



Internal Audit Report
Education and Children's Services
08-023 – Financial Management of Primary Schools
June 2012

Final Report

Chief Executive's Service
Perth & Kinross Council
2 High Street
Perth PH1 5PH

Background and Introduction

This audit was carried out as part of the approved Audit Plan for 2008/2009. The original title given in the Audit Plan was “Devolved Schools Management, Primary”.

The audit examined: the operation in primary schools of the Council’s Devolved Schools Management (DSM) policy and procedures; the financial control work of the Education and Children’s Services (ECS) Finance Support Team (FST) in primary schools; and other financial activities in primary schools (e.g., petty cash handling).

The audit included review of reports to committee and service documentation; interviews with staff of FST; and visits to three of the Council’s primary schools, to review financial operations and to obtain information on the workings of DSM policy.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation received during this audit from the ECS Finance Support Team and the staff of three schools visited, Craigie Primary School, Fossoway Primary School and Robert Douglas Memorial Primary School.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective: To ensure that devolved school budgets are subject to effective budgetary control.	
Auditor’s Comments: Head teachers are responsible for managing their own budgets. ECS verifies the effectiveness of local financial management in schools through the provision of detailed guidance, training, support and a programme of control visits by the ECS Finance Support Team, which complements ECS monitoring of school purchases via the Council’s accounting system. Due to staff shortage and other service priorities for the Finance Support Team, during 2008/09 the financial control visit programme for schools was not performed.	
Strength of Internal Controls:	Moderately strong

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Control Objective: To ensure that income and expenditure is comprehensively and accurately recorded.	
Auditor's Comments: Audit in primary schools found cash handling to be good. Some accounting weaknesses were identified (e.g., lack of reconciliation between financial and management accounting information). There is scope to review the arrangements for double-inputting of information and reconciliation.	
Strength of Internal Controls:	Strong

Control Objective: To ensure that financial management information provided to schools is comprehensive and accurate.	
Auditor's Comments: The ECS Finance Support Team provides good advice and support to primary schools. However, the audit found some scope for improving information provided to schools upon the basis of which schools make financial management decisions.	
Strength of Internal Controls:	Moderate

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

Distribution

This Report has been distributed to:

B Malone, Chief Executive

J Irons, Depute Chief Executive

J Fyffe, Executive Director (Education & Children's Services)

B Atkinson, Depute Director (Education & Children's Services)

J Walker, Depute Director (Housing, Community Care & Finance)

G Boland, Service Manager (Contracts, Facilities & Financial Management)

L Oswald, Acting Finance Manager

P Dickson, Complaints & Governance Officer

M Kay, Senior Committee Officer

External Audit

Authorisation

The auditor for this assignment was R D Watt. The supervising auditor was J Clark.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 18 June 2012

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Financial control of schools by Education and Children's Services	Medium
2	Double inputting	Medium
3	Reconciliation of DSM and Integra financial data	Medium
4	Training in finance-related duties	Medium

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Appendix 2: Action Plan

Action Point 1 - Financial control of schools by ECS

In 2007/8 and prior years, the ECS Finance Support Team (FST) carried out a rolling programme of financial control visits to primary schools across the Council area. This work complemented FST's training and budget monitoring work with schools, and provided assurance that school financial management was proper and effective.

However, during 2008/09, other ECS priorities (i.e., review of libraries' and Kids' Clubs' financial arrangements) and staff shortages within FST led to the school financial control visit programme not being performed. The team's other activities in schools – e.g., training new school staff in DSM procedures; budget monitoring; and helping schools with financial problems – were sustained.

In addition, at the time of the audit, FST did not have a "follow-up" procedure for financial control issues. At one school visited by Internal Audit in May 2009, FST had recommended in September 2008 (in the course of a "Training"-type visit) that an irregular practice cease; the school agreed to comply. But the practice continued. FST visited the school again in November 2008 (for a "Budget Monitoring"-type visit): but the school was not required to confirm that the practice had ceased; nor did FST verify on-site that the practice had ceased. In fact, the practice continued until April 2009, shortly before the audit, when the school realised its error and discontinued the practice.

