ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	09 May 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2416 – Secondary School Visits
REPORT NUMBER	IA/AC2416
DIRECTOR	N/A
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. **PURPOSE OF REPORT**

1.1 The purpose of this report is to present the planned Internal Audit report on Secondary School Visits.

2. **RECOMMENDATION**

2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix, and then endorse the recommendations made.

3. **CURRENT SITUATION**

3.1 Internal Audit has completed the attached report which relates to an audit of Secondary School Visits.

4. **FINANCIAL IMPLICATIONS**

4.1 There are no direct financial implications arising from the recommendations of this report.

5. **LEGAL IMPLICATIONS**

5.1 There are no direct legal implications arising from the recommendations of this report.

6. **ENVIRONMENTAL IMPLICATIONS**

6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

7.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council's Risk Appetite Statement, are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

8. OUTCOMES

8.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.

8.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required

10. BACKGROUND PAPERS

10.1 There are no relevant background papers related directly to this report.

11. APPENDICES

11.1 Internal Audit report AC2416 – Secondary School Visits

12. REPORT AUTHOR CONTACT DETAILS

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Internal Audit

Assurance Review of Secondary Schools Visits

Status: Final
Date: 8 February 2024
Risk Level: Function

Report No: AC2416
Assurance Year: 2023/24

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	**Reasonable**

Report Tracking	Planned Date	Actual Date
Scope issued	26-Oct-23	26-Oct-23
Scope agreed	03-Nov-23	29-Oct-23
Fieldwork commenced	15-Nov-23	15-Nov-23
Fieldwork completed	14-Dec 23	16-Jan-24
Draft report issued	12-Jan-24	19-Jan-24
Process owner response	26-Jan-24	30-Jan-24
Director response	02-Feb-24	08-Feb-24
Final report issued	09-Feb-24	08-Feb-24
Audit Committee	25-Apr-24	

Distribution	
Document type	Assurance Report
Director	Eleanor Sheppard, Interim Director Children's & Family Services
Process Owner	Caroline Johnstone, Quality Improvement Manager
Stakeholder	Shona Milne, Interim Chief Education Officer
	James Purdie, Head Teacher, Hazlehead Academy
	Ross McLaren, Head Teacher, Harlaw Academy
	Judith Hesford, Head Teacher, Oldmachar Academy
	Iona Reid, Head Teacher, St Machar Academy
	Helen Sherrit, Finance Partner
	Richard Burnett, Senior Accountant
	Vikki Cuthbert, Interim Chief Officer – Governance*
*Final only	Jonathan Belford, Chief Officer – Finance*
	External Audit*
Lead auditor	Graeme Flood, Auditor

1 Introduction

1.1   Area subject to review

As at 31 October 2023, Aberdeen City Council has 11 Secondary Schools. These establishments employ 862 teaching staff (796 FTE) and 284 support staff (201 FTE), teaching approximately 10,897 pupils. They have a combined budget of £81.3m and under the devolved school management policy approximately 72% of this budget is managed directly at the school level by the Head Teacher. As well as Council budget provision, Secondary Schools generate their own funds through various means that are managed through standalone bank accounts held in each school's name with the responsibility for their management and financial control resting with the Head Teacher and the operational management with the school administrator. Turnover within these accounts can, for larger establishments, exceed six figures. The school fund should have a written constitution detailing the roles and responsibilities of staff as well as the uses to which the funds can be made.

1.2   Rationale for review

The objective of this audit is to provide assurance schools have adequate procedures in place to manage the financial aspects of the establishment and comply with the Council's Financial Regulations.

This area was last subject to review in November 2015. Recommendations were made to enhance controls in relation to areas such as: Governance, Compliance with HMRC VAT legislation, Retention and Documentation for Monies Received, and Compliance with Financial Regulations.

As Secondary Schools are managing financial transactions outwith the Council's centralised financial controls, with turnover in larger establishments reaching six figures, along with online and cash transactions being processed through standalone bank accounts and financial spreadsheets, it is essential a system of independent review is undertaken.

1.3   How to use this report

This report has several sections and is designed for different stakeholders. The executive summary (section 2) is designed for senior staff and is cross referenced to the more detailed narrative in later sections (3 onwards) of the report should the reader require it. Section 3 contains the detailed narrative for risks and issues we identified in our work.

2 Executive Summary

2.1 Overall opinion

The full chart of net risk and assurance assessment definitions can be found in Appendix 1 – Assurance Scope and Terms. We have assessed the net risk (risk arising after controls and risk mitigation actions have been applied) as:

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	**Reasonable**

The organisational risk level at which this risk assessment applies is:

Risk Level	Definition
Function	This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function.

2.2 Assurance assessment

The level of risk is assessed as **MODERATE**, with the control framework deemed to provide **REASONABLE** assurance over secondary schools' management of the financial aspects of the establishment and compliance with Financial Regulations.

The Council's Scheme of Governance clearly set out the financial arrangements that should be followed by schools. In the interests of financial control, Head Teachers receive monthly BOXI based budget monitoring reports for their respective school budgets, which highlight any forecast overspends or underspends for financial control purposes. In addition, Head Teachers, the School Support Services Managers (SSSM), and other staff involved with the budget monitoring process regularly meet with Finance and Finance provide financial management information to schools on request.

