



Internal Audit Report
Education and Children's Service
School Funds 12/15
February 2013

Final Report

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

Background and Introduction

This assignment forms part of the Internal Audit plan for 2012/2013, as approved by Audit Sub-Committee on 27th March 2012. Audit testing for the assignment took place in November and December 2012.

The normal sources of income for school funds are donations, fund raising activities, contributions from parents towards school trips and voluntary activities etc. These funds are administered by the receiving school for the benefit of that school and do not come within the budget of Education & Children's Services.

The Executive Director requires that adequate control is exercised over such school funds. School staff, under the leadership of the Headteacher, act as custodians of the funds. As they do so as employees of the Council, it necessarily follows that the Council is responsible ultimately for the safekeeping of such monies, and may be called upon to make good any losses that may occur. The disbursement of these funds is at the discretion of the Headteacher and their staff. Arrangements for the administration of School Funds are laid out in Education & Children's Service's Financial Policies and Guidelines.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the Education and Children's Services Finance Support Team during this audit.

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 1: To ensure there are adequate control and oversight arrangements for school fund accounts.

Auditor's Comments: The Council's Financial Regulations are supplemented by ECS Operational Regulations and Financial Policies and Guidelines detailing the procedural control and oversight requirements for school funds. Testing confirmed the adequacy of the control and oversight working practices which generally accord with both of the above regulations.

The ECS Financial Policies and Guidelines are acknowledged to require some updating. The Service advised a review of the guidelines had commenced as part of their financial control plan. The financial control plan also includes a rolling programme of school fund checks by the Finance Support Team.

The ECS Operational Financial Regulations require a log of school funds. Whilst a variety of school fund data is held, there is no single log which contains only school

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fund data. Relevant stored electronic information is not linked or aligned which may lead to rework and/or inconsistencies caused by a variety of records being used. ECS Financial Control Officers oversee school fund arrangements including the submission of school fund audit certificates and verification of school fund bank account details. These working practices are not documented. Not all schools use the ECS school fund package which assists in the reporting process.

The audit certificate wording for school fund accounts would benefit from review and introduction of a version control system. At the date of testing some audit certificates returns had not been received.

Strength of Internal Controls:	Moderately Strong
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Control Objective 2: To ensure the adequacy of the control requirements specified in the ECS Financial Guidelines and that these Guidelines are being adhered to.

Auditor's Comments: Audit testing confirmed the adequacy of school fund control requirements detailed in the ECS Financial Policies and Guidelines.

The Service carries out financial control checks to ensure compliance with the ECS Financial Policies and Guidelines. Testing confirmed the adequacy of supporting evidence held in relation to these checks. However the school fund checklist requires updating in terms of format and content to maintain the adequacy of the control requirements specified in the ECS Financial Policies and Guidelines.

In addition, the record of outstanding actions arising from the checks lacks consistency in formatting and continuity in the details recorded to be an effective tool for statistical analysis

The Finance Support Team Management Team have established a Financial Control Checks Strategy whereby checks are focussed on different functional areas on a rolling programme carried out at ECS establishments, however, the school fund checks from this plan are not risk based as the Service does not take fully into account the information available to it regarding individual school fund accounts.

There is scope for improving the guidance available to the certifiers of school fund audit certificates.

Strength of Internal Controls:	Moderate
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Management Action and Follow-Up

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

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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. Appendix 3 contains an item incidental to audit testing. This will also be monitored via the 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 will be distributed to:

B Malone, Chief Executive

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

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

J Walker, Depute Director, Housing and Community Care

J Symon, Head of Finance

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

J Cockburn, Acting Central Accounting Team Manager

L Oswald, ECS Acting Finance Manager

P Dickson, Complaints & Governance Officer

Committee Services

External Audit

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Authorisation

The auditor for this assignment was D McCreddie. The supervising auditor was D Farquhar.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 5 March 2013

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Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Register of School Funds	Low
2	School Fund Procedures	Low
3	Wording of Audit Certificate	Medium
4	Bank Mandates - School Funds	Medium
5	Completeness of Audit Certificate Documentation	Medium
6	Bank Statement Names	Medium
7	Financial Control Checks	Medium
8	Actions from Financial Control Checks	Medium

Appendix 3 Incidental Action

9	Operational Financial Regulations (All Services)	Low
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Appendix 2: Action Plan

Action Point 1 - Register of School Funds

The ECS Operational Financial Regulations require the ECS Finance Manager to maintain a log of school funds. A “register of unofficial bank accounts” is maintained which lists school fund accounts but also includes non-school funds such as parent council accounts, youth accounts and social fund accounts.

