISK: LACK OF SEGREGATION OF DUTIES OVER THE ACCOUNTS PAYABLE PROCESS, THE SETTING UP AND REMOVAL OF SUPPLIERS, AND AMENDING OF SUPPLIER BANK DETAILS, IS NOT APPROPRIATELY CONTROLLED, PAYMENTS TO SUPPLIERS ARE MADE WITHOUT CONFIRMATION THAT GOODS HAVE BEEN RECEIVED

Ref	Sig.	Finding
1		<p>PS Financials does not have some the basic controls we would expect to see in a finance system, nor has it been set up in a way in which we would expect. We identified the following issues the way PS Financials has been set up and with its capabilities:</p> <ul style="list-style-type: none"> • Exception reports were not being used at the time of the audit and therefore detective controls had not been implemented and errors could have gone undetected. At the time of the audit it was not known whether PS Financials could produce exception reports. • No reports can be produced by SBA staff and requests for reports needs to be made to PS Financials who will generate the reports. • The accounts payable process is manual and does not have system based approvals meaning one individual for each school (Finance Officer for UAE and Finance Assistant for UTC) can perform a significant amount of the process by themselves without input from another individual (see finding two). • The accounts payable process can be completed without a three way match being completed on the system. We found an instance where a PO had not been goods receipted but the invoice had been paid. • There is a lack of segregation over the setting up, removal and amending of supplier bank details in PS Financials (see finding three). • When invoices are added to the system, the VAT element can be amended and there is no tolerance built into the system nor a system control to check if it aligns to the net amount and VAT code. The Finance Officer demonstrated this to us through inputting a dummy invoice: <ul style="list-style-type: none"> ○ Quantity: one ○ Vat code: Z (zero-rated supply) ○ Net amount: £3.50 <p>The VAT amount was then inserted as £500 and PS Financials accepted the entry. This amended the gross amount of the line on the invoice to £503.50. This could have been posted and added to the payment listing. The amount of VAT is not visible at payment listing stage and therefore incorrect VAT amounts could be paid.</p>

Without basic controls in place, inappropriate or erroneous changes to financial or standing data may not be identified and/or inappropriate transactions may be processed.

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

RECOMMENDATION:

Management should determine whether PS Financials is fit for purpose and appropriate for use at SBA going forward or whether to expedite a move to the University's financial systems, Agresso. In doing this management should consider whether the following can be addressed:

- Whether exception reporting and other reporting can be generated and whether the associated costs of implementing this provide be value for money.
- Whether system enforced approvals/workflow can be added to PS Financials for the accounts payable process.
- Investigate how the system allowed an invoice to be paid without a PO being goods received.
- Investigate the VAT issue with PS Financials to determine whether this issue can be resolved or alerts built into the system where the VAT input is inaccurate.

MANAGEMENT RESPONSE:


- We now have functionality to run a full supplier listing from PSF.
- PSF does have the functionality to produce reports on changes to supplier bank details, but this was not known at the time of audit. However, not all of the exception reporting suggested by BDO can be done in PSF.
- We are introducing e-procurement in January/February 2020 which will remove the need for one person in Finance to be responsible for raising a PO, authorising the PO, goods receipting and invoicing.
- VAT tolerances can be added to PSF which will not allow the VAT amount to exceed the net value.
- Also, monthly reports will be run to ensure that the VAT posted do not exceed the net values.

Responsible Officer: Helena Abrahams, Trust Business Manager

Implementation Date: 29 February 2020

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

RISK: LACK OF SEGREGATION OF DUTIES OVER THE ACCOUNTS PAYABLE PROCESS

Ref	Sig.	Finding
2		<p>There is a lack of segregation of duties over the accounts payable process. The process is manual and does not have system based approvals.</p> <p>One individual for each school (Finance Officer for UAE and Finance Assistant for UTC) can perform a number of steps in the process by themselves without input from another individual as they have the ability to:</p> <ul style="list-style-type: none"> ○ Load purchase orders onto PS Financials ○ Post goods received notes onto PS Financials ○ Post invoices for payment to the BACS run <p>Additionally the Finance Officer can add, remove and make changes to supplier details without anyone else being involved in the process. The Finance Officer is also responsible for transferring the payment (CSV file) to the banking system.</p> <p>Although these individuals cannot authorise or make payments there is a risk that fraudulent or erroneous invoices could be posted, uploaded to a payment run, paid and go undetected.</p> <p>There are insufficient checks performed over the payments made to suppliers.</p> <p>Furthermore, the Finance Office is also responsible for generating the CSV file and uploading it to the Lloyds banking system. The payment file which is downloaded from PS Financials is a CSV (comma separated value) file which is an editable text document.</p> <p>Although the payment file is manually authorised and the amount transferred to the bank is also authorised (and independently of the Finance Officer) there is no check in place to confirm that the two are consistent. Therefore, if there was a change made to the payment listing following approval, this would not be identified.</p> <p>Therefore, there is a risk that inappropriate payments could be made and remain undetected.</p>

RECOMMENDATION:

Management should explore whether system enforced approvals/workflow can be added to PS Financials for the accounts payable process.

Segregation of duties should be implemented for the accounts payable process and the Finance Officer and Finance Assistant roles should be restricted so they are unable to carry out the majority of the process by themselves. Some parts of this role (raising of POs and goods receiving) could be split between the two finance roles or delegated to school staff.

A check should also be implemented to ensure that the payment listing and payments uploaded to the bank account agree.

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

MANAGEMENT RESPONSE:

The introduction of e-procurement will remove the need for the Finance Officers to raise, authorise and goods receipt a PO.

Staff will raise their own requisitions which the Finance Officer will convert to a PO. This will be authorised by the Principal. Staff will goods receipt a PO and Finance will pay the invoice when received. This allows for a full segregation of duties over the accounts payable process.

We are also making changes to the way the BACS payments are imported to the bank system. The Finance Manager will check the pay run and import the BACS file to the bank.


