



**ABERDEEN
CITY COUNCIL**

Internal Audit Report

Education

Secondary Schools

Issued to:

Gayle Gorman, Director of Education and Children's Services
Richard Ellis, Interim Director of Corporate Governance
Euan Couperwhite, Head of Policy, Performance and Resources
Steve Whyte, Head of Finance
Anne MacDonald, Audit Scotland

EXECUTIVE SUMMARY

In order to ensure that adequate procedures are in place in secondary schools to control both per capita / school fund income and expenditure, and compliance with Financial Regulations and Standing Orders, four of the Council's twelve secondary schools were visited, and a sample of records examined.

Accountancy staff within the Finance Service undertake regular school visits to provide support with devolved budget monitoring, including staffing petty cash and purchase card expenditure. Internal Audit has placed reliance on this ongoing review process and therefore the focus of this audit review has been on areas out with the Accountancy remit.

There were areas of non-compliance and poor administrative practices identified at each of the schools visited and these are detailed in the report. In order to address the identified issues, the Service, with the assistance of Finance, will provide training to staff, provide an administrative manual on the Zone, and subject specific information circulars to inform staff of the correct processes and procedures to follow in time for the start of the new Curricular Year in August 2016.

1. INTRODUCTION

- 1.1 Accountancy staff within the Finance Service undertake regular school visits to provide support with devolved budget monitoring, including staffing, petty cash and purchase card expenditure. Internal Audit has placed reliance on this ongoing review process and therefore the focus of this audit review has been on areas out with the Accountancy remit. The objective of this audit was to ensure that adequate procedures are in place in Secondary Schools to control per capita / school fund income and expenditure, and compliance with Financial Regulations and Standing Orders.
- 1.2 The Council has 12 secondary schools, four were visited during the course of this audit.
- 1.3 At the end of each visit, a meeting was held with the Head Teacher to discuss the findings for the individual school, along with any recommendations for improvement. These meetings were then followed up with memos detailing the recommendations and requesting details of planned actions and implementation dates where appropriate. Replies have been received and all establishments have agreed to comply with the recommendations made.
- 1.4 The recommendations included in this report are of necessity general in nature, reporting areas where systems and procedures within any Academy could be improved.
- 1.5 The factual accuracy of this report and action to be taken with regard to the recommendations made has been agreed with Euan Couperwhite, Head of Policy, Performance and Resources.

2. FINDINGS AND RECOMMENDATIONS

2.1 Financial Procedures / Training

- 2.1.1 At present the schools do not have a manual or one document that they can refer to for guidance and information on financial administration procedures such as cash collection and handling, record keeping and subsequent banking of cash, purchasing of goods and services, and school fund management. Schools do have access to the Council's Financial Regulations and Standing Orders relating to procurement, and training courses pertaining to some administrative and financial procedures on the Zone, the Council's intranet facility. In addition, the Finance Service issues annual instructions on budget management and staffing records.
- 2.1.2 During the audit process the administrative staff in the secondary schools highlighted a lack of formal, structured financial training available for new members of staff. In a few instances clerical staff are responsible, with little or no formal training, for school funds which can, in some instances, have a turnover or balances that are around six figures.

Recommendation

The Service should consider preparing a financial administrative procedure manual for all schools to have access to.

Service Response / Action

Agreed.

Electronic Guidance available on the Zone will be redistributed to all schools.

The Service, with support from the Finance Service, will provide training for all appropriate staff in time for the 2016/17 Academic Session in August 2016.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
August 2016 (Guidance)	Co-ordinator: Devolved School Management (Sandy McPhee)	Important within audited area
August 2016 (Training)	Co-ordinator: Devolved School Management (Sandy McPhee) / Finance Business Partner (Brian Dow)	

2.2 Purchasing Procedures

- 2.2.1 All schools visited are using PECOS, the Council's electronic purchasing system. During the audit it was found that purchase orders were not always being raised when it was expected that they should have been. There were also a few instances where purchases were made with non-contract suppliers despite a contract supplier being available. It is appreciated that an official order can only be raised if the Administration Office is notified to do so using a requisition form, but Financial Regulations state that an official order must be raised for all goods and services. The absence of an order raised through PECOS means that appropriate authorisation has not been given and evidenced, and budget commitments cannot be monitored which may lead to budgets being exceeded.