Management Action Plan

1. The programme of visiting schools has been revised using a risk based approach to ensure that higher risk areas are covered more frequently.
2. The Accounting Technician Guidelines now highlights the importance of following up agreed action. The Assistant Finance Manager undertakes spot-checks to ensure that actions are complete.

Importance:	Medium
Responsible Officer(s):	L Oswald, Acting Finance Manager
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	Completed
Required Evidence of Completion:	1. Planned programme of visits and evidence of completion of a recent visit. 2. Procedure for following up improvement actions at schools.

Auditor's Comments

Satisfactory

Action Point 2 - Double inputting

Most of the Council's financial transactions are recorded on the main accounting system, Integra. Finance Division staff, and many other budget-holders across the Council, can directly input to Integra their purchase orders and authorisations to pay invoices. Direct access to Integra provides budget-managers with details in real-time of income, expenditure, outstanding commitments, and other financial data.

However, primary schools do not have direct access to Integra. When DSM was introduced, the software licensing costs for providing such access were deemed prohibitive. In order to operate DSM, the service therefore created a parallel system, by developing its own bespoke DSM software. Schools use this to record commitments, payments and receipts, and to monitor budgets. To ensure that both the school's accounts and the Council's accounts are accurate and complete, school staff must each month reconcile the information recorded on the school's DSM package, with information provided by FST from the Council's Integra record for the school.

The audit identified scope for reviewing this decision to ensure that the current procedures provide the best use of ECS resources.

Management Action Plan

The Service has examined the ability for schools to access Integra. Attempts have been made to roll out view-only access but this has not been successful to date, and would not reduce the requirement for double inputting and reconciliation.

Importance:	Medium
Responsible Officer(s):	L Oswald, Acting Finance Manager
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	Not applicable
Required Evidence of Completion:	Not applicable

Auditor's Comments

Accepted

Action Point 3 - Reconciliation of DSM and Integra financial data

At the time of the audit, ECS procedures required schools to reconcile their DSM records (held on school office PC's) with the Council's corresponding Integra records (provided by FST), on a monthly basis, for all their budgets. Evidence of such reconciliations is to be provided to FST using a standard "pro forma".

Audit fieldwork at three schools found that one school had fully reconciled all of its budgets, and had duly submitted evidence of reconciliation on two budgets to FST; a second school only recorded on the "pro forma" its reconciliations for those two budgets which it then forwarded to FST; and a third school neither reconciled any of its budgets, nor forwarded any information to FST. The process in place required 2 budgets to be fully reconciled by the school on a monthly basis. FST was aware of this school's lack of reconciliation, but no action had been taken to ensure that reconciliations were up to date.

In the absence of such reconciliations by schools, and of effective control over the reconciliation process by FST, there are risks that errors in the school and/or Council's accounts may not be identified and rectified on a timely basis.

Management Action Plan

The reconciliation process has now changed to provide transaction lists for schools to undertake a reasonableness check. This is being provided for all schools.

Importance:	Medium
Responsible Officer(s):	L Oswald, Acting Finance Manager
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	Change in process

Auditor's Comments

Satisfactory

Action Point 4 - Training in finance-related duties

Head Teachers, teachers, school office staff and janitors undertake a wide range of financial activities. This is particularly the case in primary schools, where relatively few staff are in place to carry out the full range of activities.

FST provides a high level of support and assistance from Pullar House, and has established an annual programme of DSM and other finance-related training courses. However, the service has not comprehensively assessed its financial training needs in recent years. Audit fieldwork found staff in primary schools had typically received one day's training in DSM operation.

Management Action Plan

The Service has reassessed its financial training regime and has decided that it is predominantly fit for purpose. The Service is exploring further training opportunities to enhance the current training regime (including the potential development of an E-learning package)

Importance:	Low
Responsible Officer(s):	L Oswald, Acting Finance Manager
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	Outcome of review

Auditor's Comments

Satisfactory