Dual authorisation of the pay run will remain the responsibility of the Trust Business Manager, Executive Principal and CEO.

Responsible Officer: Helena Abrahams, Trust Business Manager

Implementation Date: 29 February 2020

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

RISK: THE SETTING UP AND REMOVAL OF SUPPLIERS, AND AMENDING OF SUPPLIER BANK DETAILS IS NOT APPROPRIATELY CONTROLLED

Ref	Sig.	Finding
3		<p>There is a lack of segregation over the setting up, removal and amending of supplier bank details in PS Financials.</p> <p>The Finance Officer and Finance Assistant have the ability to add, remove and make changes to supplier details without anyone else needing to be involved. This risk is exacerbated by the fact that exceptions reports were not being produced from PS Financials and therefore there is no detective control in place to ensure that new suppliers added or amendments made are appropriate.</p> <p>There is a risk that inappropriate suppliers may be set up or bank accounts details changed inappropriately. Errors may also not get detected.</p>

RECOMMENDATION:

Management should establish whether supplier set up and amendment access can be segregated.

As per Finding one, the use of exception reporting should be explored so checks can be made on whether amendments are appropriate. Any checks performed should be by someone who cannot add/amend suppliers themselves or perform significant parts of the accounts payable process.

MANAGEMENT RESPONSE:

Finance Officers will no longer be able to add, remove or amend supplier bank details.

The new supplier forms are being used and it will be the responsibility of the Finance Manager to add these suppliers to PSF, once the form has been authorised.

The change of supplier details form is in use and the Finance Manager will action these changes when the form has been authorised.

Monthly reports will be produced to see when new suppliers have been added and checked against the forms received.


PSF does have the functionality to run various account audit reports, so we will agree with BDO which ones we should run.

Responsible Officer: Helena Abrahams, Trust Business Manager

Implementation Date: 29 February 2020

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

RISK: RECORDS OF SCHOOL MEALS PROVIDED AT A CHARGE AND FREE OF CHARGE ARE NOT CAPTURED OR RETAINED

Ref	Sig.	Finding
4		<p>The following issues were identified at UTC with regards to the recording of school meals:</p> <ul style="list-style-type: none"> The number of school meals provided and to which children is not recorded. It is assumed all children have a meal each day and a fixed daily charge (£2.35 per day) is made to the ParentPay account. No adjustment is made if the child is off sick/ does not have a meal. UTC is unable to reconcile the amounts paid by parents to the amount of meals a child has actually received and therefore will not know if the ParentPay balance is accurate or not. UTC does not review ParentPay balances and follow up on outstanding debt. As no information is recorded, UTC would be unable to assess whether it is obtaining value for money from the catering company in relation to school meals. <p>There is risk parents may be overcharged for meals not taken and/or UTC may also be overcharged. Without appropriate recording of meals taken UTC is unable to monitor school meal income and debt appropriately meaning income, expenses and debt may not be accurately recorded.</p>

RECOMMENDATION:

UTC should implement a process to record the actual school meals taken per child per day and ensure that ParentPay accurately reflects this.

A weekly review of ParentPay balances should be performed to identify parents who are in debt and appropriate action should be taken to follow up these debts.

A reconciliation should also be done of the number of meals provided, those being recharged to parents, those receiving free meals and whether the catering contract is providing value for money.

MANAGEMENT RESPONSE:

The catering contract has been procured on a fixed number of meals per day, but we have no means of identifying whether this number of meals is being provided. This means that value for money cannot be recognised with this type of contract.

We agree with all of the recommendations made by BDO and also we have identified that the issues at UTC are not fully resolved regarding ParentPay.

Urgent action is being taken to review the use of ParentPay and the catering contract as a whole.

Responsible Officer: Helena Abrahams, Trust Business Manager


LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

Implementation 29 February 2020

Date:

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

RISK: THERE IS NO RECONCILIATION BETWEEN MEALS PROVIDED TO STUDENTS, MEALS PAID FOR BY THE ACADEMIES, AND CHARGES THAT SHOULD BE PASSED ON TO PARENTS/GUARDIANS.

Ref	Sig.	Finding
5		<p>At UAE we identified the following issues in relation to school meal income:</p> <ul style="list-style-type: none"> • There is an inconsistent approach to recording students who receive meals. Sometimes cards are scanned and other times the student will be entered manually on the till (even if they have their card with them) which may lead to input errors or omissions. • If a student's ParentPay balance reaches -£13.62 they will be put on a list by the till. When they next have a meal they are recorded on this list and not always on the till. This manual list is not provided to the Admin Assistant and therefore their balance may not be amended to reflect meals they have had once they have reached the -£13.62 threshold. • The weekly reconciliation is used to review debt only. It is not used to check whether the total number of meals recorded each week accurately reflects those charged for and those given for free. Nor is the reconciliation used to assess whether the catering contract is providing value for money.

RECOMMENDATION:

Cards for each student should be scanned regardless of whether they are known by the member of staff on the till. Manual entry should be restricted to where students do not have their pass with them.

Even if students are on the debtors list their meal should be put through the till system.

The weekly reconciliation should include total number of meals and free meals provided.

MANAGEMENT RESPONSE:


We are taking urgent action to review the catering contract and use of ParentPay.

Responsible Officer: Helena Abrahams, Trust Business Manager

Implementation Date: 29 February 2020

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

RISK: PAYMENTS TO SUPPLIERS ARE MADE WITHOUT CONFIRMATION THAT GOODS HAVE BEEN RECEIVED

Ref	Sig.	Finding
6		<p>There is no authorised signatory list in place for the schools.</p> <p>As invoices are manually signed, staff in the Accounts Payable team will need to check if the invoices have been approved in line with the Financial Regulations. Without a list it is not possible to confirm whether or not the signatories are the individuals that are authorised to approve the invoices.</p> <p>It was noted that only a handful of individuals have authorisation for sign off invoices and therefore a small Accounts Payable team will become familiar with the signatures over time.</p> <p>However, at the moment there is a risk that signature provided for sign off are not that of an authorised individual and therefore invoices are inappropriately approved.</p>

RECOMMENDATION:

An authorised signatory list should be created for each of the schools.