- 2.2.2 There are purchases made by all Services where it is not practical to raise purchase orders, for example for utilities, council tax, etc, or where the provider will not accept a purchase order, for example conference bookings, fuel cards or subscription renewals. Financial Regulations do not provide for any dispensations from raising a purchase order, therefore by not raising purchase orders all Council Services are in breach of the regulations. The Service should seek advice from Finance as to how best to address this.
- 2.2.3 As well as using orders, all the schools visited also purchase food for practical classes using petty cash or purchase cards. It was noted by Finance and brought to Internal Audit's attention that some staff were making use of their own personal shop loyalty cards when incurring expenditure on behalf of the schools. It should be the schools that benefit from any loyalty scheme and cards should be obtained in the schools name if one does not already exist.

Recommendation

The Service should ensure that purchase orders are raised for all goods and services, and that contact suppliers are used when one exists unless prior approval has been sought and obtained from Commercial and Procurement Services.

The Service should ensure that staff are provided with guidance on purchasing of goods and services. This guidance should include procedures on dealing with the above points.

Service Response / Action

Agreed. The Service will develop purchasing guidance with the assistance of the Finance Business Partner that will be made available to all staff.

Implementation Date

August 2016

Responsible Officer

Co-ordinator: Devolved School Management
(Sandy McPhee)

Grading

Significant within audited area

2.3 Value Added Tax (VAT)

- 2.3.1 VAT invoices which comply with VAT regulations, are addressed to the Council and are for vatable goods or services provided to the Council, can have the VAT element recovered from HM Revenue & Customs (HMRC). Conversely when the Council receives income for a vatable supply it must pay over the VAT amount to HMRC.
- 2.3.2 VAT may be recovered on the purchase of supplies and services for resale without VAT having to be accounted for on the income, provided those supplies and services are deemed as educational by HMRC.
- 2.3.3 Expenditure of this nature that can have the VAT recovered includes school trips and equipment. To allow the VAT to be recovered the invoice should be processed for payment through the Council's payment system and then the school fund should reimburse per capita budget lines with the cost net of VAT. Instances were found where invoices were being paid by the school fund and then being reimbursed from per capita, with VAT recovered in this reimbursement. Whilst this is not a breach of VAT guidance, Finance has stated that this is not the correct process and that all such payments which are to be funded through per-capita should follow the Council's purchasing and payment procedures.
- 2.3.4 VAT guidance states that leavers' proms / balls, school uniforms and the provision of vending machines are not educational and therefore VAT may not be recovered on

expenditure if VAT on the associated sales is not accounted for. Therefore, if payment for these supplies is processed through the Council's payment system and VAT is recovered, then the reimbursement from the school fund will require to account for VAT and therefore be processed as VAT code S.

- 2.3.5 One school has an agreement with a local group to provide reprographic services which was charged via the school's own invoice. The income received is then incorrectly paid into the school fund. HMRC rules require that standard rate VAT is accounted for on such recoveries. The school should arrange for the recoveries to be repaid to per capita and ensure that the VAT is accounted for.

Recommendation

The Service should ensure that staff responsible for processing income and expenditure, account for VAT correctly.

Service Response / Action

Agreed. The Service, with the assistance of the Finance Business Partner, will issue VAT guidance to all schools ensuring that the points highlighted above are addressed.

Implementation Date

August 2016

Responsible Officer

Co-ordinator: Devolved
School Management
(Sandy McPhee)

Grading

Significant within audited area

2.4 Monies In Safes

- 2.4.1 All the schools visited have safes within the admin areas for holding money securely prior to banking. A review of the contents was undertaken but it was not always possible to confirm the accuracy of the value of monies held due to a lack of supporting documentation. There were also instances when staff were unaware of the origins of some monies held. The lack of supporting documentation for monies held places all staff at risk of accusations of misappropriation should there be subsequent dispute over the value. Only monies that are required to be held for regular and immediate availability should be held in the safe and the contents of the safe and the values should be recorded. All monies should be banked or remitted timeously and not retained beyond the end of a school term unless specifically required in the first week of the new term.
- 2.4.2 Two of the schools visited are operating petty cash and change floats that have been created by withholding income that should have been banked into the school fund. Should schools wish to operate such floats using school fund monies, floats for a fixed value should be created and a record maintained. For petty cash, all expenditure incurred should be supported by receipts, and there should be a regular reconciliation of the receipts and cash remaining to the original value of the float. Change floats created to support activities should be paid back into the school fund once the activity is complete. The float should not be included in the income recovered from the activity but shown as a separate income slip.
- 2.4.3 At three of the schools there were non-Council monies, e.g. leaving collections, book club, staff tea funds held within the safe. These monies were often retained in plastic tubs with no record as to their value. Whilst it is prudent to hold monies in a secure location, this money is not the responsibility of the office staff. Recognising that it is easier to administer funds in this way, non-Council monies kept in the safe should be held in a locked box, the key for which should be held by the person responsible for that money, and not the office staff.

