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## **AUDIT COMMITTEE**

### **INTERNAL AUDIT OF SCHOOL FUNDS**

### **REPORT BY AUDIT, RISK AND COUNTER FRAUD MANAGER**

#### **A. PURPOSE OF REPORT**

To inform the Audit Committee of the outcome of an internal audit of the administration of school funds within Education Services.

#### **B. RECOMMENDATION**

It is recommended that the Audit Committee notes that controls in place are considered to be satisfactory.

#### **C. SUMMARY OF IMPLICATIONS**

<b>I Council Values</b>	Being honest, open and accountable, making best use of our resources.
<b>II Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)</b>	The audit is relevant to risk ED021 "Failure of schools to comply with the agreed school fund procedures".
<b>III Implications for Scheme of Delegations to Officers</b>	None.
<b>IV Impact on performance and performance Indicators</b>	Weaknesses in internal control may have an adverse impact on performance.
<b>V Relevance to Single Outcome Agreement</b>	Our public services are high quality, continually improving, efficient and responsive to local people's needs.
<b>VI Resources - (Financial, Staffing and Property)</b>	None.
<b>VII Consideration at PDSP</b>	None.
<b>VIII Other consultations</b>	Managers within Education Services as part of the audit process.

#### **D. TERMS OF REPORT**

In accordance with the internal audit plan for 2022/23, an audit has been undertaken of the administration of school funds within Education Services.

The audit involved:

- following up the agreed actions arising from counter fraud investigation report on the misappropriation of school funds submitted to the Audit Committee on 21 March 2022;
- reviewing the process in place for the annual collation and review of school fund accounts undertaken by the Education Services resource team.

The resultant internal audit report is attached as an appendix to this report, together with an action plan containing our findings and agreed management action.

## **E. CONCLUSION**

Our audit has concluded that the controls in place over of the administration of school funds within Education Services are satisfactory.

## **F. BACKGROUND REFERENCES**

Report to the Audit Committee 21 March 2022: Internal Audit Plan 2022/23

Report to the Audit Committee 21 June 2022: Counter Fraud Annual Report 2021/22

Appendices/Attachments: Internal audit report dated 9 January 2023: School Funds

Contact Person: Kenneth Ribbons, [kenneth.ribbons@westlothian.gov.uk](mailto:kenneth.ribbons@westlothian.gov.uk) Tel No. 01506 281573

**Kenneth Ribbons**  
**Audit, Risk and Counter Fraud Manager**

Date of meeting: 24 March 2024



**ES2203**

# **INTERNAL AUDIT REPORT**

## **SCHOOL FUNDS**

**9 January 2023**

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## 1.0 EXECUTIVE SUMMARY

- 1.1 In accordance with the annual audit plan for 2022/23, we have undertaken a review of school funds within Education Services, and in particular the process in place for the annual collation and review of school fund accounts undertaken by the Education Services resource team, and conclude that control is **satisfactory**.
- 1.2 Risk ED021 is currently assessed in the council's risk register as being a **medium** risk.
- 1.3 The audit remit is set out in section two.
- 1.4 West Lothian Council currently operates 68 primary schools (65 with associated early learning and childcare settings), 12 secondary schools and six additional support needs schools.
- 1.5 All income received by schools from parents/carers must be accounted for. Money received for school meals, milk and bus tickets is received into the West Lothian Council bank account and falls within the direct administration of Education Services.
- 1.6 School funds is the term used to describe all other money received, including donations from external parties, fund raising and parent council activities, payments for school trips, uniform and photograph purchases etc.
- 1.7 These funds are for the benefit of the individual school, and as they do not fall within either the budget or the administration remit of West Lothian Council Education Services; they are paid into the school fund bank account, the administration of which is the responsibility of the receiving school.
- 1.8 School staff, under the overall responsibility of the head teacher (HT), are the custodians of the funds, and as they are council employees, ultimately the council is responsible for the safekeeping of any monies collected.
- 1.9 The approximate total value of the school funds accounts held across all schools at 31 July 2021 and 2022 was £1.51 million and £1.03 million respectively.
- 1.10 On 31 January 2022, the Counter Fraud Team (CFT) issued report FR2129 following completion of an investigation into misappropriation of school funds at a West Lothian school.
- 1.11 There were five findings detailed in the report, all rated as being of high importance, which resulted in nine actions being agreed. As noted in section 2.1, this audit has reviewed the progress of the agreed actions to confirm they have been satisfactorily implemented.
- 1.12 Testing found that all of the agreed actions have been fully implemented and more detail is provided in Appendix B. Risk actions EDSCH21001 to EDSCH21009 in Pentana can now be considered complete and have been signed off as audited.
- 1.13 Education Services management have dedicated considerable time and resource to ensure the staff responsible for processing school fund accounts are now aware of the importance of understanding and following the correct procedures and ensuring that support and training is available to them.
- 1.14 It is also noted that some actions implemented exceed those originally agreed, such as setting up a working group with Corporate Procurement (CPU) to discuss schools' issues and concerns and monthly rather than six monthly purchase card transaction analysis.