MANAGEMENT RESPONSE:

An authorised signatory list is now in place.


The introduction of e-procurement will remove the need to have an authorised signatory list in place as all approvals are being done electronically. Electronic approval is done based on the value of the order.

Responsible Officer: Helena Abrahams, Trust Business Manager

Implementation Date: 29 February 2020

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

RISK: THE SETTING UP AND REMOVAL OF SUPPLIERS, AND AMENDING OF SUPPLIER BANK DETAILS, IS NOT APPROPRIATELY CONTROLLED

Ref	Sig.	Finding
7		<p>Supplier due diligence does not include solvency checks nor is there a check of supplier solvency if a supplier is re-engaged after having not been used for some time.</p> <p>There is also no periodic exercise to review the supplier listing and remove suppliers from PS Financials that are no longer required.</p> <p>SBA may engage with inappropriate suppliers or suppliers who cannot fulfil their order. Due to the timescales in which goods are ordered this could lead to goods not being received when needed. Orders could also be placed with suppliers that SBA no longer wants to use.</p>

RECOMMENDATION:

Supplier due diligence should include financial/solvency checks.
Financial/ solvency checks should be re-performed on suppliers which are re-engaged after having not been used for a set period of time (eg six months/ one year).
A periodic review of the supplier listing should be performed and suppliers who are no longer used should be removed.

MANAGEMENT RESPONSE:

The majority of the suppliers that the academies trade with are small companies and sole traders. We are checking the filing of the accounts with Companies House. The recommendation to include financial/solvency checks would only be appropriate if the value of the order exceeded £50k. We can discuss with the SBA Board to include this in our financial regulations.


We will include an annual review of our suppliers to deactivate those that we have not traded with, in the last 24 months.

Responsible Officer: Helena Abrahams, Trust Business Manager

Implementation Date: 31 July 2020

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

RISK: INAPPROPRIATE SEGREGATION OF DUTIES/ACCESS TO THE FINANCE SYSTEM

Ref	Sig.	Finding
8		<p>SBA's financial policies and procedures are held on LSBU's network which school staff do not have access to.</p> <p>It was also been noted Financial Regulations have been updated but have yet to be signed off by the Board.</p> <p>Without sight of, or access to, financial policies and procedures, staff may be unaware of the policies/procedures to follow and may inadvertently bypass or be non-compliant with them. Furthermore, because the finance system does not have robust controls, SBA is reliant on staff following policies and procedures.</p>

RECOMMENDATION:

All relevant staff should be given access to SBA's financial policies and procedures. The Financial Regulations should be approved by the Board.

MANAGEMENT RESPONSE:

When approved, all SBA staff will provided with access to the documentation.

Responsible Officer: Helena Abrahams, Trust Business Manager

Implementation Date: 29 February 2020 (or after the next SBA Board meeting)

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

OBSERVATIONS

Invoice numbers and purchase order invoice numbers (POIN) synchronisation

Within PS Financials, the system generated invoice reference numbers (INV) and the purchase order reference numbers (POIN) do not synchronise and are out by two numbers.

Upon review, the Trust Business Manager has discovered the first two invoice references within PS Financials had not been assigned POIN identifiers, and as such the two datasets have been out of synchronicity since invoice number three and POIN number one.

We understand that there is no issue with this as it does not impact of the accounts payable process.

Catalogues

We noted that some of the catalogues used by staff to order goods from were out of date. Therefore, purchase order values were inaccurate and has led to invoices varying from approved purchase orders. Although these differences are not generally significant, this could be prevented by having up to date catalogues in place.

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES





STAFF INTERVIEWED

BDO LLP APPRECIATES THE TIME PROVIDED BY ALL THE INDIVIDUALS INVOLVED IN THIS REVIEW AND WOULD LIKE TO THANK THEM FOR THEIR ASSISTANCE AND COOPERATION.




Helena Abrahams	Trust Business Manager
Om Parkash	Trust Finance Manager
Natasha Padmore	Finance Officer
Dariusz Zawisza	Finance Intern

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

APPENDIX I - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
Substantial 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate 	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE

High 	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium 	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk 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 	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

APPENDIX II - TERMS OF REFERENCE

PURPOSE OF REVIEW:

The purpose of the audit is to provide assurance over the key financial controls in place at South Bank Academies in relation to accounts payable and accounts receivable.

KEY RISKS:

Based upon the risk assessment undertaken during the development of the internal audit operational plan, through discussions with management, and our collective audit knowledge and understanding the key risks associated with the area under review are:

Overarching

- Inappropriate segregation of duties/access to the finance system

Accounts payable

- Lack of segregation of duties over the accounts payable process
- Inappropriate suppliers are engaged with
- The setting up and removal of suppliers, and amending of supplier bank details, is not appropriately controlled
- Payments to suppliers are made without confirmation that goods have been received
- Inappropriate/inaccurate payments are made through the bank account
- Payments made to suppliers are inappropriately authorised
- Duplicate payments are made to suppliers

School meal income

- Responsibilities for the management and reconciliation of ParentPay have not been clearly assigned
- Records of school meals provided at a charge and free of charge are not captured or retained
- ParentPay is not updated to reflect the school meals provided and therefore balances are inaccurate
- There is no reconciliation between meals provided to students, meals paid for by the academies, and charges that should be passed on to parents/guardians.

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

SCOPE OF REVIEW:

The following areas will be covered as part of this review:

Overarching

- Segregation of duties/access to the finance system

Accounts payable

- Segregation of duties over the accounts payable process
- Supplier due diligence
- The setting up and removal of suppliers, and amending of supplier bank details
- Goods receipting
- Payments made through the bank account
- Authorisation of invoices
- Prevention and detections of duplicate invoices/payments

School meal income

- Responsibilities for the management and reconciliation of ParentPay
- Records of school meals provided
- Updating of ParentPay and checking of its accuracy
- Reconciliation of meals provided to students, meals paid for by the academies, and charges that should be passed on to parents/guardians.