However, the review identified areas of control weakness that should be addressed, including:

- **Training & Guidance** – The sample of four schools reviewed included those with new administrative staff who had taken up position in the previous 18 months. All indicated a lack of adequate handover with the previous post holder who left prior to their start date, and a lack of training in the admin and finance tasks required to be undertaken. Whilst the Council's Scheme of Governance is readily available on the Council's intranet, all staff indicated that a single point of information with links to the regulations and guidance relevant to their role would ensure awareness of relevant policies / guidance and mitigate against the instances of poor practice identified in this review.
- **Procurements in Aggregate** – Purchases with a single supplier for curricular transportation for the four-year period ending 31 December 23 totalled over £624k for two schools sampled. There was no record of any formal contract in place with the supplier and the spend had not been recorded on a workplan or a business case approved in accordance with the Council's Scheme of Governance, nor was it included on the Council's Contracts Register in breach of Procurement Legislation. Internal Audit ascertained that spend with the same company had been ongoing since at least 2001 with no record of any competitive tendering process having been undertaken. Subsequent analysis across the whole of Education found 101 suppliers with aggregate spend per supplier exceeding £50k between April 2020 and December 2023. A review of 20 of these suppliers found 12 (60%) did not follow the Council's Scheme of Governance and had not been recorded on the Councils Contracts Register. Failure to comply with the Council's Scheme of Governance risks Best Value, a breach of Procurement Legislation and the Council being challenged by suppliers who have not had the opportunity to bid on contracts.

- **Purchasing Process** – Whether an order for goods/services is processed through the Council's procurement system (PECOS) or a purchase card they should comply with Financial and Procurement Regulations. All schools had devolved some level of budget management to Principal Teacher level with orders raised by administrative staff. However, none of the schools had a record of this devolved authorisation to approve requisitions, 40% of 40 orders tested did not have fully documented requisition documents approved by the budget holder. In addition, 60% of 40 orders raised had not have a supporting record of quotations being sought. When good/services have been provided it is essential that proof of this receipt is documented otherwise payments could be made where the Council has not fully received what they are being charged for. 68% of 40 orders tested had no proof of receipt recorded. Similarly, for purchase card spend, three (75%) schools had no documented approval from a budget holder in eight (80%) of 10 transactions reviewed, while 18 (40%) of the 30 purchase card transactions reviewed across all schools had no documented confirmation of the receipt of the goods ordered. These issues risk unjustified spend, payments for goods or services not received and Best Value.
- **Absent Purchase Orders** – In the period 1 April - 30 November 2023, 82 invoices across all eleven secondary schools did not have a purchase order raised. This equates to 2.84% of invoices processed and an increase from 0.42% in financial year 2022/23. Failure to raise purchase orders in advance of the receipt of goods/services affects commitment accounting increasing the risk budget holders will overspend their budgets and prevents goods/services received and associated invoices being accurately matched to what was expected, reducing payment control.
- **Inventories** – Whilst inventories were in place for all schools none were fully complete and current in line with Financial Regulation requirements, risking control over Council assets, and theft investigation / insurance claim difficulties if necessary.
- **School Funds** – Instances of poor governance arrangements and record keeping were identified over school funds. This included instances of absent constitutions, incorrect VAT accounting, poor bank reconciliation control, and historic undistributed funds.
- **Payroll** – In the current financial year to 30 November 2023, there have been 24 school overpayments totalling approximately £23k due to late notifications to Payroll or errors by all schools (primary, secondary, and special). This is an ongoing problem and consistent with findings from prior years, despite this issue being raised previously in Internal Audit AC2115 Teachers Payroll and Payroll issuing an email to all heads of establishments highlighting the area of late notifications and the resultant overpayments for future avoidance.
- **Monies in Safes** – Financial Regulations require all monies received by the Council to be paid into the Council's bank accounts daily or remitted to the Chief Officer - Finance without delay. It was not possible to verify the accuracy of monies held by two (50%) schools visited due to a lack of supporting documentation and the funds had been held up to eight months from the time of collection. Where safe record keeping is inadequate this places staff at risk of accusations of misappropriation of funds.
- **Control of Income -** One (25%) of the schools visited was not providing receipts to staff for cash submitted to the office, whilst the other three (75%) were not always receipting at the time of the money being deposited. The failure to maintain a full and complete and timeous audit trail for the transfer of monies can leave staff open to allegations of misappropriation should differences arise. In addition, at all four schools visited, charity income was being counted by only one person risking error and accusations of theft should a shortfall arise.

Recommendations have been made to address the above points and improve financial control, including training new employees; issuing admin & finance guidance; reviewing the school curricular transport procurement requirements; and establishing a system of control for aggregate contractual spend and related compliance with the Council's Procurement Regulations. In addition, it is recommended reasons for absent / retrospective orders are identified and procedures established to mitigate these; a system of control is established to ensure all establishments are complying with the Scheme of Governance relating to procurement and payment control matters; Finance revise purchase card guidance for cardholders and approvers; inventories are kept current and complete; staff are made aware of school fund requirements; and reasons for overpayments are investigated to help avoid these

in future. Furthermore, recommendations were made to enhance control over petty cash use; timesheet approval; and income management.