- 1.15 There is evidence that the communications with schools have resulted in a better understanding of purchase card usage. This can be seen in the declining spend on purchase cards in the last year. The total purchase card spend in 2021/22 was £726,000; in 2022/23 the spend up to December 2022 is £349,069.
- 1.16 The following key internal controls were found to be in place over school funds and the annual review exercise undertaken by the Education Services resource team:
- school fund account procedures are in place and available on the Education intranet;
  - FundsMaster software is used by all schools to manage funds and assist with reconciliation to bank statements;
  - FundsMaster procedure manual available to assist administrators;
  - FundsMaster account details are reconciled monthly to the school fund bank statement by the administrator and verified by the head teacher;
  - head teachers complete an annual compliance checklist to confirm their school is following the school fund procedures;
  - the head teacher and Area Business Support Managers (ABSM) discuss the up to date position of the school funds, as a minimum once a term;
  - the head teacher discuss the up to date position of the school funds with their parent council (or equivalent forum), as a minimum twice per year;
  - schools produce annual, independently verified accounts confirming the school FundsMaster account and bank account reconcile;
  - a year end reconciliation guide and video are available to assist schools with the reconciliation process;
  - the independent verifier confirms the fund has been correctly managed in line with procedures through the year;
  - a school fund account checklist is available to assist the independent verifier in checking compliance with the school fund procedures;
  - details of both the annual reconciled accounts and the independent verification are submitted to the Education Services resource team by 31 October each year;
  - reminders of this requirement; including example documentation, are issued to schools in both September and early October ahead of the return deadline;
  - the resource team monitor completion of the annual returns to ensure that all required documentation is received and in order;
  - a spreadsheet is maintained to record returns; missing, incomplete or incorrect submissions are followed up with the relevant school;
  - the resource team visited 10 schools in December 2022 to independently audit the school fund process to confirm compliance.
- 1.17 The review did identify a number of findings in relation to the implementation of the school fund procedures, however these are not fraud related or connected to the agreed actions from CFT report FR2129. Full details are provided in section 3.
- 1.18 None of our findings have been ranked as being of 'High' importance
- 1.19 The action plan in section three details our findings, grades their importance (Appendix A) and includes agreed actions. The implementation of agreed actions will help improve control.
- 1.20 We appreciate the assistance of Donna Adam, Fraser Thomson and their team during the conduct of our audit. Should you require any further assistance please contact Kenny Wilson.

**Kenneth Ribbons**  
**Audit, Risk and Counter Fraud Manager**

## 2.0 REMIT

- 2.1 The objective of the audit was to review risk ED021: *Failure of schools to comply with the agreed school fund procedures* and the associated internal controls.