However, Internal Audit will bring to the attention of management any points relating to other areas that come to their attention during the course of the audit. We assume for the purposes of estimating the number of days of audit work that there is one control environment, and that we will be providing assurance over controls in this environment. If this is not the case, our estimate of audit days may not be accurate.

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

APPROACH:

Our approach will be to conduct interviews to establish the controls in operation for each of our areas of audit work. We will then seek documentary evidence that these controls are designed as described. We will evaluate these controls to identify whether they adequately address the risks.

We will seek to gain evidence of the satisfactory operation of the controls to verify the effectiveness of the control through use of a range of tools and techniques.

We will review the access rights to the SBA sections of the finance system to assess whether this is appropriately controlled and whether access is appropriately segregated/ restricted.

Accounts payable

A walkthrough of the accounts payable process will be performed to review segregation of duties and assess whether these are appropriate.

The controls around carrying out supplier due diligence, setting up new suppliers, removal of suppliers, and amending of supplier bank details will be reviewed to assess whether robust controls are in place. We will perform limited sample testing to establish whether controls have been adhered to and whether exception reporting is performed on changes to the supplier master file before payments are made.

We will assess whether confirmation of goods/services being received is in place before invoices are authorised/ payments are made. As invoice authorisation is manual, sample testing of ten invoices will be performed.

We will review the controls over the bank account to assess whether there are appropriate restrictions in place/ dual authorisation is required.

We will assess whether there are appropriate system controls in place to identify potential duplicate invoices and whether there are restrictions on processing these.

Accounts receivable

We will assess whether responsibilities over managing school meal income have been clearly defined. We will assess whether appropriate records are maintained of the school meals provided to students (both free of charge and chargeable) and whether this are used to ensure ParentPay is kept up to date. We will also assess whether there are periodic reconciliations performed of the meals provided to students, meals paid for by the academies, and charges that should be passed on to parents/guardians. To verify whether this process is working effectively we will review documentation retained, and if possible use data analytics to assess whether balances reconcile. If data analytics cannot be used, then for a sample of balances we will assess whether we can trace these back to underlying records.

DATA ANALYTICS:

We have considered the use of data analytics as part of this audit and the following tests will be performed:

LONDON SOUTH BANK UNIVERSITY, FINANCIAL CONTROLS - SOUTH BANK ACADEMIES

KEY RISKS:	DATA ANALYTICS TO PERFORM:
Payments to suppliers are made without confirmation that goods have been received	Analyse the level of purchases which are not supported by a purchase order and/or where purchase orders have been raised retrospectively
Duplicate payments are made to suppliers	Analyse whether potential duplicate supplier payments have been made between 1 April - 30 November 2019
Inappropriate/inaccurate payments are made through the bank account	Comparison of staff and supplier bank details to assess whether there are any duplicates
ParentPay is not updated to reflect the school meals provided and therefore balances are inaccurate	If data analytics allows, assess whether balances on ParentPay match underlying records.

We will perform the data analytical work in advance of our site fieldwork. Any exceptions found will be communicated and investigated during our fieldwork.

FOR MORE INFORMATION:

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	CONFIDENTIAL
Paper title:	Internal Audit – South Bank Colleges Key Financial Controls
Board/Committee:	Group Audit and Risk Committee
Date of meeting:	13 February 2020
Author(s):	BDO
Sponsor(s):	Richard Flatman, Chief Financial Officer
Purpose:	For Information
Recommendation:	The Committee is requested to note the report and its findings.

Summary

This report reviews the key financial controls in place at South Bank Colleges, focusing on Accounts Payable and Payroll. For Accounts Payable the report gives limited assurance over the design and moderate assurance over the operational effectiveness of financial controls. For Payroll substantial assurance over the design and operational effectiveness of controls is given. Two high risk, two medium risk and one low risk recommendation have been made.

This report is for information and will be reviewed in detail by the SBC Audit Committee at its February 2020 meeting.

Four out of the five recommendations made in this report relate to financial regulations and procedures in place at the College. The University is working with the College to put in place group financial regulations and standardised procedures across the LSBU group which will address these recommendations. In the interim period additional control processes will be implemented.

The final recommendation relates to the implementation of the Agresso finance system. This is planned for quarter 1 2020 and we consider the risk to be overstated.

Recommendation:

The Committee is requested to note this report

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LONDON SOUTH BANK UNIVERSITY GROUP

INTERNAL AUDIT REPORT - FINAL

SOUTH BANK COLLEGES - FINANCIAL CONTROLS
FEBRUARY 2020

	LEVEL OF ASSURANCE	
	Design	Operational Effectiveness
Accounts payable	Limited	Moderate
Payroll	Substantial	Substantial



SOUTH BANK COLLEGES - FINANCIAL CONTROLS

EXECUTIVE SUMMARY	2
DETAILED FINDINGS	6
OBSERVATIONS	13
STAFF INTERVIEWED	14
APPENDIX I - DEFINITIONS.....	15
APPENDIX II - TERMS OF REFERENCE	16

DISTRIBUTION

Michael Webb	Chief Financial Officer
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REPORT STATUS LIST

Auditors:	Raeshan Downer and Matt Brookland
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Dates work performed:	06 - 20 December 2019 - closing meeting 15 January 2020
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Draft report issued:	28 January 2020
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Final report issued:	6 February 2020
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SOUTH BANK COLLEGES - FINANCIAL CONTROLS

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)

Accounts payable	Design		System of internal controls is weakened with system objectives at risk of not being achieved.
	Effectiveness		Evidence of non-compliance with some controls, that may put some of the system objectives at risk.
Payroll	Design		There is a sound system of internal control designed to achieve system objectives.
	Effectiveness		The controls that are in place are being consistently applied.

SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I)

High			2
Medium			2
Low			1

TOTAL NUMBER OF RECOMMENDATIONS: 5

BACKGROUND:

A review of SBC's financial controls has been conducted as part of the 2019/20 internal audit plan for the LSBU Group. This review specifically reviewed the payroll and accounts payable process in place at the College (SBC).

