

Argyll and Bute Council
Internal Audit Report
May 2019
FINAL

School Funds

Audit Opinion: **Limited**

	High	Medium	Low
Number of Findings	2	4	2

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1. Executive Summary

Introduction

1. As part of the 2018/19 internal audit plan, approved by the Audit & Scrutiny Committee in March 2018, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to school funds.
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed.
3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. All Argyll and Bute schools operate individual school funds for the purpose of controlling monies raised in relation to local school related activities. The normal sources of income are donations, fund raising activities, contributions from pupils towards school trips, voluntary activities etc. These funds are administered and spent for the benefit of the school and do not come within the budget of, or under the direct administration of the Council.
5. Section 79 of the Education (Scotland) Act 1980 imposes a duty on the education authority to administer gifts of property or funds on behalf of any school or other educational establishment taking into account the wishes or intentions of the donor. Since the education authority is responsible for managing funds donated, whether or not they are earmarked for the benefit of a particular group, it is entitled to instruct that a uniform accounting system or guidelines for such a system be introduced. As such, in 2010, the Council issued 'Education Management Circular 1.10' (the Circular) which sets out a form of instructions to schools in relation to how school funds should be managed. The Circular was revised in 2014. Circular 1.10 was issued as an instruction rather than guidelines with all schools advised they should be treated accordingly.
6. Within Argyll & Bute there are:
 - seventy primary schools
 - five secondary schools
 - one joint campus
 - four learning centres
 - four 3-18 schools
 - two hostels.

Scope

7. The purpose of the audit was to provide assurance that there are appropriate controls in place to ensure effective management of school funds as outlined in the Terms of Reference agreed with the Head of Education: Lifelong Learning and Support on 2 February 2018.
8. It was further agreed with Head of Education: Lifelong Learning and Support that the audit would visit twelve schools, including a balance of primary and secondary schools, ensuring the

sample provided coverage across the Council's four administrative areas. It was agreed that the purpose of the audit was to identify areas for process improvement to be applied consistently across the Council's school estate rather than it highlighting specific issues at an individual school level. The drafting of this report, and the recommendations for improvement contained within it, reflects this agreed focus on the process improvement. The schools visited during our review are set out in exhibit 1.

Exhibit 1 – Schools Visited

Administrative Area	Secondary School	Primary School
Bute & Cowal	Rothsay Joint Campus	Innellan Rothsay
Helensburgh & Lomond	Hermitage Academy	Arrochar St Joseph's
Mid Argyll, Kintyre & Islay	Lochgilphead Joint Campus	Gigha Tarbert
Oban, Lorn & The Isles	Tobermory High School	Salen Tobermory

Audit Opinion

9. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.
10. Our overall audit opinion for this audit is that we can take a limited level of assurance. This means that internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives at risk. Weaknesses must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.

Key Findings

11. We have highlighted two high priority recommendations, four medium priority recommendations and two low priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:
 - the Circular should be streamlined to provide greater clarity over school fund management with consideration given to reducing the mandatory requirements it establishes
 - schools should be reminded of the need to perform monthly reconciliations between cashbooks and bank statements
 - practical ways of providing school fund training to fund committee members should be explored
 - schools should be reminded of the need for a school fund constitution to be established which is consistent with the Circular
 - the format of cashbooks should be standardised and guidance provided on how to complete them
 - schools should be reminded of the need for all expenditure to be authorised in compliance with established limits and to issue receipts for income

- the format of the annual receipts and payments statement should be standardised
- schools should be reminded of the requirement for school fund audits to be conducted independently with appropriate evidence of the audit maintained.

12. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

13. Exhibit 2 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 2 – Summary Assessment of Control Objectives

	Control Objective	Assessment	Summary Conclusion
1	There is adequate guidance and support to assist fund committees in the management of school funds.	Reasonable	The Circular provides comprehensive instructions on the management of school funds however the general consensus amongst the schools visited is that it would benefit from being streamlined and that the mandatory requirements are not pragmatic, in particular for small primary schools where funds are managed by a small number of people. There is no training in place to support school fund committee members.
2	There is a general fund committee to provide governance of the school fund.	Limited	Only five of the twelve schools visited had a committee which fully complied with the requirements of the Circular and three had no committee at all. Schools are not holding elections to appoint committee members and only four hold fund meetings. All bar one school has a written constitution to provide governance over the school fund although only four had been ratified by the committee. There is clear scope to reconsider the committee requirements established by the Circular.
3	Appropriate record keeping and banking arrangements are established.	Reasonable	All twelve schools have appropriate banking arrangements in place and maintain cashbooks. However three schools are not performing monthly reconciliations between the cash book and the bank statements with a further three not subjecting their reconciliations to independent checking. The quality of record keeping in cash books could be improved.
4	There are appropriate measures in place to manage 'School Trip' accounts.	Limited	Seven schools maintain separate trip accounts, the remaining five use the general purpose bank account. It is not clear what value there is having separate accounts, in particular if there is sound internal recording of lodgements.
5	All income and expenditure is adequately recorded	Limited	The extent to which schools could provide supporting documentation to evidence expenditure and income varied throughout the