The review specifically included:

- a follow up of the agreed actions arising from counter fraud investigation *FR2129: Misappropriation of School Funds* to confirm they have been successfully implemented;
  - an overview of the process for the annual collation and review of school fund accounts undertaken by the Education Services resource team.
- 2.2 No internal audit report can provide absolute assurance as the effectiveness of the system of internal control. Our review concentrated on the key controls and our testing was undertaken on a sample basis. Therefore, the weaknesses we have identified are not necessarily all those which exist.
- 2.3 We agreed the draft report for factual accuracy with Fraser Thomson, Area Business Support Manager and Donna Adam, Strategic Resource Manager, on 5 January 2023.
- 2.4 The Head of Education (Primary, Early Years and Resources), Education Services is responsible for both the implementation of agreed actions and the risk arising from not acting on any agreed actions in this report.
- 2.5 We carry out follow-up reviews on a risk-based approach. The Audit, Risk and Counter Fraud Manager will determine the need for a follow-up review of this report.
- 2.6 In accordance with the council's risk management arrangements services are required to record internal audit findings graded as being of 'high' importance in Pentana as risk actions and to link these to the corresponding risks.
- 2.7 Audit findings ranked as being of 'high' importance that are not implemented will be reported to the Governance and Risk Board and Audit Committee and considered for inclusion in the Annual Governance Statement.

### 3.0 ACTION PLAN

Ref	Findings & Risk	Agreed Action	Importance Level
3.1	<p><b><u>School Fund Meeting Records</u></b></p> <p>Page 2, Section 3: Management of the school funds procedures states <i>"The school fund must be an agenda item for discussion on a termly basis between the head teacher and ABSM and spending plans agreed with the Parent Council (or other relevant parent forum) on at least two occasions annually."</i></p> <p>From a sample of 11 schools reviewed, whilst it was confirmed that school funds were discussed at both the head teacher/ABSM meetings and the parent council as stated in the procedures; two schools were not formally recording the details discussed or actions agreed.</p> <p>A reminder should be issued to all schools that in order to maintain an audit trail of discussions and in particular, decisions made in relation to school funds, minutes or meeting notes should be recorded at head teacher/ABSM and parent council meetings.</p> <p><b><u>Risk</u></b>  <i>No records of decisions made in relation to the use of school funds resulting in the inability to substantiate the decisions made if they are disputed or queried at a future date.</i></p>	<p>3.1.1 Strategic Resource Manager to send a reminder e-mail to Headteachers/ABSMs/ROs to maintain an audit trail of discussions and in particular, decisions made in relation to school funds, minutes or meeting notes should be recorded at head teacher/ABSM and parent council meetings.</p> <p>3.1.2 Resource Team to sample 10 schools for evidence of records kept before end of academic session 22/23.</p>	Low
			<b>Responsible Officer</b>
			Donna Adam / Headteachers / ABSM's / Resource Officers
			<b>Risk Identifier</b>
			ED021
			<b>Action Date</b>
			<p>3.1.1 - 31 January 2023</p> <p>3.1.2 - 23 June 2023</p>



Ref	Findings & Risk	Agreed Action	Importance Level
3.2	<p><b><u>Account Reconciliation - Unreconciled Debits and Credits</u></b></p> <p>Section 8: Bank Reconciliation of the school fund procedures states <i>"Where possible a person independent of the daily control of the account should perform reconciliations between accounting records and bank statements on a monthly basis with all discrepancies investigated. This ensures the monies are independently monitored and any errors are timeously corrected"</i>.</p> <p>From the monthly reconciliations of 11 schools sampled; two were found to be carrying forward unreconciled credits of £2 and £118.90 dated in June and December 2021 respectively. Three were carrying forward a number of out of date cheques.</p> <p>It was confirmed that the school with the outstanding £118.90 credit followed the above procedure correctly and the January 2022 account reconciliation was completed by a person independent of the process. The independent person identified that the £118.90 had not been banked as expected and requires further investigation.</p> <p>Education Services were unable to establish the reason for the outstanding £2 entry, which is thought to be a banking error; but is not suspicious and will be written off.</p> <p>The process for dealing with out of date cheques is covered in Section 25, FAQ's of the FundsMaster user manual.</p> <p>A reminder should be issued to schools highlighting why it is good practice to independently reconcile the accounts and investigate unreconciled credits immediately to identify potential issues and also to remind them that there is a process available to reconcile out of date cheques.</p> <p><b><u>Risk</u></b>  <i>Failure to effectively review or deal with out of date cheques and old credit entries resulting in errors being made or potential frauds going unnoticed.</i></p>	<p>Strategic Resource Manager to send an e-mail reminder to schools highlighting why it is good practice to independently reconcile the accounts and investigate unreconciled credits immediately to identify potential issues and also to remind them that there is a process available to reconcile out of date cheques.</p> <p>Head teachers/BSMs to ensure process for reconciliation is completed on a monthly basis, as per the policy.</p>	Medium
			<b>Responsible Officer</b>
			Donna Adam
			<b>Risk Identifier</b>
			ED021
			<b>Action Date</b>
			31 January 2023