The Finance Director has ultimate responsibility for managing the day to day financial controls at SBC. There are eight members of the Finance team. However, the College has yet to replace the Head of Finance who left during the last quarter of 2019.

Payroll

SBC manages its own payroll processes internally, with the Head of Payroll having overall responsibility for payroll operations, and the payroll taking place on a monthly basis. There are two members of staff in the Payroll team (the team is line managed by the University) and payroll is run through the iTrent system.

New starters are set up in the system following completion of new starter forms, which are signed off by the new starter's line manager, HR and Payroll prior to upload in to iTrent.

Employees have access to an employee self-service staff portal on the internet, whereby they can change their own details. This portal is password protected and only the member of staff can request changes. These changes include bank and address details, and are automatically made within iTrent via workflow, which is reviewed by the Head of Payroll.

When an employee decides to leave, they complete a leaver's form, which is then completed by their line manager, and approved by HR and passed to Payroll. Payroll will remove the member of staff from the payroll for the following month, and make adjustments for holiday pay.

SOUTH BANK COLLEGES - FINANCIAL CONTROLS

Where an employee has not been removed from the payroll and has been paid following their last date of employment, or where staff details are changed without Payroll being updated in a timely manner, there is an overpayment recovery process in place. These employees are requested to repay the monies owed, which includes in the first instance a letter being sent to the employee's address, outlining what has happened and requesting that they adopt a payment plan.

Accounts Payable

Between December 2018 and November 2019, around £824k of invoices was processed by the accounts payable team, across 77 different suppliers.

Where there is a requirement for a new supplier to be set up, due diligence is conducted prior to engagement. The Companies' House website is reviewed to confirm the potential supplier's existence. Where this is deemed satisfactory, the supplier details provided on company headed paper are updated to the supplier's profile within Agresso by the AP Officer.

Where products and/or services are required, a PO is requisitioned and approved. Following goods being received or services being rendered, an invoice is received for payment which is matched to the PO.

Suppliers are paid on a monthly payment run, which is prepared by the Finance team, reviewed by the Head of Finance (or nominated member of staff given this role is vacant), checking payments to be made over £5k back to the invoices. The proposed payment run is verified and approved by the Finance Director and Group Financial Controller (at LSBU) as final authorisation for payments to be made. As the Head of Finance role was vacant at the time of our audit, payments were being made through the online banking system by the Group Financial Controller at the University. However, we understand the Finance Director is now making these.

When the finance system was transferred from Symmetry to Agresso (from August 2019) there was a complete review of the access rights. There was a discussion between the Systems team and the Finance team at the College regarding the roles of each member of staff and what access they required for their job. From this, the user access rights for the new system were determined.

SCOPE AND APPROACH:

Our approach was to conduct interviews to establish the controls in operation for each of our areas of audit work. We then sought documentary evidence that these controls were designed as described. We then evaluated these controls to identify whether they adequately address the risks.

We reviewed the access rights within Agresso to determine whether the access that staff had was appropriate, taking in to consideration the number of staff within the Finance team.

Accounts payable

We walked through the accounts payable process to determine the roles and responsibilities of staff and determine whether the level of segregation of duties was appropriate.

We reviewed the policy and procedural guidance in place over supplier due diligence, setting up and removing suppliers from Agresso and amending supplier bank details.

A sample of five new suppliers was selected and we sought to verify whether:

- Due diligence had been conducted
- They were appropriately approved.

SOUTH BANK COLLEGES - FINANCIAL CONTROLS

A sample of ten transactions was selected and we sought to verify whether:

- A PO was recorded for the transaction
- The PO was appropriately authorised
- Goods receipting of items was recorded before payments were made
- The invoice matched the PO
- The invoice was appropriately authorised.

We cross referenced bank details of employees and suppliers to assess whether any were the same. We cross referenced supplier ID numbers and invoice amounts to establish whether there have been any potential duplicate payments made.

We reviewed whether exception reporting takes place, and whether there is an appropriate approval process in place prior to making payments to suppliers. We tested whether August, September and October 2019 supplier payments had been authorised prior to payment being made.

Payroll

We reviewed the segregation of duties across the payroll team.

We chose a sample of ten new starters that joined between January and November 2019 and verified whether a new starter form had been completed and whether the employee was paid the correct amount on their first payslip.

We chose a sample of ten employees that left the College between January and November 2019 and verified whether the leaver was processed in a timely manner and was not paid after the last date of employment.

We verified whether the College's employee self-service portal allows SBC staff to make changes to their own standing data and whether this can be overridden.

We walked through the process for calculating payroll deductions and the process for ensuring these are accurate prior to payments being made.

We walked through the net pay comparison process for reducing the likelihood of making overpayments and in three instances where overpayments have occurred, we verified whether they had been dealt with accordingly in line with the Overpayment policy.

Opening balances

The closing balances from the Symmetry system have not yet been transferred to Agresso, and therefore we have not been able to confirm whether the transfer of balances has been conducted accurately.

KEY FINDINGS:

We have raised five findings; two of high significance, two of medium significance and one of low significance. The high and medium significance findings are noted below.

The closing balances from Symmetry have not been transferred to Agresso. Although we understand that creditors were paid down to zero, other items had closing balances in the financial statements.

There are inappropriate controls over the management of the supplier Masterfile. If staff receive a request to change bank details, they do not check whether it is genuine. There is also no exception reporting in place nor check that changes to the supplier master file is appropriate.

There is no goods receipting in place over purchases and only a two way match is in place (PO and invoice). Furthermore, where the PO was generated pre-August 2019 (when the

SOUTH BANK COLLEGES - FINANCIAL CONTROLS

College started using Agresso), there is no record that a check has been made against the original PO to verify the purchase was approved.

Supplier due diligence is insufficient and records are not retained that supplier due diligence has been carried out.

No findings we raised in relation to payroll.