2.3   Severe or major issues / risks

Issues and risks identified are categorised according to their impact on the Council. The following are summaries of higher rated issues / risks that have been identified as part of this review:

Ref	Severe or Major Issues / Risks	Risk Agreed	Risk Rating	Page No.
1.2	**Procurement Scheme of Governance** – The Council's Procurement Regulations require all non-capital contracts for supplies and services with a value of £50k and above to be included in a workplan with a business case for consideration and approval by Council or the Finance and Resources Committee, prior to the related procurement being progressed. Procurements of this value must also be subject to competitive tendering and included on the Contracts Register in accordance with Procurement Legislation. A review of spend by the schools sampled identified one supplier where the annual spend exceeded £50k. The supplier was providing daily school transport for two schools to outdoor pitches situated a distance from both schools. The total spend for both schools, for the four-year period ending 31 December 2023 totalled over £624k, and a review of the historic financial ledger data available, found these payments dated back to at least 2001 (£1.9m). The schools manage the requirement for the transport, contacting the company directly to either add or cancel dates depending on weather conditions. However, the School Support Service Managers, Education and the Council's Public Transport Unit confirmed they had no knowledge of any procurement process being undertaken and the contract was absent from the Council's Contracts Register. Due to these apparent failings IA reviewed spend further across all Education cost centres. In the period 1 April 2020 to 31 December 2023 Education spent over £50k with 101 different suppliers. A review of 20 suppliers was undertaken to ascertain if contract details and Scheme of Governance documentation had been recorded on the Council's Contracts Register database found 12 (60%) did not comply. Failure to comply with the Council's Procurement Regulations risks Best Value	Yes	**Major**	8

Ref	Severe or Major Issues / Risks	Risk Agreed	Risk Rating	Page No.
	and challenge by alternative suppliers, which may lead to reputational damage for the Council and financial loss. In addition, failure to publish contracts of £50k or more is a breach of Procurement Legislation.			

2.4   Management response

The Service welcomes this review of secondary school admin, which has provided the Service with a clear set of priorities to help strengthen our arrangements. The Service has already progressed a number of agreed actions. Finance guidance to schools will be reviewed, updated and reshared with all schools to ensure the relevant staff have access to the most up to date guidance. The guidance will be stored in a Teams or SharePoint site to ensure school staff always have access to the most up to date guidance and that the guidance can be updated easily as required. Financial and procurement regulations have been shared with all schools and this will be regularly signposted to clarify expectations and signpost staff to sources of support and guidance on the necessary steps to take in line with procurement regulations. The Service will work with Finance colleagues to consider how best to gain assurance that these processes are being followed across all city schools with remedial action already progressing where vulnerabilities have been identified by Internal Audit.

3 Issues / Risks, Recommendations, and Management Response

3.1 Issues / Risks, recommendations, and management response

Ref	Description	Risk Rating	Moderate

1.1	**Administrators' Guidance and Training** – Training of current and new employees provides management with assurance that staff are adequately informed on policy and procedures and reduces the risk of inappropriate decision making, or inefficient and inconsistent completion of required duties.

Interviews were conducted with staff to identify whether the training received to undertake their duties was sufficient. All staff indicated whilst training for the use of the pupil management system (SEEMIS) was comprehensive, there was a lack of training on cash collection and handling, cash record keeping and banking arrangements, purchasing of goods and services, school fund management and general administrative duties.

Schools have access to the Council's Scheme of Governance relating to procurement and training courses relating to some administrative and financial procedures. However, they do not have a manual or single document that they can refer to for guidance and information on financial administration procedures in a school setting such as cash collection and handling, record keeping and banking of cash, purchasing of goods and services, and school fund management.

Where new staff involved in financial management are inadequately trained this reduces financial control and risks Best Value.

IA Recommended Mitigating Actions

The Service should review and enhance where necessary the training offer in place and ensure it is comprehensive for school administrators, addressing the requirements of their role. This should also extend to a guidance manual for administrative staff as a single point of reference for admin and finance duties. Where a manual is not created, the Service should put in place alternatives to ensure that staff are aware of where guidance can be sought.

Management Actions to Address Issues/Risks

The Service will establish a short life working group to review the training requirements for school admin staff and create training materials and guidance documents.

Risk Agreed	Person(s)	Due Date
Yes	Quality Improvement Manager	December 24

Ref	Description	Risk Rating	Major

1.2	**Procurement Scheme of Governance** – The Council's Procurement Regulations require all non-capital contracts for supplies and services with a value of £50k and above to be included in a workplan with a business case for consideration and approval by Council or the Finance and Resources Committee, prior to the related procurement being progressed. Procurements of this value must also be subject to competitive tendering and included on the Contracts Register in accordance with Procurement Legislation.

A review of the spend within the schools sampled found one supplier where the annual spend exceeded £50k. The supplier was providing daily school transport to the outdoor pitches that were situated externally from the school. A second school was also identified incurring

Ref	Description	Risk Rating	Major
	similar regular costs with this supplier. The total annual spend for both schools, with the same supplier was approx. £160k, £624k for the four-year period ending 31 December 2023, and a review of the historic financial ledger data available, found these payments dating back to at least 2001 (£1.9m).		

The schools manage the requirement for the transport, contacting the company directly to either add or cancel dates depending on weather conditions. However, when current Support Service managers were questioned on the contract position and procurement process for the provision, they indicated no knowledge of how they had come about. IA contacted the Public Transport Unit and Corporate Education but received no assurance from anyone, with a lack of knowledge of any procurement process being undertaken identified. In addition, the contract was absent from the Council's Contracts Register.