Ref	Findings & Risk	Agreed Action	Importance Level
3.3	<p><b><u>Bank Accounts</u></b></p> <p>The school fund account procedures section 1 – Introduction states: <i>“The bank account should be held with the Bank of Scotland to enable the monies to be uplifted by the cash uplift service (where applicable)”</i>.</p> <p>Section 5: Bank Account states: <i>“A single school fund account must be held with the same bank as the Council which is currently the Bank of Scotland to enable the school to use the cash uplift service (where appropriate)”</i>.</p> <p>A review of the school fund accounts found 15 schools currently hold their accounts with the Royal Bank of Scotland (RBS).</p> <p>It is acknowledged that due to the implementation of new systems such as iPayimpact and the increased use of online banking, the volume and value of cash transactions being processed in schools is relatively low and the need for cash uplift services is diminishing.</p> <p>The reasons for the accounts being held with the RBS, existing banking practices and the practicalities and potential disruption caused by requesting a school to change banks should be established. Once the information is available the banking arrangements for the schools with RBS accounts should be reviewed and a decision made on whether it is necessary for accounts to be held with the Bank of Scotland or whether the existing arrangement can be accepted.</p> <p>If the existing arrangements are to remain in place, the procedures should be updated accordingly.</p> <p><b><u>Risk</u></b>  <i>School fund accounts not held with the Council’s bank and schools are therefore not making use of any associated benefits.</i></p>	Strategic Resource Manager to revise School Fund Procedures as required – move to more online banking but schools can remain with RBS.	Low
			<b>Responsible Officer</b>
			Donna Adam
			<b>Risk Identifier</b>
			ED021
			<b>Action Date</b>
			31 January 2023

Ref	Findings & Risk	Agreed Action	Importance Level
3.4	<p><b><u>School Fund Accounts – Checklist for Verifiers / Auditors</u></b></p> <p>There is a school fund account checklist available to assist the independent verifier in confirming that the school is compliant with school fund procedures. It was found that two checklists were being used; dated February and August 2022 respectively.</p> <p>Whilst the only difference to the new checklist is a minor change of wording to the first requirement; which does not raise any issues in this instance; a reminder should be issued to schools to advise them to use the most up to date documentation at all times and old procedures should be destroyed and/or deleted immediately new versions are released.</p> <p><b><u>Risk</u></b>  <i>Out of date procedures may be followed leading to errors in the school fund accounting / banking process being made.</i></p>	Strategic Resource Manager to issue an e-mail reminder to schools to advise them to use the most up to date documentation at all times and old procedures should be destroyed and/or deleted immediately new versions are released. head teachers/BSMs to action following email reminder.	Low
			<b>Responsible Officer</b>
			Donna Adam
			<b>Risk Identifier</b>
			ED021
			<b>Action Date</b>
			31 January 2023