The above regulations state they do not apply to funds owned and managed outwith school by bodies of parents, but one register entry is listed as a Parent Teacher Association but treated as a school fund account.

A variety of school fund information is maintained by the Service including audit certificate and bank account data. Audit testing revealed some differences when comparing the schools named in the bank account lists; the Service advised this was due to the recent renaming or closure of schools and records not being updated. There is no version control system or audit trail recording details of who updated the lists and when information was added.

Management Action Plan

The ECS Acting Finance Manager will introduce one database for school funds that records all school fund information clearly recording who has updated the record and when comments are input. Database entries will be checked to ensure they are properly categorised as school funds.

A version control system for school fund documentation will be introduced for financial year ending July 2013.

Importance:	Low
Responsible Officer:	L Oswald, Acting Finance Manager
Lead Service:	Education And Children’s Services
Date for Completion (Month / Year):	December 2013
Required Evidence of Completion:	Database extract showing version control

Auditor’s Comments

Satisfactory

Action Point 2 - School Fund Procedures

Section 9.3.1 of the Councils' Financial Regulations requires that all income be banked timeously and paid intact, but the ECS Financial Policies and Guidelines don't stipulate that collected school funds be banked promptly with no deduction ensuring no payments are made out of income.

The school funds procedures in the ECS Financial Policies and Guidelines are dated 1st April 2005 and have not been updated to reflect changes to routines such as income and expenditure bank reconciliations, insurance arrangements and use of non council receipt books. The guidelines include hyperlinks to out of date documents and don't refer to the Service school fund package. The Service advised some guidelines have been updated with a review of the school funds section already in progress.

Testing confirmed Financial Control Officers oversee school fund arrangements by ensuring school fund audit certificate returns are received and verifying bank account details. These working practices, however, are not documented. The failure to document such procedures may lead to inconsistencies or misinterpretation.

Management Action Plan

1) The school fund procedures detailed in the ECS Financial Policies and Guidelines will be updated to refer to income being banked, income and expenditure forms, bank reconciliations, insurance arrangements and use of non council receipt books. The guidelines will also be updated to refer to the Service school fund package.

2) The ECS Acting Finance Manager will ensure the role of the Financial Control Officers in relation to school funds is documented in the in-house team procedures.

Importance:	Low
Responsible Officer:	L Oswald, Acting Finance Manager
Lead Service:	Education And Children's Services
Date for Completion (Month / Year):	1) and 2) June 2013
Required Evidence of Completion:	1) Updated school fund procedures. 2) Financial Control Officers procedures.

Auditor's Comments

Satisfactory

Action Point 3 - Wording of Audit Certificate

The ECS Financial Policies and Guidelines require written constitutions that detail school fund objectives and confirm that school fund accounts must be certified by an independent person. However, the audit certificate wording doesn't detail these requirements or inform the certifier who they should contact if they require guidance or have any concerns regarding the certification process.

An ECS Finance email to schools in August 2012 required the 2011/12 audit certificate to be returned with a copy of their July school fund petty cash account, but this requirement is not detailed on the audit certificate which may result in petty cash information not being returned.

Part one of the audit certificate requires completion by the Headteacher or school fund chairperson, but this part of the certificate doesn't require a date or name to be inserted which makes it difficult to ascertain when it was signed or the position and name of the signatory.

No form of version control is used for the audit certificates with testing of 20 completed certificates revealing 4 versions were used in financial years 2010/11 and 2011/12.

Management Action Plan

The ECS Acting Finance Manager will update the school fund audit certificate to include ECS contact details should the independent person seek guidance or wish to raise concerns. A declaration and a statement will be added to the certificate confirming the certifier's independence and advising that the school fund activity is consistent with the constitution.