Due to the apparent failings in these instances IA reviewed spend further, across all Education cost centres to establish whether such failures in procurement compliance was more widespread. Education had aggregate spend in excess of £50k with 101 suppliers. The aggregate spend covered the period April 2020 and December 2023. A review of 20 of these suppliers was undertaken to ascertain if contract details and documentation had been recorded on the Councils contracts register found 12 (60%) did not comply.

Failure to comply with the Council's Procurement Regulations risks Best Value and challenge by alternative suppliers, which may lead to reputational damage for the Council and financial loss. In addition, failure to publish contracts of £50k or more is a breach of Procurement Legislation.

IA Recommended Mitigating Actions

a) Education in consultation with C&PSS and PTU should apply the Council's Scheme of Governance to the transportation requirements for the two schools concerned.

b) Education should establish a system of control to ensure the Scheme of Governance is complied with fully where the value of aggregate expenditure exceeds authority to spend and competitive procurement thresholds.

Management Actions to Address Issues/Risks

a) The Service will work with C&PSS and PTU to establish an appropriate contract for the transportation of pupils for the two schools named in the report.

b) The Service has begun work with colleagues in C&PSS to review aggregate expenditure with suppliers where contracts are not already in place and to develop business cases to ensure appropriate contracts are in place for all suppliers where required.

Risk Agreed	Person(s)	Due Date
a) Yes b) Yes	Quality Improvement Manager	a) September 24 b) September 24

Ref	Description	Risk Rating	Moderate
1.3	**Purchasing** – It is a requirement of the Council's Procurement Regulations that: *"No supplies, services, or works shall be ordered or instructed except on an official order form…. The order, with the contract references / schedule numbers added, shall be approved by the Director or other authorised signatory. All Directors must furnish the Chief Officer - Finance with a list of signatories approved for this purpose and shall advise him or her of additions to or deletions from the list as they occur as per the Council's Scheme of Delegation. The officer approving the purchase order must be satisfied that there is*		

Ref	Description	Risk Rating	Moderate

appropriate budgetary provision covering the estimated cost and the Council's procurement procedures have been followed prior to authorisation."

Orders for goods/services are raised by School Administrative staff on the Council's purchasing system (PECOS) and approved by School Support Service Managers (SSSM) or Head Teachers who are set up as approvers by Finance in PECOS. The Head Teacher delegates authority for specified officer to manage elements of the school budget using a requisition system, whereby those officers are permitted to submit requisitions to the school administrator for onward referral to the Head Teacher for approval of the related purchase order raised in PECOS.

However, none of the schools visited held authorised signatory records to identify who was delegated to approve requisitions risking unauthorised requests for orders to be raised and related expenditure to be incurred, in the absence of related budgetary provision.

Each of the schools had a requisition template however seven (18%) of 40 orders tested across the 4 schools had no requisitions present while 9 (27%) of 33 requisitions weren't approved, meaning it was unclear if authorised officers had requested the orders to be raised.

For procurements of supplies or services below £50k, the Council's Procurement Regulations require written quotations to be obtained to demonstrate Best Value or for the Delegated Procurer to complete a Non-Competitive Action Form (included in the Procurement Manual) explaining why this is the case and submitted it to the relevant Chief Officer for approval. The sample tested found 16 of 40 purchases (40%) had no form of supporting documentation to show quotations had been sought. For the remainder a non-competitive action form was not present risking Best Value.

Prior to invoices being approved for payment the goods/services should have been received. Testing found none of the schools had fully documented proof of receipt (27/40 - 67.5% no proof of receipt) risking payment for supplies / services not received.

Financial Regulation 5.12.2 requires purchase orders to be raised in advance for the purchase of all works, goods, or services, in a format approved by the Chief Officer – Finance, unless a dispensation from Financial Regulations has been granted by the Chief Officer – Finance. Although small, between 2022/23 and 202/24 Education as a Service (excluding Children's Services) has increased the percentage of orders not being raised in relation to total invoices processed.

	Invoices Processed		No PO		% No PO	
Year	No.	£	No.	£	No.	£
2023/24	2,883	1,282,460	82	62,623	2.84%	4.88%
2022/23	5,908	2,695,365	25	61,964	0.42%	2.30%

Failure to raise purchase orders in advance of the receipt of goods/services affects commitment accounting for budget monitoring purposes which could result in budget managers believing incorrectly, they have more funds available than they do. It also means when goods/services are received they cannot be accurately checked against what was expected, risking overpayment.

IA Recommended Mitigating Actions

a) Schools should maintain authorised signatory lists for requisition purposes.

b) Schools should be made aware of their requirement to follow the Council's Financial and Procurement Regulations and to fully document and approve the process.

c) A system of control should be established to ensure schools are complying with the Council's Scheme of Governance in relation to procurement, purchase orders and receipting of goods / services.

Ref	Description	Risk Rating	Moderate
	Management Actions to Address Issues/Risks		
	Updated guidance will include guidance on authorised signatories and guidance on Financial Procurement Regulations.		
	The Service will work with finance colleagues to develop a scheme of governance.		

Risk Agreed	Person(s)	Due Date
Yes	Quality Improvement Manager	December 24

Ref	Description	Risk Rating	Minor
1.4	**Purchase Cards** – Purchase cards allow goods and services to be purchased and charges made electronically. As per the Council's Financial Regulations, they are for business use only, must be supported by a VAT receipt where relevant, and all purchases should be reviewed and approved within the purchase card system by appropriate members of staff.		