Ref	Findings & Risk	Agreed Action	Importance Level
3.5	<p><b><u>ABSM School Fund Compliance Return</u></b></p> <p>In March 2022 a survey was sent to ABSM's asking them to complete a return on their compliance and understanding of the school fund procedures. All the issues and training requirements raised from the surveys were recorded by the resource team.</p> <p>Training was delivered by the team as necessary, however other issues recorded e.g. the number of cheque signatories and e-mail approval for purchase card expenditure etc. were not specifically followed up to confirm they have been resolved, with the onus being on the schools to correct these issues.</p> <p>It is recommended this survey be repeated, based on the August 2022 procedures, to establish the up to date position and gauge improvement in compliance and the impact of all the training and messaging that has been completed during 2022.</p> <p><b><u>Risk</u></b>  <i>All areas of non-compliance may not have been resolved resulting in schools still not following the August 2022 procedures and leading to errors in the school fund accounting / banking process being made.</i></p>	<p>ABSM to re-issue training needs analysis survey/impact assessment.</p> <p>Resource team to collate and provide a summary position to Strategic Resource Manager of compliance improvements and further training requirements</p>	Medium
			<b>Responsible Officer</b>
			Fraser Thomson
			<b>Risk Identifier</b>
			ED021
			<b>Action Date</b>
			10 February 2023

Ref	Findings & Risk	Agreed Action	Importance Level
3.6	<p><b><u>School Fund Account Balance Thresholds</u></b></p> <p>The school fund account procedures section 6 – Operating the Account Income states:</p> <p><i>“If the accumulated sum of the School Fund/s exceeds £15,000 (primary)/£40,000 (secondary) at the end of the school fund year, this should be reported to the Headteacher/ABSM. This should be tracked on a monthly basis thereafter until the level of the account drops below the trigger value. Schools may achieve these figures as part of supported projects or residential ventures and it is important that the good practice in reporting supports Head Teachers in the audit process”.</i></p> <p>From the 2021 and 2022 annual return data it was noted there were 17 primary and six secondary schools and 22 primary and six secondary schools respectively with end of year balances above these threshold totals.</p> <p>We were advised that although the resource team liaises with the schools; by e-mail, phone call or in person; to confirm they are aware of the procedure requirement and the head teacher is monitoring the account balance; no records are kept to record this. It is acknowledged there may be valid reasons for the account balance to be over the thresholds.</p> <p>A reminder of the procedure requirement should be circulated to schools and if future contact is made by the resource team to discuss the threshold balance it should be recorded either by retaining the e-mail or making a note of any discussion on the annual return spreadsheet. If appropriate, this should be followed up to ensure the account balance is reduced as expected.</p> <p><b><u>Risk</u></b>  <i>Schools holding excessive balances may not be making effective use of school funds.</i></p>	Strategic Resource Manager to issue an e-mail reminder of the procedure requirement to schools and if future contact is made by the resource team to discuss the threshold balance it should be recorded either by retaining the e-mail or making a note of any discussion on the annual return spreadsheet. If appropriate, this should be followed up to ensure the account balance is reduced as expected after six months.	Medium
			<b>Responsible Officer</b>
			Fraser Thomson / Donna Adam
			<b>Risk Identifier</b>
			ED021
			<b>Action Date</b>
			31 January 2023

**APPENDIX A****DEFINITION OF AUDIT FINDINGS & AUDIT OPINION****AUDIT IMPORTANCE LEVELS**

Importance levels of '**High**', '**Medium**' or '**Low**' are allocated to each audit finding within the action plan.

These reflect the importance of audit findings to an effective system of internal control and must be considered in the context of the business processes being audited (Section 2 – Audit Remit).

**AUDIT OPINION**

Our overall opinion on the controls in place is based on the level of importance attached to the findings in our audit report. The overall audit opinions are as follows:

<b>Overall Opinion</b>	<b>Definition</b>
<b>EFFECTIVE</b>	No findings ranked as 'High' importance. There may be a few 'Low' and 'Medium' ranked findings.
<b>SATISFACTORY</b>	No findings ranked as 'High' importance however there are a moderate number of 'Low' and 'Medium' ranked findings.
<b>REQUIRES IMPROVEMENT</b>	A few findings ranked as 'High' importance. There may also be a number of findings ranked as 'Low' and 'Medium' importance.
<b>UNSOUND</b>	A considerable number of findings ranked as 'High' importance resulting in an unsound system of control. There may also be a number of findings ranked as 'Low' and 'Medium' importance.