2.4.4 One school was also holding a stock of gift vouchers in the safe which were left over from the school's annual prize giving. To demonstrate good internal control, a "stock" record should be maintained showing the quantity purchased, proof of use / issue (copy of the awards ceremony recipients), and a running balance, which can be checked to the actual vouchers held. Such checks should be carried out and evidenced. All schools are required to submit details of the total value of gift cards held at the year end to allow for pre-payment journals to be processed.

2.4.5 A routine audit test when visiting establishments is to ensure that the current and unused cheque books are held securely and that cheques are not pre-signed. All the schools visited were holding the cheque books securely in the school safe. However, it was noted that two cheques at one school were signed by both signatories, whilst the payee, amount and date were all blank. Retention of blank signed cheques is a major control issue and should cease forthwith. There should be sufficient signatories on the account to ensure that cheques can be signed when required.

2.4.6 Instances were found at one school where paperwork relating to expenditure showed that staff were funding agreed activities using their own personal funds, before having then reimbursed by the school. The Service acknowledges that it has long been recognised that staff will on occasion buy educational materials using their own funds, however it is not the responsibility of Council staff to use their own funds to fund any Council expenditure. Schools should consider the use of a purchase card if expenditure is only for food purchases, or the use of a petty cash float.

2.5 Control of Income

2.5.1 Financial Regulation 5.2 addresses Cash, Banking and Security. It requires

- *"All monies received on behalf of the Council (subject to a de minimus value of £5.00) must be immediately recorded by the issue of a receipt, controlled ticket or by direct entry into a receiving system."*
- *..... prompt and complete collection, of income, ensuring that accurate records are maintained for all income received*
- *Every transfer of Council money (cash or cheques) from one member of staff to another will be evidenced in the records of the services concerned by the signature of the receiving officer.*

2.5.2 In the financial year to March 2015, each of the schools visited had collected in excess of £100,000 in school fund income and over £10,000 in per capita recoveries. This income was a mix of cash and cheques. The Service has procedures for schools which require that a payment register is maintained of all payments received and a duplicate receipt is issued for all income of £5 and above. If income is collected then it should be passed promptly to the office along with an income return form detailing the value, reason for collection, and be signed by the person submitting the money. The income should then be checked by the office staff and a receipt issued to the member of staff who submitted it. The money is then banked into the Council's general account or the school fund.

2.5.3 Good internal control requires that receipts are provided to the person submitting money by the person receiving money. This may be when cash is paid by a pupil to a teacher, and also applies when teachers are transferring money to the school office. Three of the schools visited were not receipting cash at the same time that it was received: one was not providing receipts to staff for cash submitted, whilst another was not providing receipts to pupils. The failure to maintain a full and complete audit trail for the transfer of monies can leave staff open to allegations of misappropriation should differences arise.

Recommendation

The Service should ensure that there is an audit trail to support all transfers of monies between pupils, teachers and admin staff, that receipts are provided, and that a record is maintained of monies / gift cards held within the school safe. Authorised signatories on bank accounts should be reminded not to pre-sign cheques before completion.

Service Response / Action

Agreed. Guidance will be produced for staff. The points highlighted within the report will be addressed in this guidance.

Implementation Date

August 2016

Responsible Officer

Co-ordinator: Devolved School Management
(Sandy McPhee)

Grading

Significant within audited area

Recommendation

The Service should ensure that petty cash floats are sufficient for the needs of the school.

Service Response / Action

Agreed. Petty cash levels will be reviewed and where required increased.