The ECS Acting Finance Manager will also update the school fund audit certificate to include instructions to return school fund petty cash accounts and a date, name and title to be added to Part 1. A version control system will be introduced for future certificates.

Importance:	Medium
Responsible Officer:	L Oswald, Acting Finance Manager
Lead Service:	Education And Children's Services
Date for Completion (Month / Year):	Completed
Required Evidence of Completion:	Updated school fund audit certificate

Auditor's Comments

Satisfactory

Action Point 4 - Bank Mandates - School Funds

The ECS Financial Policies and Guidelines require at least two from three signatories to authorise withdrawals from school fund bank accounts. This is in accord with both the Council and Service Financial Regulations.

Whilst the Service requests the names of authorised signatories for school fund bank accounts each year, there is, however, no requirement for schools to confirm adherence with the above requirement.

Management Action Plan

The ECS Acting Finance Manager will amend the yearly process for Headteachers to confirm school fund bank mandates are two from three signatories.

Importance:	Medium
Responsible Officer:	L Oswald, Acting Finance Manager
Lead Service:	Education And Children's Services
Date for Completion (Month / Year):	Completed
Required Evidence of Completion:	Extract from bank account return detailing bank mandates are 2 from 3 signatories

Auditor's Comments

Satisfactory

Action Point 5 - Completeness of Audit Certificate Documentation

Testing of audit certificate records for 85 schools revealed 51 certificates were recorded as received by ECS Finance staff with 27 of these assessed by them as incomplete. The Service advised documentation not received by their deadline (October 2012) had a reminder issued and contacted again if required.

Testing of 20 filed audit certificates for a mix of financial years 2010/11 & 2011/12 revealed 3 certificates omitted the year end date, 3 income and expenditure accounts were not signed, 3 certificates contained no required attachments and 3 having both Part 1 and Part 2 of the certificates incorrectly signed by the same person. All but 2 of these cases related to 2010/11.

Not all schools use the ECS school fund package. The school fund package, which is a series of inter-related spreadsheets and is periodically updated, would benefit from a system of version control.

Also, bank reconciliations were attached to only 2 certificates one for 2010/11 and one for 2011/12 although as referred to in Action Point 2 the ECS Financial Policies and Guidelines need updating to reflect this requirement.

The Service advised that a new school fund package launched in August 2012 will help address the above issues.

Management Action Plan

The ECS Acting Finance Manager will communicate with schools to advise them of the benefits of using the school fund package via email and at the Admin Focus Group.

A system of version control will be implemented in the school fund package by the ECS Acting Finance Manager.

Importance:	Medium
Responsible Officer:	L Oswald, Acting Finance Manager
Lead Service:	Education And Children's Services
Date for Completion (Month / Year):	June 2013
Required Evidence of Completion:	Extract from communication raising awareness of school fund package and copy of school fund version control.

Auditor's Comments

Satisfactory

Action Point 6 - Bank Statement Names

Both Council and Service Financial Regulations require that school funds accounts bear the name of the establishment to which they relate, along with the school fund purpose. This requirement is not detailed in the school funds section of the ECS Financial Policies and Guidelines.

Audit testing of 14 bank account statements revealed only 50% were set up in the name of a school fund. There is a risk funds may be misinterpreted as Council funds if bank accounts are not set up clearly detailing their purpose as school funds.

Management Action Plan

1) The ECS Acting Finance Manager will update the ECS Financial Policies and Guidelines to require that school fund bank accounts detail the account purpose. The Financial Control Officers procedures will be updated to include checking that the names on bank accounts are correct.

2) The ECS Acting Finance Manager will arrange for banks to be contacted regarding changing names of bank accounts so the correct names can be assigned to school fund bank accounts.