**APPENDIX B****DETAILS OF ACTIONS IMPLEMENTED FOR REPORT FR2129**

Testing found that all of the actions from the CFT report FR2129 had been fully implemented and further details for are provided below:

**EDSCH21001: School Funds Banking and Cheques 1**

- school fund account procedures were reviewed; updated then cascaded to head teachers, ABSM, Resource Officers and school staff involved in administering school funds in August 2022;
- a working group, made up of staff from the Education Resource team and head teachers was set up to ensure the importance of the fraud issues raised in the CFT report were understood and the message cascaded to all staff involved with the school fund process;
- the head of service also delivered the counter fraud message to the head teacher executive;
- the annual presentation, delivered to all education staff on the first in service day of the new school session, includes a comprehensive section dedicated to raising fraud awareness that was prepared by the CFT;

**EDSCH21002 School Funds Banking and Cheques 2**

- administration staff that required training on the school fund process were identified and training sessions were delivered by the Education Services resource team;
- a catch-up training session was held in October 2022 to include new administration staff and those that had not received the original training;
- the resource team; made up of four officers; provides continued support to the school administrators and assists with queries and reconciliation issues;
- the team use a dedicated mailbox and Teams Space as communication channels; support is provided by e-mail, phone call or school visits as appropriate;
- access to school fund procedures and links to information and guidance on procurement, PECOS and purchase cards are available on the Teams Space page;

**EDSCH21003 School Funds Banking and Cheques 3**

- covered fully in 1.16 above

**EDSCH21004 Purchase Cards 1**

- an e-mail reminder in relation to the use of purchase cards and procedures was issued to head teachers and ABSM's on 30 November 2021;
- a working group has been set up with representatives from CPU; the strategic resource team; head teacher executive and ABSM's to discuss and find solutions to issues and questions raised by schools;
- Appendix 4 of the school fund procedure lists both key details on purchase card usage and the responsibilities of card holders and approvers;
- links to the purchase card procedures and procurement toolkit are also provided;
- a link to the purchase card cardholder, dual-role and approvers guides and procedures are available on the resource team Teams Space page;

**EDSCH21005 Purchase Cards 2**

- a monthly report is received listing all school purchase card transactions; the data is analysed to identify school spending patterns;
- the cumulative spend with suppliers is reviewed along with individual transactions when the supplier appears to be outwith purchase card remit i.e. IKEA furniture purchases or the total value is higher than £1,000;
- CPU analysed the data for quarter one 2022 to, where possible, identify purchases that should have been made via existing supplier contracts; the information is being

used to discuss proposals on how best to improve and simplify the purchase card process for schools;

#### EDSCH21006 Procurement 1

- bespoke training in relation to compliance with the procurement procedures and council standing orders was provided to the staff at the school impacted by the initial school fund fraud;
- the resource team provide continued support to the school administrator;

#### EDSCH21007 and EDSCH21008 Procurement 2 and 3

- the Corporate Procurement Manager attended an education working group to discuss procurement training modules and answer procurement specific questions,
- links to the procurement training modules, intranet pages, procurement toolkit, council standing orders for contracts and a FAQ's page were issued to all head teachers;
- the head of service emphasised the importance of following the procurement procedures to head teachers during a regular fortnightly head teacher briefing;
- as noted in EDSCH21004 above, a working group has been set up with CPU to discuss and find solutions to issues and questions raised by schools;
- a link to the procurement procedures is available on the resource team Teams Space page;
- a link to the procurement toolkit is also provided as an appendix to the school funds account procedures;
- the school budget holders are included in the CPU annual circulation e-mail that provides information and links to their training and procedures;

#### EDSCH21009 Code of Conduct

- Code of Conduct policy refreshers are delivered to all education staff on an annual basis on the first in service day of the new school session;
- the 2022 presentation was updated to include details of the six registers of interest listed within the policy;
- the head of service holds fortnightly briefings with head teachers to cascade updates and changes to policies and procedures; action notes are issued and were appropriate these messages are disseminated to staff.