Implementation Date

August 2016

Responsible Officer

Co-ordinator: Devolved School Management
(Sandy McPhee)

Grading

Important within audited area

2.6 Curricular Contributions

- 2.6.1 Section 11 of the Education (Scotland) Act 1980 provides that Councils are required to make available free of charge the materials necessary to allow pupils to take advantage of the education provided. Charges may be made for "extras" e.g. things that the pupils can take away and retain. At present the decision as to whether recoveries are made rests with individual schools as they best understand the range of socio economic demographics in their school zones.
- 2.6.2 All the schools visited request a contribution for their practical subjects of Art, Home Economics and Technical. Whilst at each school the Home Economics and Art Departments endeavour to recover 100% of the costs incurred, Technical Departments were only requesting a contribution towards the costs of materials.
- 2.6.3 Schools in other authorities have been asked by parents to justify the charges that were being made for practical subjects therefore it is important that schools can demonstrate that charging is fair and transparent, and represents the actual cost of the goods used.
- 2.6.4 All the departments visited were able to demonstrate how the charges were arrived at, however one, who only verified the calculation prior to the audit visit found that the contribution requested from pupils did not cover the cost of the raw materials used. Schools should be reminded that class contribution calculations should be clear and transparent and based on easily understood rationale.
- 2.6.5 All the schools visited collect practical class contributions annually, although all offered the facility to pay by instalments. Satisfactory procedures were in place in all schools for the recording and receipting of this income.

- 2.6.6 One Technical Department was not adhering to procedures and, at the time of the audit visit, was holding £3,000 of income collected from pupils. The income had been collected over a number of weeks and not banked, receipts had not been issued to pupils and the payments register had not been updated, resulting in a breach of procedures as well as Financial Regulations relating to receipting, cash security and timeous banking.
- 2.6.7 Financial Regulation 5.20, relating to Voluntary Funds, requires that “Money due to the Council shall not be paid into any voluntary fund, either permanently or temporarily.” One of the schools was paying all per capita recoveries into the school fund, and only reimbursing the per capita when the balance of the budget remaining was going into deficit.

Recommendation

Where at all possible the Service should ensure that practical class contributions, and the reasons for waiving the charges are consistent across all schools, that calculations supporting the contribution values are retained, and that all monies collected are receipted and paid directly into the Council’s bank account timeously.

Service Response / Action

Agreed. The Service will issue guidance to schools. The points highlighted in the report will be addressed in the guidance.

Implementation Date

August 2016

Responsible Officer

Co-ordinator: Devolved School Management
(Sandy McPhee)

Grading

Significant within audited area

2.7 Lockers

- 2.7.1 Each of the schools rent lockers to pupils at £5 per school year. Two of the schools visited collect the rent at the beginning of each school year, while the other two charge for the rental to the end of fifth year. Requesting locker rental for five years is administratively more cost effective, as at the start of each new academic year there is only the new intake of first year’s locker income to process. Whilst it is acknowledged that the option to pay annually should continue to be available for pupils, all schools should consider requesting payment in full. During the period of the locker rental, should a key be lost then all the schools charge for a replacement key. Currently there is no Service guidance for locker rentals, but schools may wish to consider options that makes the process more efficient and reduce time on administration.
- 2.7.2 All the schools issue receipts for the locker costs and all maintain a register (3 excel and 1 manual) recording the locker assigned to each pupil. At the time of the audit none of the registers recorded the date on which the income was collected, meaning that a reconciliation of total income to keys issued was not easily achieved. It is recommended that all schools record the date on which the locker income is collected.
- 2.7.3 The two schools that collect the locker rent annually also request a £5 deposit refundable on return of the locker key. Refunds are made in cash when the key is returned. At present both schools reflect the deposit and the income within the same “activity” within their school fund. It would be prudent to hold the deposits in a separate activity, identified as being repayable to pupils, to prevent it being spent.

Recommendation

The Service should ensure that locker income is correctly receipted and recorded consistently across all schools. Consideration should also be given by schools to charging for a five year period to reduce administrative burdens.

Service Response / Action

Agreed. Guidance will be provided to all schools which will cover the points raised in the report.