Three (75%) of the four schools visited held multiple purchase cards, mainly for dealing with Home Economics supplies. However, schools advised their use was expected to extend to other types of purchases allowed corporately.

One cardholder had not been uploading the supporting documentation for the transactions onto the payment card system. This is a process requirement (as described in the system manual) to ensure those approving the transaction can verify items purchased and to retain VAT documentation in a single location. The cardholder indicated she was unaware of this requirement, while the approver authorised the transactions with the documents absent.

Whilst Finance has formalised guidance for E&CS on the use of purchase cards, this is out of date, since it refers to the previous manual system involving the use of a purchase card log.

Prior to a transaction being approved a fully authorised procurement process should have been completed. This process, while sitting outwith the Council's corporate procurement system (PECOS) should include authority from the budget holder to the card holder to undertake the purchase, proof of Best Value being achieved, proof of receipt of the supply/service, and the supporting documentation to be uploaded to the purchase card system prior to approval.

Testing of 10 transactions in each of the three schools found purchases were appropriate and provided Best Value. However, one school had no documented approval from a budget holder in eight of 10 (80%) transactions reviewed, while 18 (40%) of the 30 transactions across all schools had no documented confirmation of the receipt of the goods ordered.

A system of control is in place whereby cardholders are reminded by Finance of the requirement to review and approve transactions twice monthly, advising cardholders their cards will be cancelled if they not review and approve their transactions in a timely manner.

However, in the absence of clear guidance for staff, this risks unjustified spend without required budgetary provision as well as payment for goods / services not received.

IA Recommended Mitigating Actions

Finance should work with relevant stakeholders, including C&PSS to revise guidance for cardholders and approvers as to what controls are required to provide a fully documented and approved purchasing process. This should cover from requisition, through ordering of goods, to receipt, review and approval of transactions in the system.

Ref	Description	Risk Rating	Minor

Management Actions to Address Issues/Risks
Agreed.

Risk Agreed	Person(s)	Due Date
Yes	Senior Accountant	July 24

Ref	Description	Risk Rating	Minor
1.5	**Petty Cash** – The Council's procedure for use of petty cash states:		

"Petty cash imprest is intended to cover the purchase/reimbursement of small, relatively low value items. Therefore, in most cases the level of the petty cash float is also relatively low. Petty cash should only be used to re- imburse purchases where normal ordering procedures would normally be followed… Individual purchases can be for no more than £20."

The schools visited held floats ranging from £100 to £200. Two of the schools had used the petty cash to pay for seven of 25 (28%) purchases exceeding the £20 limit. Both schools held purchase cards which could have been used had the items not been available through PECOS.

At one school the petty cash had not been reimbursed even though the balance remaining was £1.10, while receipts dating back to January 2023 totalled £212.85. When checking the reason for the apparent overspend it was found that expenditure going through petty cash was being funded from income collected by the school for other activities. At another school a PT had been using contributions collected from pupils to fund expenditure for various activities. The balance of the money was then submitted to the office with expenditure receipts; however the office staff had no known gross income figure to reconcile the final deposit and receipts to. Financial Regulations states 5.2.2 "No deduction may be made from such money save to the extent that the Chief Officer - Finance may specifically authorise."

Failure to follow the above requirements of Financial Regulations risks Best Value where corporate contracts should be considered for use instead of petty cash and potentially VAT misstatement where petty cash expenditure is not captured in the financial ledger due to use of school funds for petty cash purposes. A recommendation has already been made at 1.1 to improve accessibility to necessary guidance.

IA Recommended Mitigating Actions

a) Schools should ensure income is banked in full rather than having expenditure deducted.

b) Petty cash expenditure should only be funded from preset floats controlled through the school administrator.

Management Actions to Address Issues/Risks

Current ACC guidance around control of income and management of Petty Cash will be reshared with all schools.

Risk Agreed	Person(s)	Due Date
Yes	Quality Improvement Manager	April 24

Ref	Description	Risk Rating	Minor
1.6	**Timesheets** – Financial Regulations states: *"Time records or other pay documents shall be in a form prescribed or approved by the Chief Officer - Customer Experience and/or the Chief Officer – Finance and shall be certified by or on behalf of the Director. A list of officers appointed by Directors to authorise payroll information shall be prepared and maintained within each Function. This will be known as the list of Authorised signatories. Such lists shall be submitted to the Chief Officer - Customer Experience or their authorised officer. All requests and/or information relating to pay information, whether in paper or electronic format, shall be authorised by an authorised signatory. No pay related document shall be processed unless authorised by an authorised signatory."* These requirements ensure where staff have worked outwith any specified contract hours they only receive payment for approved hours actually worked. At the schools visited there was a mix of handwritten and electronic Word versions of timesheets. For the handwritten forms the claimant had signed these, and the School Support Service Manager (SSSM) approved them prior to the timesheets being sent to Payroll. For the Word versions the claimant would email the timesheet to the approver for forwarding to Payroll to indicate approval. In all cases a full audit trail of claim and approval was present, however the SSSM were saving the email trail in their Microsoft Outlook folders rather than SharePoint. The Scottish Council on Archives Record Retention Schedules (SCARRS) recommends 'minor' payroll records, including timesheets, be retained for three years plus current tax year, based on the requirements of income tax, national minimum wage and prescription legislation. Should staff leave their employment with the Council, this risks email folders being deleted and the audit trail for historic claims being unavailable.		

