



Denbighshire Internal Audit Services
Caledfryn, Smithfield Road, Denbigh LL16 3RJ

Management of Voluntary School Funds

May 2016



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Purpose & Scope of Review

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| | | officer case conference |
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We carried out this review to provide assurance on financial controls within the management of voluntary school funds for the Council's S151 Officer and the Head of Internal Audit's annual audit report.

Our review was aimed at identifying weaknesses that could lead to financial loss, error and/or fraud in an area where some other local authorities have experienced this in recent years.

Although our review included visits to 12 primary schools to hold discussions with their school fund administration staff, any actions taken to address the issues arising from our review will need to be brought to the attention of all Denbighshire schools.

Assurance Rating (Based on areas reviewed)

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|---|------------------|---|
| | High Assurance | Risks and controls well managed |
| | Medium Assurance | Risks identified but are containable at service level |
| ▶ | Low Assurance | Risks identified that require meeting with Corporate Director/Lead Member |
| | No Assurance | Significant risks identified that require member / |

Audit Opinion

School funds often provide schools with a substantial source of additional finance and, although the money is not classed as 'public', parents and other benefactors are entitled to the same standards of stewardship in their administration. Procedures and controls must be in place to protect the interests of the beneficiaries of the school fund (the pupils) and safeguard the position of those running it.

The responsibility for a school's voluntary school fund lies ultimately with the school's governing body; although, in practice, operational responsibility will typically be delegated to the Head Teacher. Governing Bodies must ensure that funds are used appropriately, in an open and transparent way, and for the benefit of pupils.

Our review found a significant number of weaknesses in the management and administration of school funds in the schools that we visited and we have come across similar weaknesses in most school funds where we have been appointed as the fund auditor.

There is also a lack of clarity around the roles and responsibilities of the

Education Support team, school finance managers and Internal Audit with regard to school funds to optimise governance and scrutiny of these funds. Although we have worked with Education Support to develop some guidance for schools, this has clearly not been effective in improving management of the funds and we found that it has not been launched effectively, as most schools we visited were not aware of it.

The full list of the weaknesses that we found is included in Appendix 1. We analysed these weaknesses using root cause analysis to identify why they are so many problems, as several link back to the same cause. We have listed these causes in the following Action Plan.

Given the importance of robust school fund management outlined above and the weaknesses that we have identified during our review detailed within our report below we can only provide 'low' assurance in this area.

Action Plan

Audit Review of: Management of Voluntary School Funds

Date: May 2016

| Corporate Risk/Issue Severity Key | |
|-----------------------------------|--|
| 0 | Critical - Significant CET and Cabinet intervention |
| 0 | Major - intervention by SLT and/or CET with Cabinet involvement |
| 8 | Moderate - Containable at service level. Senior management and SLT may need to be kept informed |

| Root Cause No. | Root Cause | Action | Who | When |
|----------------|---|---|--|--|
| 1. | Nobody is taking responsibility for looking into the extent to which schools must comply with the Council's Financial Regulations and making it clear in the Regulations how they apply to schools, including school funds. | Clarification to be sought from the Council's Head of Finance (S151 Officer). Once a position is confirmed this will be conveyed to schools and included in the new school fund guidance. | Education Support | September 2016 |
| 2. | Training and guidance for governing bodies does not explicitly cover their responsibilities for school fund governance. | During the training arranged for governors, Education Support to ensure inclusion of school funds as a specific item, with signposting to the new school fund guidance when available. This will also be raised as a potential element in the online training facilities provided to governors in North Wales. | Education Support | September 2016 |
| 3. | Nobody has taken responsibility for making a decision on how schools will be held to account for poor school fund management and made sure that it is included in the Scheme for Financing Schools. | <p>Research to be carried out into how other local authorities deal with this issue.</p> <p>Following the above, include relevant section in the Council's Scheme for Financing Schools.</p> <p>Develop and implement process for monitoring school fund management, in particular chasing up the non-return of school fund certificates.</p> | <p>Head of Internal Audit</p> <p>Education Support</p> <p>Head of Internal Audit and Education Support</p> | <p>May 2016</p> <p>September 2016</p> <p>From September 2016</p> |