Implementation Date

August 2016

Responsible Officer

Co-ordinator: Devolved School Management
(Sandy McPhee)

Grading

Significant within audited area

2.8 Sale & Stock Control of “Goods”

- 2.8.1 All the schools visited currently sell goods to pupils: three sell school uniforms whilst two sell drinks. One of the schools sells drinks through vending machines which are stocked and the income collected by school staff.
- 2.8.2 The VAT issues regarding these transactions have been covered in the VAT section of this report, 2.3 above.
- 2.8.3 Financial Regulation 5.6, Stocks and Stores, requires “*adequate records are kept in order to maintain efficient and effective control over receipt and issue of stocks*” and “*stocktaking is carried out periodically by persons other than storekeepers*.” None of the four schools visited were maintaining any form of stock records making it impossible to verify the stock held to goods purchased and sales income.
- 2.8.4 The vending machines are provided by an external supplier who, as part of the contract, provides the stock (charged to the school) and sets the sales price. The machines are managed by School Technicians, who order and restock the machines as well as collect the income. The technicians are not aware of any counting mechanism within the machine or any report that could be generated to detail the total number of sales. The lack of a total prevents the Technicians from verifying the accuracy of the income collected to sales recorded by the machine. The school was advised to contact the supplier to ascertain if totals are available.
- 2.8.5 Financial Regulation 5.1, Internal Check, states “*Procedures to be followed regarding the calculation, checking and recording of sums due by or to the Council shall be arranged in such a way whereby the work of one person is proven independently or is complementary to the work of another and these operations shall be separated from the duty of collecting or disbursing such sums.*” Currently only one Technician empties and counts the monies removed from the machines and this is also the same person who fills it. If machine generated totals are not available then two members of staff should empty and count the cash.

Recommendation

The Service should ensure that there is adequate control over stock held for resale and that, in the absence of vending machine sales totals, cash is collected and verified by two members of staff.

Service Response / Action

Agreed. Stock control and the collection of cash from vending machines will be addressed in guidance that will be provided to all schools, and will address the points raised above.

Implementation Date	Responsible Officer	Grading
August 2016	Co-ordinator: Devolved School Management (Sandy McPhee)	Significant within audited area

2.9 School Residential Trips

- 2.9.1 All the schools visited organise residential trips, which are managed by teaching staff. In the majority of cases the income and expenditure is processed through the school fund, although the Finance Service is currently considering whether or not these should be managed through the Council's financial systems. Prior to any changes, Education should ensure that there is a process in place whereby the trip income and expenditure do not impact upon the schools devolved budget.
- 2.9.2 Income is collected from pupils by the teaching staff and duplicate receipts are provided in line with Financial Regulations. The teacher maintains a payment register which is updated when each pupil makes payment and provides a simple control mechanism to identify those pupils who have yet to pay.
- 2.9.3 Some travel companies used are registered for VAT and therefore VAT will be chargeable on some supplies and services. As these trips are for educational purposes the schools can recover the VAT element provided they process the payment through the Council's purchasing and payments systems. The ability to recover VAT in this way will reduce the costs chargeable to parents. Prior to booking, staff should ascertain whether the travel company is registered for VAT and, if so, ensure that an order is raised and the invoice is processed through the Council's financial systems.
- 2.9.4 Whilst all schools had arranged their trips through specialist travel firms, many were exclusive of some meals and activities, thus requiring to be paid for in cash whilst on location. Generally accepted practice across the schools is that a cash amount is withdrawn from the trip activity within the school fund, with the member of staff responsible signing a school fund payment voucher. To ensure good financial control, the receipts for expenditure incurred together with any remaining monies should be reconciled to the initial amount withdrawn. The residual amount would then be repaid to the school fund activity. Testing found that this was not the case, and there were instances noted where no receipts were provided and others where only some receipts were provided. To safeguard staff against accusations of impropriety, receipts should be obtained for all expenditure incurred during a trip. Where receipts are not received then an expenditure voucher signed by the member of staff should be submitted.
- 2.9.5 Whilst schools make every effort to estimate the cost of the trip accurately, there may be occasions whereby the cost charged to parents exceeds the final cost of the trip. There is at present no Service guidance as to how to treat these excesses, although each of the schools visited make refunds to pupils if the amount remaining within the trip activity is £5 per pupil or greater. Each school advised that parents are made aware of this at the time of booking. However, trip refunds are not receipted. To safeguard staff, pupils should sign a record to acknowledge receipt of trip refunds.
- 2.9.6 It was noted that there was inconsistency in how trip records are retained, with some being held in admin offices and others held by the organising teacher. As there is a requirement to keep financial records for a minimum of six years, it is advisable that all paperwork for completed trips be retained within the admin office and retained with school fund records.

Recommendation

The Service should ensure that school trip income and expenditure is accounted for accurately and all supporting documentation retained.