CONCLUSION:

As a result of our review we are able to provide limited assurance over the design of the controls in place and moderate assurance over the operational effectiveness of the controls in place in relation to accounts payable and substantial assurance over both the design and operational effectiveness of controls over payroll.

We're unable provide an opinion over the opening balances as they had not been transferred.


OUR TESTING DID NOT IDENTIFY ANY CONCERNS SURROUNDING THE CONTROLS IN PLACE TO MITIGATE THE FOLLOWING RISKS:

- ✓ Inappropriate segregation of duties/access to Agresso
- ✓ Payments made to suppliers are inappropriately authorised
- ✓ Duplicate payments are made to suppliers
- ✓ Inappropriate segregation of duties over the payroll process including amendments to standing data and access to data
- ✓ Payments are made to non-genuine staff, eg fictitious employees or staff that have left
- ✓ Inaccurate and unauthorised payments are made to employees
- ✓ Payroll deductions are incorrectly calculated, not properly deducted or paid over

SOUTH BANK COLLEGES - FINANCIAL CONTROLS

DETAILED FINDINGS

RISK: CLOSING BALANCES HAVE BEEN INCORRECTLY TRANSFERRED TO AGRESSO.

Ref	Sig.	Finding
1		<p>Transfer of the closing balances from Symmetry to Agresso has not taken place.</p> <p>Although Agresso is being used to manage all of the College's finance information, it does not contain the closing balances from Symmetry nor was there a reconciliation to confirm that the opening balances match the closing balance and that SBC is using accurate financial data for the 2019/20 financial year. We understand that suppliers were paid down to zero so Agresso started with zero creditor balances. However, there are other balance sheet items which had closing balances which have not been reflected in Agresso.</p> <p>We understand that the data should be moved during the first quarter of 2020.</p> <p>There is a risk that SBC's balance sheet is inaccurate as Agresso has assumed that all balances were zero at the start of the year which is not reflective of the current position.</p>

RECOMMENDATION:

The closing balances from Symmetry should be transferred to Agresso. Checks should be performed that these have been transferred correctly.

MANAGEMENT RESPONSE:

Agreed that the balances need to be transferred and the team is working on presenting a TB in Symmetry (that agrees to the statutory accounts) and translates this to an Agresso input format.


The risk to balance sheet reporting is overstated as cash flow forecasting and income and expenditure performance are of more importance at this stage of the year; we think that the risk rating assigned to this finding is overstated and is a time limited issue until the opening balance is posted.

Responsible Officer: Michael Webb, Chief Financial Officer

Implementation Date: ASAP

SOUTH BANK COLLEGES - FINANCIAL CONTROLS

RISK: THE SETTING UP AND REMOVAL OF SUPPLIERS, AND AMENDING OF SUPPLIER BANK DETAILS, IS NOT APPROPRIATELY CONTROLLED

Ref	Sig.	Finding
2		<p>Supplier bank detail changes are not independently verified with the respective supplier and there is a lack of segregation of duties over the setting up of suppliers and changing their bank details.</p> <p>Supplier are asked to send their bank detail changes on company headed paper through to SBC's AP team. This is reviewed by the AP Officer and verified by the Finance Director via completion of a paper form. If satisfied that the details are accurate, then the bank details are changed within Agresso. There is no check back with SBC's known supplier contact that the change is genuine.</p> <p>Authorisation to add suppliers/ make changes to supplier bank details within Agresso is not system controlled ie there are no controls or workflow in place following approval via paper forms for the bank details to be changed/ supplier to be set up. Therefore, one member of staff can make these changes within the system without any other input from anyone else. There is also no exception reporting in place to check whether changes to the supplier master file is accurate.</p> <p>There is a risk that non-genuine changes requested by fraudsters would be processed. There is also a risk that staff within the AP team could fraudulently or erroneously amend supplier details which would go undetected.</p>

RECOMMENDATION:

The AP team should implement an additional step into the supplier change process whereby it contacts the key contact at the supplier to check whether the bank detail change is genuine.

Management should assess whether exception reporting could be introduced to check amendments to the supplier master file prior to payment runs being processed. The individual who carries out this check should not have edit access to the supplier master file.

Management should explore whether an extra workflow control step could be introduced within Agresso whereby the Finance Director (or someone who does not have edit access to the supplier master file in Agresso) approves the bank detail change rather than the use of a hardcopy form.

MANAGEMENT RESPONSE:

LSBU is in the process of implementing a new system to manage on boarding of new suppliers and changes to the supplier master file. This should be in place in the next nine months. SBC will seek to use this system when it becomes available. Until then we will add an additional step to check bank details before the supplier is live on the supplier master file. We will seek to have a monthly supplier master file changes report run from Agresso to use as exception reporting.


Responsible Officer: Michael Webb, Chief Financial Officer

SOUTH BANK COLLEGES - FINANCIAL CONTROLS

Implementation ASAP
Date:

SOUTH BANK COLLEGES - FINANCIAL CONTROLS

RISK: PAYMENTS TO SUPPLIERS ARE MADE WITHOUT CONFIRMATION THAT GOODS HAVE BEEN RECEIVED

Ref	Sig.	Finding
3		<p>We identified two issues with regards to the accounts payable process at the College.</p> <p>Firstly, Goods receipt notes (GRN) are not sent to the Accounts Payable Officer upon receipt by the relevant departments.</p> <p>A PO is raised (by the department that requires the goods/service) and approved (by the Finance team) within Agresso. The department that initially requested the PO is listed as the recipient for the required product/service. It is therefore its responsibility to inform the AP team that the product/service has been received and the quantity is correct (if applicable). The AP team will then make payment. However, this process is not documented and in practice does not take place. There was no evidence of a goods receipt note on file or recorded in the system for the sample of ten purchase invoices tested.</p> <p>The approval of invoices within Agresso is carried out by either the Finance Director or the AP Officer (if the Finance Director has authorised the PO). This is a system driven process for POs raised within Agresso and the AP team pays invoices that can be matched to a PO, without confirmation of receipt of goods receipt by the department receiving the goods.</p> <p>The College's Financial Regulations states "All invoices shall be authorised on-line by the relevant Budget Holder." There is nothing included within the Financial Regulations regarding the receipting of goods.</p> <p>The University's Financial Regulations include "Committed invoices should be receipted on the finance system by the person who raised the original requisition as evidence that the invoice has been checked, the goods or service has been received and the department wishes the supplier to be paid." Therefore there is a disparity between the two Financial Regulations and the requirement to good receipt.</p> <p>There is a risk that payment of invoices is made where goods/services have not been received.</p> <p>Secondly, POs raised in Symmetry, relating to invoices not paid before the cut-off (August 2019) have not been migrated across to Agresso. Although the AP Officer and the Finance and Procurement Officer can access Symmetry to check if a PO has been raised previously there is nothing documented in Agresso that there is a PO. Without a goods receipt note either there is no confirmation that goods / services were ordered, approved and/or received.</p> <p>The number of POs in Symmetry is reducing and therefore this risk is time sensitive.</p>

SOUTH BANK COLLEGES - FINANCIAL CONTROLS

RECOMMENDATION:

The College's Financial Regulations should be updated to align with the University's Financial Regulations to require goods/service receipting by the budget holder/department that originally requested the goods/service.

The AP team should not process invoices for payment until it has received confirmation that goods/services have been received. This control should be built into Agresso (in line with the University's control framework) so that the GRN is linked to the PO and the invoice, and that a three way match (GRN, PO and invoice) can be made prior to payment being made.

The AP team should ensure that a check of Symmetry is performed prior to processing invoices for payment. It should be investigated whether the relevant POs can be transferred across and if not, the PO number should at least be recorded in Agresso.

MANAGEMENT RESPONSE:

LSBU is undertaking a Procure to Pay review and SBC will seek to mirror changes coming from that review as appropriate. In the interim period before any group change processes happen we shall instigate an additional signing step that certifies that the goods or service has been received by the College.


In relation to the second point the College made a conscious decision that all suppliers would be paid at the end of July 2019 and as most of the POs raised were in relation to 2018/19 business the issue of invoices received in 2019/20 relating to 2018/19 not having an Agresso PO is limited and does not constitute a control weakness.

Responsible Officer: Michael Webb, Chief Financial Officer

Implementation Date: ASAP

SOUTH BANK COLLEGES - FINANCIAL CONTROLS

RISK: INAPPROPRIATE SUPPLIERS ARE ENGAGED WITH

Ref	Sig.	Finding
4		<p>The supplier due diligence process is inadequate and evidence to support the checks that are carried out is not retained.</p> <p>At present the AP Officer checks the Companies' House website to corroborate supplier details provided on the new supplier form. Once the AP Officer is satisfied the company exists and the details match, the AP Officer will continue to on-board the new supplier. For a sample of five suppliers there was no evidence on file to evidence that this process had been carried out.</p> <p>There are no financial checks performed on the supplier and the Financial Regulations do not contain information regarding the supplier due diligence process nor what checks are expected to be performed. There are also no procedures in place for this process.</p> <p>There is a risk that without a more robust and documented due diligence process and inappropriate suppliers will be engaged with. The new supplier guidance issued by the University specifically states that the financial stability of the company should be checked through a credit check on the supplier.</p>

RECOMMENDATION:

The due diligence requirements should be reviewed and updated to include financial checks. The due diligence checks carried out on each supplier should be retained to evidence that appropriate checks have been carried out.

MANAGEMENT RESPONSE:


LSBU is in the process of implementing a new system to manage on boarding of new suppliers and changes to the supplier master file. This should be in place in the next nine months. SBC will seek to use this system when it becomes available. In the meanwhile any new suppliers due diligence will be documented and saved. This process will be informed by the materiality of the proposed expenditure.

Responsible Officer: Michael Webb, Chief Financial Officer

Implementation Date: ASAP

SOUTH BANK COLLEGES - FINANCIAL CONTROLS

RISK: INAPPROPRIATE SEGREGATION OF DUTIES

Ref	Sig.	Finding
5		<p>SBC does not have formal procedures to support its Financial Regulations.</p> <p>All staff interviewed as part of the audit process were able to describe the processes they go through to complete accounts payable and payroll processes and had their own written procedures and process notes that enabled them to carry out their role. However, these were not widely available to the team nor do they constitute formal procedures that have been reviewed and align to the Financial Regulations.</p> <p>There is a risk that practice does not align with that expected or that expected roles and responsibilities are not being adhered to.</p>

RECOMMENDATION:

Formal procedures should be developed to support the Financial Regulations.

MANAGEMENT RESPONSE:

We accept that the procedure notes we have should be formalised and will ensure that they align to the Financial Regulations.

Responsible Officer: Michael Webb, Chief Financial Officer

Implementation Date: 31 July 2020

SOUTH BANK COLLEGES - FINANCIAL CONTROLS

OBSERVATIONS

NO LIST OF OVERPAYMENTS

The College does not maintain a list of all overpayments made to staff. There is an Overpayment policy in place that states "If through an administrative error an overpayment is made to an employee then this money would be recovered by the College. The period over which it would be re-paid by the employee would be agreed between the employee, the HR Department and the Payroll Section. The employee would normally be allowed to re-pay the amount over the same length of time that it had been overpaid. However this would be judged on a case by case basis, and would be subject to the circumstances of the employee concerned, and further time to re-pay the amount may be allowed if appropriate."

Where the College has identified overpayments, these have been followed up and we saw evidence that action to recover these is being taken.

Whilst there were only two overpayments at the time of the review, if the list were to grow then we would expect to see a list to help identify and control overpayments to understand the number and value and identify themes.

SOUTH BANK COLLEGES - FINANCIAL CONTROLS





STAFF INTERVIEWED

BDO LLP APPRECIATES THE TIME PROVIDED BY ALL THE INDIVIDUALS INVOLVED IN THIS REVIEW AND WOULD LIKE TO THANK THEM FOR THEIR ASSISTANCE AND COOPERATION.