IA Recommended Mitigating Actions

All email trails relating to timesheet claims should be saved into a Microsoft SharePoint folder.

Management Actions to Address Issues/Risks

Guidance will be shared on saving timesheet claims in a shared SharePoint folder to mitigate against a single point of failure.

Risk Agreed	Person(s)	Due Date
Yes	Quality Improvement Manager	April 24

Ref	Description	Risk Rating	Minor
1.7	**Residential Trips** – Post pandemic, three (75%) of the schools visited were beginning to reintroduce residential trips for which parents are required to reimburse 100% of the costs incurred. At the time of the audit the schools were collecting the payments through cash/cheque or bank transfer, however moving forward each intends to use the parent pay online web payment system. At the time of testing the schools were receipting all payments received in compliance with Financial Regulations and the payments to the trip providers were being processed through the Council's e-financial system thus ensuring VAT is recovered where appropriate. When the trip leaders were contacted regarding the process arrived at for recharging parents, they indicated they had not realised the implications any VAT charged would have on reducing		

Ref	Description	Risk Rating	Minor

onward costs to parents. It was also confirmed that school senior leadership teams (SLT) had not set a de minimus value at which point a refund would be processed to parents, should a surplus be made.

Failure to fully establish the final costs for a trip could result in parents being put off by any overstated costs, while not communicating refund thresholds with parents could result in reputational damage and perceived misuse of surplus funds not refunded.

IA Recommended Mitigating Actions

a) To ensure charges to parents are set accurately, trip leaders should ascertain the VAT implications with trip providers and take this into account when setting trip costs.

b) School SLTs should set de minimus refund values and communicate these to parents at the outset of planned trips.

Management Actions to Address Issues/Risks

Guidance on school trips will be updated to ensure schools ascertain VAT implications and communicate refund values to parents at the time of booking.

Risk Agreed	Person(s)	Due Date
Yes	Quality Improvement Manager	April 2024

Ref	Description	Risk Rating	Moderate

1.8

Inventories - Financial Regulation 5.6.3 states:

"Inventories are maintained to provide assurance on the effective management and maintenance of moveable assets and technology. This requirement also supports effective operational performance and health and safety. The Chief Officer – Finance has the responsibility for ensuring the maintenance of all inventories. Inventories will be maintained of relevant assets where the sum purchase generally was of a value in excess of £1,000".

Financial Regulations also states:

"Inventories will be maintained on a continuous basis. There will be an annual check of all items in the inventory. This ensures that:

• new items have been entered on inventories (with date of purchase, value, etc.);

• all details (numbers, description, serial numbers, location, etc.) are recorded; and

• inventory items are present."

Testing found that none of the schools had a complete up to date inventory. Omissions included, replacement costs, non-electrical equipment, and omitting to add new items when purchased.

Failure to comply with guidance reduces the control over Council assets and could complicate any insurance claim or police investigation in the event of suspected theft.

IA Recommended Mitigating Actions

The Service should ensure all establishments are complying with Financial Regulations relating to inventories.

Management Actions to Address Issues/Risks

Ref	Description	Risk Rating	Moderate
	a) Guidance on inventories will be reshared with all schools and b) Spot checks will be undertaken as part of QI visits to ensure policy has been followed.		

Risk Agreed	Person(s)	Due Date
Yes	Quality Improvement Manager	April 24 Guidance July 25 QA visits

Ref	Description	Risk Rating	Moderate
1.9	**School Fund** – All the schools visited operate a school fund bank account, separate from Council Corporate accounts. Currently there is no written guidance for schools for maintaining the school fund and as indicated in para 1.1 many staff taking up responsibility for the fund have no handover with the previous incumbent and limited training. Two (50%) of the schools were using an accounting software package (Carn), while two (50%) were using locally created spreadsheets at the time of review. A school fund should be governed by a constitution, which details the requirements for administering the fund, and for what the funds can be used. Each fund should also have a bank mandate in place, which evidence authorised signatories for the respective school fund account. To ensure the fund is being administered appropriately, a reconciliation of the fund balance should be carried out monthly and checked by the appropriate fund manager and signed off as approved. The fund accounts should also be subject to an annual independent audit in line with the constitutions. A review of all funds administered at the schools visited identified the below findings: • Three (75%) of the four did not have a complete and current constitution for the fund. • Three of four (75%) schools only had two current authorised account signatories for the account. Should either become unavailable the school would have difficulty in operating the fund. • All schools completed monthly reconciliations; however one was only updating their spreadsheet when the transactions appeared on the bank statement, therefore the spreadsheet was never providing an accurate up to date record of the balance available for use. • None of the schools provided the reconciliation, to the fund manager. • None of the schools provided the fund manager with income and expenditure records by activity, with activity balances, along with the monthly bank reconciliation. This reduces the management control that should be exercised over activities in surplus / deficit. • One school using the accounting software package had 32 unreconciled transactions totalling £2.5k dating as far back as 2014. Current staff were unsure how best to deal with these. This means the balance of funds available to spend were inaccurate. • None of the schools had completed activity set up forms, reducing the supporting evidence as to why activities had been set up, who had authority to make use of these funds, and what should happen with any surplus / deficit when the activity ended. • All the schools had issues with VAT accounting, especially with regard to school leaver activities, where schools were reclaiming VAT on expenditure but not subsequently repaying VAT on income generated. One school had not repaid VAT on photography commission dating back a number of years. The Senior Accountant		

Ref	Description	Risk Rating	Moderate

with responsibility for VAT, at the request of Internal Audit, has reissued a set of guidance to all schools regarding VAT in a school environment.