	and authorised and cash handling arrangements are appropriate.		schools visited. In addition it wasn't always clear that expenditure had been authorised in compliance with expenditure limits established by the school's constitution. Appropriate arrangements were in place for securing cash and cheques.
6	School fund accounts are subject to appropriate audit and record retention.	Substantial	Eleven of the twelve schools had made arrangements for their school fund accounts to be audited with ten of these audits being appropriately independent.

14. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

There is adequate guidance and support to assist fund committees in the management of school funds

15. At each of the 12 schools visited we sought the views of the relevant school staff on the adequacy of the Circular. The feedback received from the schools was that:

- seven considered it excessive in size, onerous, and not user friendly
- three found it informative
- two never referred to it with one having never heard of it.

16. Specific views expressed were that, whilst the Circular is comprehensive, it is not easy to navigate and the requirements are often too onerous, especially for small primary schools with limited support and less scope for parental involvement in managing the fund. There was a clear appetite for the document to be streamlined, for it to be more pragmatic in terms of expectations and it was suggested there may be benefit in having different guidance and requirements for secondary and primary schools.

Action Plan 1

17. Once the Circular has been revised and circulated to all schools Internal Audit will build review of school funds into its programme of continuous monitoring to provide a degree of annual assurance that the revised procedures have been implemented.

18. There is no formal training in place to support school fund committee members with training provided at the discretion of the school. The majority of staff who are currently managing funds were either trained by the previous person as part of a handover process or have acquired an understanding of requirements over a period of time. In four of the twelve schools only one person knew how to manage the fund. This could create issues in the event of extended illness or absence.

Action Plan 3

There is a general fund committee to provide governance of the school fund

19. The circular requires that each school has a general fund committee which includes the headteacher, depute plus elected representatives of the teaching staff and parents. It also requires the committees to have, as a minimum, a chairperson, secretary and treasurer. Of the twelve schools visited:

- five have a committee with membership complying with the Circular
- three have a committee without parent representation
- one has a committee of volunteers without elected representatives
- three have no committee at all.

20. The Circular also requires schools to hold elections every two years to appoint committee members however there was no evidence on any of the twelve schools holding elections. Committee members tend to have either volunteered or been asked to be involved. Membership of committees only tends to change if a member leaves with a replacement sought by asking for a volunteer at a staff meeting. There was a consensus in the schools visited that requiring elections was not pragmatic as the reality is that it is unusual to have sufficient interested parties to warrant holding an election.

Action Plan 1

21. The Circular requires each school fund committee to have a written constitution which defines the committee's role, membership and powers of co-option. It also requires the constitution to be ratified by the committee and approved at a meeting open to staff and parents. The Circular provides a template constitution which schools can use but stresses that the template should be regarded as illustrative and that a school may choose to add other details to their particular constitution.

22. Eleven of the twelve schools visited had a written constitution with these predominantly mirroring the template provided in the Circular. One of the eleven had drafted their own constitution which included the required elements whilst two did not detail expenditure limits. Four had been formally ratified by the committee and only one had been approved at a meeting open to staff and parents.

Action Plans 1 and 4

23. The Circular requires schools to hold fund committee meetings 'as often as necessary', but at least one per term for secondary schools and once a year for primary schools. These meetings are supposed to be minuted. Only four of the schools visited hold fund meetings and only three of these minute them.

Action Plan 1

24. Secondary schools are required to have a payments sub-committee which is headed up by the treasurer. Only one of the secondary schools visited have established a payments sub-committee. Schools questioned the value in having a separate committee.

Action Plan 1

Appropriate record keeping and banking arrangements are established

25. The Circular sets out a series of requirements in relation to how schools should maintain financial records and manage bank accounts. Exhibit 3 sets out a summarised position of compliance with these requirements for the twelve schools visited.