Michael Webb	<u>Chief Finance Officer</u> Finance Director
Stephen Kalyango	Finance and Procurement Officer
Bridget Omakobia	Head of Payroll & Pensions
Ravi Mistry	Finance & Management Information Systems Manager

SOUTH BANK COLLEGES - FINANCIAL CONTROLS

APPENDIX I - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
Substantial 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate 	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE

High 	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium 	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk 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 	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

SOUTH BANK COLLEGES - FINANCIAL CONTROLS

APPENDIX II - TERMS OF REFERENCE

PURPOSE OF REVIEW:

The purpose of the audit is to provide assurance over the controls the College has in place over accounts payable, payroll and over the transfer of closing balances from 2018/19 to Agresso.

KEY RISKS:

Based upon the risk assessment undertaken during the development of the internal audit operational plan, through discussions with management, and our collective audit knowledge and understanding the key risks associated with the area under review are:

Overarching

- Inappropriate segregation of duties/access to Agresso

Accounts payable

- Lack of segregation of duties over the accounts payable process
- Inappropriate suppliers are engaged with
- The setting up and removal of suppliers, and amending of supplier bank details, is not appropriately controlled
- Payments to suppliers are made without confirmation that goods have been received
- Inappropriate/inaccurate payments are made through the bank account
- Payments made to suppliers are inappropriately authorised
- Duplicate payments are made to suppliers

Payroll

- Inappropriate segregation of duties over the payroll process including amendments to standing data and access to data
- Payments are made to non-genuine staff, eg fictitious employees or staff that have left
- Inaccurate and unauthorised payments are made to employees
- Payroll deductions are incorrectly calculated, not properly deducted or paid over
- Overpayments are made and not recovered

Transfer of balances

- Closing balances have been incorrectly transferred to Agresso.

SOUTH BANK COLLEGES - FINANCIAL CONTROLS

SCOPE OF REVIEW:

The following areas will be covered as part of this review:

Overarching

- Segregation of duties/access to the finance system

Accounts payable

- Segregation of duties over the accounts payable process
- Supplier due diligence
- The setting up and removal of suppliers, and amending of supplier bank details
- Goods receipting
- Payments made through the bank account
- Authorisation of invoices
- Prevention and detections of duplicate invoices/payments

Payroll

- Segregation of duties operating over the payroll process
- Starters and leavers
- Changes to payroll including changes to pay and employee bank details
- Use of exception reporting
- Approval of payroll BACS runs
- Payroll deductions
- Identification and recovery of overpayments

Transfer of balances

- Transfer of balances to Agresso

However, Internal Audit will bring to the attention of management any points relating to other areas that come to their attention during the course of the audit. We assume for the purposes of estimating the number of days of audit work that there is one control environment, and that we will be providing assurance over controls in this environment. If this is not the case, our estimate of audit days may not be accurate.

APPROACH:

Our approach will be to conduct interviews to establish the controls in operation for each of our areas of audit work. We will then seek documentary evidence that these controls are designed as described. We will evaluate these controls to identify whether they adequately address the risks.

We will seek to gain evidence of the satisfactory operation of the controls to verify the effectiveness of the control through use of a range of tools and techniques.

We will review the access rights in Agresso to assess whether this is appropriately controlled and whether access is appropriately segregated/ restricted.

Accounts payable

A walkthrough of the accounts payable process will be performed to review segregation of duties and assess whether these are appropriate.

SOUTH BANK COLLEGES - FINANCIAL CONTROLS

The controls around carrying out supplier due diligence, setting up new suppliers, removal of suppliers, and amending of supplier bank details will be reviewed to assess whether robust controls are in place. We will perform sample testing to establish whether controls have been adhered to and whether exception reporting is performed on changes to the supplier master file before payments are made.

We will assess whether confirmation of goods/services being received is in place before invoices are authorised/ payments are made.

We will review the controls over the bank account to assess whether there are appropriate restrictions in place/ dual authorisation is required.

We will assess whether there are appropriate system controls in place to identify potential duplicate invoices and whether there are restrictions on processing these.

Payroll

For payroll we will walk through the end to end payroll process and assess whether segregation of duties are appropriate and whether access to the payroll system is appropriately restricted.

We will assess whether controls to add starters to the payroll are appropriate and for a sample of ten new starters between January and November 2019 assess whether these controls have been effective.

We will review the process for identifying and actioning leavers. Data analytics will be used to assess whether any leavers between January to November 2019 have been paid after their leaving date and/or are still being paid as of the November 2019 payroll.

We will assess whether changes made to the payroll (eg to salaries, bank details etc) are appropriately controlled and, for a sample of 15 changes, assess whether there is appropriate documentation to support the change.

The exception reports in use will be reviewed to assess whether they would identify inappropriate changes and testing of two months' reporting will be performed to assess whether they are being generated and reviewed prior to payments being made.

We will assess whether payroll deductions are being reconciled and paid over in a timely manner through sample testing of two months of deductions.

The controls in place to identify overpayments and recover these will be assessed. Where overpayments have been identified we will assess whether action is being taken to follow these up.

Transfer of balances

We will review the process the College went through to transfer balances from the previous accounting system to Agresso. This will assess whether any adjustments made post year end have been correctly reflected. We will test a sample of opening balances in Agresso against the closing balances in the previous finance system.

DATA ANALYTICS:

We have considered the use of data analytics as part of this audit and the following tests will be performed:

KEY RISKS	TEST
Inappropriate/inaccurate payments are made	Inappropriate/inaccurate payments are made
Duplicate payments are made to suppliers	Duplicate payments are made to suppliers

SOUTH BANK COLLEGES - FINANCIAL CONTROLS

Payments are made to non-genuine staff, eg fictitious employees or staff that have left

We will perform the data analytical work in advance of our site fieldwork. Any exceptions found will be communicated and investigated during our fieldwork.

FOR MORE INFORMATION:

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