- Two (50%) of four schools had historic charity collection balances dating back a number of years. Current staff were unsure of which charity the original monies had been collected for. Failure to disburse charity collections timeously can lead to reputational damage to the school/Council. Both schools have arranged for pupil/teacher groups to decide which charities these balances should be disbursed to.

While testing did not indicate any instances of misappropriation, or expenditure on inappropriate supplies/services, there was a lack of oversight by the fund managers. The lack of appropriate training as indicated at point 1.1, along with a lack of corporate guidance for fund management reduces the levels of internal control within the management of the funds and could lead to allegations of misappropriation.

IA Recommended Mitigating Actions

The Service should establish minimum management requirements for school funds and issue corporate guidance to all schools, both secondary and primary.

Management Actions to Address Issues/Risks

School fund guidance is being reviewed and will be reissued to all schools and made available of on a school finance channel.

Risk Agreed	Person(s)	Due Date
Yes	Quality Improvement Manager	April 24

Ref	Description	Risk Rating	Moderate
1.10	**Timeous Notification to Payroll** – To ensure payments to staff are correct it is essential Payroll are notified timeously of any changes that may affect such payments, e.g. leaving date from Council employment, increase/decreased hours, rates of pay, allowances etc. Failure to do so can result in under / overpayments to staff.		

A record of underpayments is not maintained however overpayments that have been established are, and for the current financial year to 30 November 2023 show 24 such instances with a total overpayment of £23,560 due to late notifications or errors by all schools (primary, secondary, and special).

A review of overpayments in the previous two years indicate overpayments continue to be a problem.

Year	Number of Overpayments	Value of Overpayments (£)
2021/22	31	£43,289
2022/23	26	£43,463
2023/24	24	£23,560
Total	**81**	**£110,312**

IA Recommended Mitigating Actions

Education should investigate why such overpayments are occurring and instigate actions which mitigate their occurrence.

Ref	Description	Risk Rating	Moderate
	Management Actions to Address Issues/Risks		
	QIM will work with payroll and PO&D to review reasons for over payments and put in place protocols to mitigate against future occurrences.		

Risk Agreed	Person(s)	Due Date
Yes	Quality Improvement Manager	July 24

Ref	Description	Risk Rating	Moderate
1.11	**Monies in Safe** – All the schools visited have safes within the admin areas for holding money securely prior to banking. Financial Regulation 5.2.2 states: *"All monies received by the Council shall be paid into the Council's bank accounts daily or remitted to the Chief Officer - Finance without delay at such intervals as may be approved by the Chief Officer – Finance."* A review of the contents of each for the four schools visited was undertaken and it was found that it was not possible to confirm the accuracy of the value of monies held at two (50%) of the schools due to a lack of supporting documentation. There were also instances when staff were unaware of the origins of some monies held within the safe. 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. At both these schools monies held in the safe dated back up to eight months from time of collection. The lack of supporting documentation for monies held places staff at risk of accusations of misappropriation were the staff responsible for those funds to state the value held differed from the amount placed in the safe.		
	IA Recommended Mitigating Actions		
	a) All Income passed to the admin office should be accompanied with a record of its value, reason for collection and date collected. b) Schools should be reminded to bank all income timeously and, where appropriate, at the end of each term to minimise cash held in the school.		
	Management Actions to Address Issues/Risks		
	Current guidance will be reissued to schools and included in the revised guidance which will be stored on the identified finance channel to allow easy access.		

Risk Agreed	Person(s)	Due Date
Yes	Quality Improvement Manager	April 24

Ref	Description	Risk Rating	Moderate

1.12	**Control of Income** – Financial Regulations states:

"All monies received on behalf of the Council (subject to a de-minimis value of £5.00) must be immediately recorded by the issue of a receipt, controlled ticket or by direct entry into a receipting system...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".

Pupil / Parent Receipts

Testing at the schools found that each was providing a receipt to the pupil/parent as required and payment registers were being completed to show who had/hadn't paid. However, the payment registers were being held by those staff who collected the income, which in some cases meant the complete audit trail for historic collections was not being held with school financial records. Should staff leave it may be possible for some income records to be lost.

Staff Receipts

One (25%) of the schools visited was not providing receipts to staff for cash submitted to the office, whilst the other three (75%) were not always receipting at the time of the money being deposited. The failure to maintain a full and complete and timeous audit trail for the transfer of monies can leave staff open to allegations of misappropriation should differences arise.

Verification of Monies Received

There are a small number of activities where the value of money being collected will not be known in advance and will be below £5, e.g. charity collections or sponsorship income. To safeguard staff from any accusation of misappropriation of funds, all money collected, which has no receipting system, should be counted in the presence of two people and an income return completed and counter signed. At all four schools visited this form of income was being counted by only one person risking error and accusations of theft should a shortfall arise.