Exhibit 3 – Compliance with required Record Keeping and Banking Arrangements

Requirement	Compliant Schools
School fund bank account in school name with no reference to the Council	12
Headteachers maintain list of school bank accounts detailing account name, number, branch and account signatories	8
Three, or more, signatories for bank accounts with two required to operate	12
Cashbooks maintained within which all income and expenditure is recorded	12
Monthly reconciliations between cash book and bank statements	9
Monthly reconciliations checked by second person	6
Income lodged intact (expenditure not taken out of income prior to banking)	12
Frequency of banking determined by headteacher (no less than weekly)	12

Action Plan 2

26. Whilst we noted that all twelve schools had a form of cashbook in place these tended to vary substantially in style, format and the extent to which recorded income and expenditure was cross referenced to receipts. Some were maintained in Microsoft Excel, some in Microsoft Word and some were hand written in books. Consideration should be given to standardising cashbooks, preferably in Excel to minimise the risk of arithmetic errors, with guidance provided on how to complete them.

Action Plan 5

There are appropriate measures in place to manage 'School Trip' accounts

27. The Circular requires schools to have separate 'School Trip' bank accounts. Seven of the twelve schools visited comply with this requirement. The other five use the general purpose bank account for all school funds and school trip money. The majority of schools visited were of the opinion that having separate trip accounts is unnecessary and creates an additional administrative burden. If their internal recording of lodgements is good there is little value in keeping the trip account separate from the general fund account.

Action Plan 1

All income and expenditure is adequately recorded and authorised and cash handling arrangements are appropriate

28. The Circular requires all income and expenditure to be recorded in a cash book and be supported by appropriate documentation which is serially numbered with the number recorded in the cash book. In addition expenditure should be authorised in compliance with expenditure limits established by the schools constitution. For the twelve schools:
- six could not evidence that expenditure had been authorised in compliance with established limits
 - three did not use the certification slip which is supposed to be used for unreceipted expenditure (generally low value expenditure)
 - four do not issue receipts for income.

Action Plan 6

29. Three schools operate a small float which is maintained via fundraising and one has an imprest account. The other schools manage without having a float as they make purchases either using PECOS and/or a purchase card. Cash and cheques in all twelve schools are stored in a secure location and we were provided assurances by all schools that cheques, where used, are fully completed before they are signed.

School fund accounts are subject to appropriate audit and record retention

30. The Circular requires that an annual receipts and payments statement be prepared by the Treasurer and signed by all the bank account signatories. All the schools visited prepared annual statements although only five were prepared by the Treasurer. The others were prepared by clerical staff, the headteacher or a teacher. This is not considered a material concern. Three of the schools do not get the statements signed off by the other bank account signatories. The format, style and quality of the annual statement varied considerably across the schools visited and there may be benefit in standardising this.

Action Plan 7

31. Schools are required to have their school fund audited on an annual basis by a person unconnected to the administration of the fund. The auditor is required to sign the cash book and annual receipts and payments statement to evidence the performance of the audit. Our review highlighted that:

- eleven schools had made arrangements for their statements to be audited although one was audited by a member of the school's fund committee
- one school paid an external firm to compile their annual statement however it wasn't subject to an audit (refer to paragraph 32)
- six schools do not get the auditor to sign the cash book.

Action Plan 8

32. Seven of the appointed auditors did not ask the school for any fee in relation to performing the audit, four accepted donations or fees ranging from £25 to £72 however one school was paying a local accountancy firm £672 to prepare their annual receipts and payment statement. This was due to a misunderstanding whereby the school were of the belief that the accounts had to be prepared by a qualified accountant. During the audit we advised the school this was not necessary and they will be preparing the statement internally going forward.

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
High	1	<p>Review of Education Circular 1.10</p> <p>The extent to which schools refer to, and make use of Circular 1.10 varies with the general consensus amongst schools being that it is not easy to navigate, is excessive in size and is not pragmatic in terms of the mandatory requirements it establishes, in particular for smaller schools with limited support.</p> <p>The Circular would benefit from being streamlined to provide greater clarity over the management of school funds. Particular consideration should be given to the mandatory requirement for:</p> <ul style="list-style-type: none"> • committee elections • need for parents to be on committee • formal fund meetings • payment sub-committees • separate school trip accounts • formal ratification of school fund constitutions at an open meeting. <p>The Circular could also benefit from a contents page and a general review to determine whether the main body and accompanying appendices are clear and still fit for purpose as it has been five years since they were last reviewed.</p>	School funds may not be getting managed appropriately due to inconsistent practices.	<p>Streamline Education Circular 1.10, obtain necessary approvals and rollout to schools. The key stages are:</p> <ol style="list-style-type: none"> 1. Form working group consisting School Service Support Manager, 1 AFA, 1 member of Finance Team, 1 HT 2. Revise circular 3. Obtain necessary approvals from EMT, DMT, JSC 4. Roll out to schools for implementation 	<p>School Services Support Manager</p> <p>31 May 2019</p> <p>31 October 2019</p> <p>31 December 2019</p> <p>20 April 2020</p>