Importance:	Medium
Responsible Officer:	L Oswald, Acting Finance Manager
Lead Service:	Education And Children's Services
Date for Completion (Month / Year):	1) & 2) June 2013
Required Evidence of Completion:	1) Bank account name guidelines 2) Copy of correspondence to banks

Auditor's Comments

Satisfactory

Action Point 7 - Financial Control Checks

The Service maintains a rolling programme of school fund checks to ensure compliance with the ECS Financial Policies and Guidelines (FP&G) as part of their financial control checks. Audit testing revealed the checks don't test for adherence with the FP&G requirement that the Headteacher be a member of the school fund committee, nor the Headteacher's understanding of school fund responsibilities nor his/her awareness of the ECS school fund package that assists in the reporting process. Whilst the checks test for the secure storage of receipts books, they don't test for adherence to the Council's Financial Regulations requirement that receipts be numbered in sequence and retained for inspection.

The Service has acknowledged that the financial control checks are in need of review to reflect August 2012 procedural changes made. In addition, no version control system is used that evidences when the financial control checklists were approved and/or updated.

The financial control checks timescales for 2011/12 to 2015/16 detail school fund checks will be carried out in 2011/12 only. The Service advised they maintain high level oversight and would respond to issues or training for new staff as required.

The school fund financial control checks are not prioritised or risk based; for example, by the consideration of the assessment of perceived risk, using school fund bank account information, the results of previous checks and information from school fund audit certificate returns.

Management Action Plan

The ECS Acting Finance Manager will update the financial control check documentation to reflect recent procedural changes, to ensure that receipt books are sequentially numbered and also to ensure that Headteachers are members of the school fund committee and aware of their responsibilities regarding school fund and the school fund package.

The ECS Acting Finance Manager will review the financial control checks timescales for school funds and ensure known information is considered when assessing the risk and scheduling the checks.

Importance:	Medium
Responsible Officer:	L Oswald, Acting Finance Manager
Lead Service:	Education And Children's Services
Date for Completion (Month / Year):	1) Complete 2) September 2013

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Required Evidence of Completion:	Updated school fund checks Evidence future checks assess risk
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Satisfactory

Action Point 8 - Actions from Financial Control Checks

Audit testing revealed a lack of consistency in data recorded in the 'school fund outstanding actions' spreadsheets which record outstanding actions from financial control checks, for example some blank rows and a variety of date formats. There is a lack of linkage to the original school fund test number which makes it less easy to analyse trends. Some actions are outstanding for over 12 months. The sheets are not aligned to other school fund records with no version control system that evidences when approved.

Information from school fund financial control checks carried out by Accounting Technicians has not been routinely shared with the Financial Control Officers who update school bank accounts details nor is the school fund bank account information routinely checked to audit certificate records. The Service has stated that the sharing of such information was in the process of being developed.

Management Action Plan

1) The ECS Acting Finance Manager will review and amend the 'school fund outstanding actions' document to ensure consistency of information and allow the analysis of information. Accounting Technicians will be advised to update Financial Control Officers with information from school fund financial control checks.

2) The introduction of one auditable database per Action 1 will ensure school fund bank account information is routinely checked to audit certificate records.

Importance:	Medium
Responsible Officer:	L Oswald, Acting Finance Manager
Lead Service:	Education And Children's Services
Date for Completion (Month / Year):	1) June 2013 2) N/a covered by Action 1
Required Evidence of Completion:	1) Extract from amended School Fund Outstanding action list and confirmation Financial Control Officers sharing school fund financial control checks information.

Auditor's Comments

Satisfactory

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Appendix 3:

Incidental Action – Operational Financial Regulations (All Services)

The Financial Regulations require Executive Directors be responsible for the proper control of financial systems and procedures in their area of responsibility. Working practice is for this to be implemented partly via Service Operational Financial Regulations.

Audit testing revealed a lack of consistency in the publication and approval of these Operations Regulations. For example, only some contain a system of version control detailing the dates approved or when due for review, some contain a Service preface page, some formally approved by the Service SMT with one Service publishing the regulations on the intranet site 'ERIC'.

Management Action Plan

The Chief Accountant will issue guidance to Service Financial Controllers.

The above guidance will include the requirement that Operational Financial Regulations utilise a system of version control which details the date approved and when due for review, a Service preface page, and the regulations approved by the Service SMT and published on the intranet site 'ERIC'.

Importance:	Low
Responsible Officer:	S Walker, Chief Accountant
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	March 2013
Required Evidence of Completion:	Copy of guidance from Chief Accountant

Auditor's Comments

Satisfactory

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