Service Response / Action

Agreed. The Service will provide schools with guidance, which will include all points raised above.

Implementation Date

August 2016

Responsible Officer

Co-ordinator: Devolved
School Management
(Sandy McPhee)

Grading

Significant within audited area

2.10 School Funds

- 2.10.1 Financial Regulation 5.2 covers Voluntary Funds. It states “*A voluntary fund is any fund (other than an official Council fund) which is managed wholly or in part by a Council employee. Examples of such are School funds ...*”. “*Such funds are deemed to be Council funds.*” It also states “*The financial control of voluntary funds must reflect the standards required of public funds*”.
- 2.10.2 All of the schools visited have a school fund bank account, with named staff mandated to operate the account. Overall responsibility for these funds rests with either the Head Teacher or a School Committee. There are, at present, no Service guidelines available to advise schools how to operate such accounts, nor do the schools have local procedures available for staff. To demonstrate good governance, Internal Audit’s view is that every school fund should have a constitution detailing the objectives, aims and management of the fund, as well as the staff responsible for the stewardship of the monies. If any school maintains more than one fund, each should have a constitution.
- 2.10.3 Financial Regulation 5.20.3 requires that “*... an independent audit is carried out at annual intervals by a competent auditor appointed by and reporting to the fund's controlling body*”. Two of the schools visited have their accounts audited annually. All schools should be reminded of this Financial Regulations requirement.
- 2.10.4 Two of the schools visited operate more than one bank account: in addition to a current account both have term deposit accounts. Neither school was reflecting the balance of these accounts within their school fund cash books. The omission of these account balances provides an inaccurate overall school fund balance within the cash book.
- 2.10.5 Each school fund is subdivided into activities to allow for the identification of the distinct income and expenditure, e.g. school trip, charity collection, clubs, lockers. The number of activities vary between schools and is dependent on the amount of extra-curricular activity undertaken and the level to which it is defined. Each of these individual activities, along with the whole school monies, go to make up the school fund balance as a whole. While the overall responsibility for the fund lies with the Head Teacher or committee, each of the individual activities should also have a designated individual responsible for authorising expenditure. Only one school was maintaining such a record, and for good internal control it is recommended that all schools keep one.
- 2.10.6 All four schools maintain a school fund cash book: two in Excel and two in Carn Fund Management software, and on receipt of the bank statement reconcile the two sets of information. Whilst the reconciliations were reviewed by either the Head Teacher or school fund committee, details of the balances within each activity are not provided for review. They were therefore only seeing a single overall balance and could not make a full assessment of the lower level balances. Each of the school funds had activities for

which there was no income or expenditure in the current and previous year. There were also activities with deficit balances. To ensure that the school fund is being accurately and timeously maintained the Head Teacher / school fund committee should be provided with full information whenever the reconciliation takes place. Where activities are in deficit the member of staff responsible for that activity should be contacted to assess the reason and take corrective action.

- 2.10.7 At the end of the financial year each of the activity balances should be reviewed by the Head Teacher / school fund committee in consultation with the activity holder to decide which balances will carry forward into the next financial year and which require to be transferred to other general activities. This process ensures that balances do not simply keep rolling forward year after year until such time as no one actually remembers why they were there to begin with.
- 2.10.8 One activity that requires to be monitored regularly is the charities collections. Two of the schools visited had residual balances from previous financial years relating to charity collections that had not been paid to the charity. It is essential for the reputation of the school that where monies are collected for a specific charity, that all of those monies are paid over timeously. Both schools have subsequently investigated the residual balances and made payments to the required charities.
- 2.10.9 One school fund is registered as a charity and as such is required to comply with Office of the Scottish Charity Regulator (OSCR) guidance on financial recording, external scrutiny and annual returns. By registering as a charity, interest paid on money held is paid gross i.e. no tax is deducted. However with current interest rates being so low, the costs of getting the accounts reviewed externally exceeds the tax saved by around £400. There is also the extra administrative burden placed on schools who are a registered charity as compared to those that are not.
- 2.10.10 School funds should only be maintained to provide extra sources of funding for the provision of curricular and extra-curricular activities that cannot currently be funded by the devolved funds provided by the Council. They should not be used to pay, as one school was found to be, for staff leaving gifts and gratuities, staff travel and training, nor should they be used for S6 proms or year books. Such payments may cause reputational damage to the school. Only expenditure that can be justified as supporting the curricular / extra-curricular activities for pupils and could stand up to scrutiny by any parent should be funded through the school fund. Payments to staff must always be made through the Council's payroll system to ensure compliance with HMRC legislation.