IA Recommended Mitigating Actions

a) Once completed all income records should be submitted to the office for storing with the school financial records.

b) Where possible the transfer of monies between staff should be receipted at time of transfer.

c) All money collected, which has no receipting system, such as charity collections or sponsorship income, should be counted in the presence of two people. and an income return completed and countersigned.

Management Actions to Address Issues/Risks

Current guidance will be reissued to schools and included in the revised guidance which will be stored on the identified finance channel to allow easy access.

Risk Agreed	Person(s)	Due Date
Yes	Quality Improvement Manager	April 2024

4 Appendix 1 – Assurance Terms and Rating Scales

4.1 Overall report level and net risk rating definitions

The following levels and ratings will be used to assess the risk in this report:

Risk level	Definition
Corporate	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.
Function	This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function.
Cluster	This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.
Programme and Project	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net Risk Rating	Description	Assurance Assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited
Severe	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Minimal

Individual Issue / Risk Rating	Definitions
Minor	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
Moderate	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
Major	The absence of, or failure to comply with, an appropriate internal control, which could result in, for example, a material financial loss. Action should be taken within three months.
Severe	This is an issue / risk that could significantly affect the achievement of one or many of the Council's objectives or could impact the effectiveness or efficiency of the Council's activities or processes. Action is considered imperative to ensure that the Council is not exposed to severe risks and should be taken immediately.

5 Appendix 2 – Assurance review scoping document

5.1 Area subject to review

As at 31 October 2023, Aberdeen City Council has 11 Secondary Schools. These establishments employ 862 teaching staff (796 FTE) and 284 support staff (201 FTE), teaching approximately 10,897 pupils. They have a combined budget of £81.3m and under the devolved school management policy approximately 72% of this budget is managed directly at the school level by the Head Teacher. As well as Council budget provision, Secondary Schools generate their own funds through various means that are managed through standalone bank accounts held in each school's name with the responsibility for their management and financial control resting with the Head Teacher and the operational management with the school administrator. Turnover within these accounts can, for larger establishments, exceed six figures. The school fund should have a written constitution detailing the roles and responsibilities of staff as well as the uses to which the funds can be made.

5.2 Rationale for review

The objective of this audit is to provide assurance schools have adequate procedures in place to manage the financial aspects of the establishment and comply with the Council's Financial Regulations.

This area was last subject to review in November 2015. Recommendations were made to enhance controls in relation to areas such as: Governance, Compliance with HMRC VAT legislation, Retention and Documentation for Monies Received, and Compliance with Financial Regulations.

As Secondary Schools are managing financial transactions outwith the Council's centralised financial controls, with turnover in larger establishments reaching six figures, along with online and cash transactions being processed through standalone bank accounts and financial spreadsheets, it is essential a system of independent review is undertaken.

5.3 Scope and risk level of review

This review will offer the following judgements:

- An overall **net risk** rating at the **Function** level.
- Individual **net risk** ratings for findings.

5.3.1 Detailed scope areas

As a risk-based review this scope is not limited by the specific areas of activity listed below. Where related and other issues / risks are identified in the undertaking of this review these will be reported, as considered appropriate by IA, within the resulting report.

The specific areas to be covered during the visits are:

- School Funds
- Income
- Purchasing
- Purchase Cards
- School Trips
- Timesheets
- Security of Monies
- Inventories
- Training
- Security of Personal Data

The audit will also review retrospective purchase ordering, invoices with no purchase order and overpayments of salaries across all Education establishments.

5.4 Methodology

This review will be undertaken through visiting a sample of four Secondary schools and carrying out interviews with key staff involved in the process(es) under review and analysis and review of supporting data, documentation, and paperwork. To support our work, we will review relevant legislation, codes of practice, policies, procedures and guidance.

5.5 IA outputs

The IA outputs from this review will be:

- Head Teachers at Secondary Schools visited will receive a risk-based memo with recommendations specifically dealing with their establishment.

- A risk-based report with the results of the review, to be shared with the following:
  - o Council Key Contacts (see 1.6 below)
  - o Audit Committee (final only)
  - o External Audit (final only)

5.6 IA staff

The IA staff assigned to this review are:

- Graeme Flood **(audit lead)**
- Heulwen Beecroft, Auditor
- Andrew Johnston, Audit Team Manager
- Jamie Dale, Chief Internal Auditor **(oversight only)**

5.7 Council key contacts

The key contacts for this review across the Council are:

- Eleanor Sheppard. Director Children's & Family Services
- Shona Milne, Chief Education Officer
- Caroline Johnstone, Quality Improvement Manager **(process owner)**
- Ross McLaren, Head Teacher, Harlaw Academy
- James Purdie, Head Teacher, Hazlehead Academy
- Joanne Hesford, Head Teacher, Oldmachar Academy
- Iona Reid, Head Teacher, St Machar Academy

5.8 Delivery plan and milestones

The key delivery plan and milestones are:

Milestone	Planned date
Scope issued	26-Oct-23
Scope agreed	03-Nov-23
Fieldwork commences	15-Nov-23
Fieldwork completed	14-Dec 23
Draft report issued	12-Jan-24[1]

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[1] Field w ork and draft report dates are based on availability of staff at schools being visited and the Christmas holiday break.

Milestone	Planned date
Process owner response	26-Jan-24
Director response	02-Feb-24
Final report issued	09-Feb-24