High	2	<p>Cashbook to Bank Statement Reconciliations</p> <p>Three out of the twelve schools visited did not perform monthly reconciliations between their cashbook and the bank statement. Of the nine that did perform a monthly reconciliation three did not have the reconciliation checked by a second person.</p>	School funds may be misappropriated.	Standard Circular 1.10 will be updated (See Section 1 of Action Plan). The revised circular will contain checklist section on key tasks which must be adhered to	<p>School Services Support Manager</p> <p>20 April 2020</p>
Medium	3	<p>School Fund Training</p> <p>There is no training in place to support school fund committee members. The majority of staff who are currently managing funds were either trained by the previous person as part of a handover process or have acquired an understanding of requirements over a period of time. This can lead to inconsistent practices across schools and a lack of resilience in the event of periods of extended illness or absence.</p> <p>It is recognised that face to face training may not be practical due to the number of schools and Argyll and Bute's geographical challenges so consideration should be given to alternative ways of providing training.</p>	School funds may not be getting managed appropriately due to inconsistent practices.	<p>When the final version of the new streamlined Standard Circular 1.10 is complete training will be provided through the AFAs and rolled out to staff within all schools.</p> <p>Produce LEON guidance for new staff.</p>	<p>School Services Support Manager</p> <p>20 April 2020</p> <p>31 July 2020</p>

Medium	4	<p>School Fund Constitution</p> <p>Eleven of the twelve schools visited had a written constitution with these predominantly mirroring the template provided in the Circular. Two of the eleven did not detail expenditure limits.</p> <p>After the Circular has been revised, including the template school constitution set out in it, schools should be reminded of the need to have a constitution and for it to reflect the revised requirements in the Circular.</p>	School funds may not be getting managed in a manner compliant with the revised Circular.	Standard Circular 1.10 will be updated (See Section 1 of Action Plan). The revised circular will contain a standard School Constitution Template.	<p>School Services Support Manager</p> <p>20 April 2020</p>
Medium	5	<p>Cashbooks</p> <p>Whilst all twelve schools visited had a form of cashbook in place these tended to vary substantially in style, format and the extent to which recorded income and expenditure was cross referenced to receipts. Some were maintained in Microsoft Excel, some in Microsoft Word and some were hand written in books. The format of cashbooks should be standardised, preferably in Excel to minimise the risk of arithmetic errors, with guidance provided on how to complete them.</p>	Schools may not have a clear and accurate record of their cash position or be able to properly evidence income and expenditure.	Standard Circular 1.10 will be updated (See Section 1 of Action Plan). A standard Cash Book template will be created in Excel and training will be provided as outlined above.	<p>School Services Support Manager</p> <p>20 April 2020</p>

Medium	6	<p>Evidencing Income and Authorising Expenditure</p> <p>During sample testing of income and expenditure items we identified that for the twelve schools:</p> <ul style="list-style-type: none"> • six could not evidence that expenditure had been authorised in compliance with established limits • three did not use the certification slip for unreceipted expenditure • four do not issue receipts for income. <p>Schools should be reminded of the need for all expenditure to be authorised in compliance with established limits and to issue receipts for income.</p>	School expenditure may not be subject to appropriate authorisation.	Standard Circular 1.10 will be updated (See Section 1 of Action Plan). The revised circular will contain checklist section on key tasks which must be adhered to which will include authorising of expenditure.	School Services Support Manager 20 April 2020
Low	7	<p>Format of Receipts and Payments Statements</p> <p>The Circular provides a template receipts and payments statement that schools can chose to adopt however not all do and our review highlighted that the format, style and quality of the annual statements varied considerably across the schools visited.</p> <p>After the Circular has been revised, including the template receipts and payments statement, the format of the annual receipts and payments statements should be standardised across all schools.</p>	Use of school funds may not be recorded and reported consistently.	Standard Circular 1.10 will be updated (See Section 1 of Action Plan). A standard Receipts and Payments template will be created which schools will be advised to follow.	School Services Support Manager 20 April 2020

Low	8	<p>Auditing School Funds</p> <p>Schools are required to have their school fund audited on an annual basis by a person independent of managing the fund. The auditor is required to sign the receipts and payments statement and cashbook to evidence the performance of the audit.</p> <p>Our review confirmed this requirement was predominantly being complied with however one school did not have audit arrangements in place and for six schools the receipts and payment statement was signed but the cashbook wasn't.</p>	<p>School funds may not be subject to appropriately independent annual audits.</p>	<p>Standard Circular 1.10 will be updated (See Section 1 of Action Plan). The revised circular will contain guidance in relation to auditing processes.</p>	<p>School Services Support Manager</p> <p>Easter 2020</p>
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In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are a number of areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.