Recommendation

The Service should ensure that school funds are supported by a constitution, accurate records, regular school management reviews, and an annual audit review.

The Service should ensure that school funds are operated for the benefit of pupils, and where appropriate should undertake a cost benefit analysis of retaining school fund charitable status.

Service Response / Action

Agreed. The Service has obtained a copy of another authority's School Fund Guidance, which will be reviewed and provided to schools to address the above points.

Implementation Date

August 2016

Responsible Officer

Co-ordinator: Devolved
School Management
(Sandy McPhee)

Grading

Significant within audited area

2.11 Staff Social Funds

- 2.11.1 It is not the responsibility of Council staff to maintain social funds within their Council paid working hours. During the audit staff at the schools commented on the significant demands placed on administration time, therefore the provision of non-core tasks should not be carried out. The Service acknowledges that the administration of social funds has long been custom and practice, and as such school staff were unaware that it wasn't a core admin function.
- 2.11.2 At the time of the audit all four schools were managing some form of staff social fund through the school fund. All such funds should be removed from the school fund. Once the closing balance for the fund has been agreed, the designated staff member responsible for the monies should sign the school fund record to acknowledge receipt.
- 2.11.3 Also being administered within the school fund were staff collections. As with the social funds such monies should not be processed through the school fund and office staff should not be administrating them within work hours.
- 2.11.4 It was also noted that an individual is currently being paid from the school fund – social committee to make tea and coffee for the staff at break times. Any national insurance and income tax associated with the payment is not currently being accounted for. Advice should be sought from HR and Finance as to how to proceed with this arrangement.

Recommendation

The Service should ensure that staff social funds, activities and collections are not managed through the school fund. All such funds should be removed and passed to the control of the staff.

The Service should ensure that advice is sought from HR before any payments that could be deemed as remuneration are made.

Service Response / Action

Agreed. HR will be consulted and guidance will be issued.

Implementation Date

August 2016

Responsible Officer

Co-ordinator: Devolved
School Management
(Sandy McPhee)

Grading

Significant within audited area

2.12 Ad-hoc Bank Accounts

- 2.12.1 One school has two bank accounts for which no records were being maintained. One had not been accessed since 2012 whilst the bank book for the other showed the last entry as 1992. At the time of the visit staff were unaware whether any of the signatories mandated to operate the account were still employed at the school. The school was also unaware as to the reason for having these extra accounts. It is essential that all bank accounts held by schools have up to date mandates that contain current signatories and that the reason for such accounts is fully documented. In line with the good practice and guidelines recommended for school funds the same level of internal controls and documentation should be present for all bank accounts.

Recommendation

Schools should maintain a record of all bank accounts, and ensure that an up to date mandate is held.

Service Response / Action

Agreed. Circular will be issued.

Implementation Date

August 2016

Responsible Officer

Co-ordinator: Devolved
School Management
(Sandy McPhee)

Grading

Significant within audited area

2.13 Inventory

- 2.13.1 Financial Regulation 5.6.3 requires that all services maintain an inventory of equipment, furniture, information technology hardware and software for items costing in excess of £50. It also requires that the inventory should be maintained on a continuous basis and have a physical annual check.
- 2.13.2 Inventories are maintained by all schools visited; however three understood that only items to the value of £200 and above need be recorded, and whilst ICT and electrical equipment was included some non electrical equipment had not been.
- 2.13.3 Only one of the schools had undertaken an annual physical check. Two of the schools were carrying out checks of the electrical equipment as part of the PAT testing.

Recommendation

Schools should comply with Financial Regulations and maintain a full and accurate inventory listing.

Service Response / Action

Agreed. Corporate guidance on inventory management will be issued.

Implementation Date

August 2016

Responsible Officer

Co-ordinator: Devolved
School Management
(Sandy McPhee)

Grading

Significant within audited area

AUDITORS: D Hughes
M Beattie
G Flood

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited. Financial Regulations have been consistently breached.
Significant within audited area	Addressing this issue will enhance internal controls. An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on a system's adequacy and effectiveness. Financial Regulations have been breached.
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.