| Root Cause No. | Root Cause | Action | Who | When |
|----------------|--|---|---|--|
| 4. | Nobody has designed a modern approach to holding the financial procedures documentation. | Education Support to investigate options for using Knowledge Hub for those managing school funds, with School Finance officers having oversight. This would provide a repository for relevant guidance and documentation as well as a discussion forum asking questions and sharing good practice. | Education Support | By 1 April 2017 |
| 5. | There was lack of consultation with potential users of the school fund guidance to understand their needs. | Consult with a 'pilot' group of school fund administration staff on what guidance is needed. Develop draft guidelines and issue to all schools for wider consultation. Consult with all schools on draft guidelines for remainder of financial year and issue final guidance for 2017/18. | Head of Internal Audit Services Head of Internal Audit Services Head of Internal Audit Services | January - May 2016 By 1 September 2016 By 1 April 2017 |
| 6. | Nobody has taken responsibility for arranging for key stakeholders to discuss their responsibilities concerning school funds. | To be included in the above action as part of consultation process. | Head of Internal Audit Services | By 1 September 2016 |
| 7. | Nobody has decided whether the Council requires confirmation from schools that they are paying school fund auditors in line with tax and NI requirements or whether the onus lies with the school as the 'employer'. | To be included in the above action as part of consultation process. | Head of Internal Audit Services | By 1 September 2016 |
| 8. | Nobody has taken responsibility for seeking professional advice on school fund charitable status from legal services. | To be included as part of action 5 above as part of consultation process. | Head of Internal Audit Services | By 1 September 2016 |

Appendix 1 - Main Outcomes of the Internal Audit Review

Root Cause 1 – Nobody is taking responsibility for looking into the extent to which schools must comply with the Council’s Financial Regulations and making it clear in the Regulations how they apply to schools, including school funds.

Underlying weakness – It is unclear whether schools have to comply with the Council’s Financial Regulations.

The Council’s Financial Regulations state that where decisions have been delegated or devolved to other responsible officers, such as school governors, references to the chief officer in the Regulations should be read as referring to them.

The section on unofficial funds also includes school funds as an example. While this suggests that the Regulations apply to schools, we have been unable to confirm this or establish under what powers.

Root Cause 2 – Training and guidance for governing bodies does not explicitly cover their responsibilities for school fund governance.

Underlying weakness – Some school governing bodies are not fulfilling their responsibilities regarding school funds as laid down in the Council’s Scheme for Financing Schools.

Under The School Funding (Wales) Regulations 2010, each local authority must have a Scheme for Financing Schools, which defines the financial relationship between the local authority and the schools in its area. The Council’s Scheme clearly states what the governing body role is concerning voluntary school funds, including ensuring that the school meets the requirements of the Council’s school fund guidance. Every governing body must ensure the safe and proper custody of any voluntary or private fund.

Underlying weakness – Information regarding school funds is not readily available for governors.

During our review it was apparent that there is little guidance and support provided to school governors on their role concerning school funds.

Consideration should be given to providing training and for all documents issued to governing bodies being held centrally, along with any supplementary documents e.g. Denbighshire Scheme for Financing Schools and the School Fund Guidance.

Root Cause 3 – Nobody has taken responsibility for making a decision on how schools will be held to account for poor school fund management and made sure that it is included in the Scheme for Financing Schools.

Underlying weakness – The Council’s Scheme for Financing Schools does not prescribe what action the Council will take if the requirements for school funds are not met.

Local authority schemes vary concerning voluntary school funds, particularly in how prescriptive they are. Given the amount of time that Internal Audit and Education Support have spent on the subject of school funds, consideration should be given to strengthening the Council’s Scheme of Financing Schools concerning school funds, e.g. the Powys County Council scheme requires governing bodies to be provided with termly school fund updates, which is good practice.

It also states that where schools do not provide a school fund audit certificate, following a warning from the local authority, the local authority will appoint an auditor on the school’s behalf and charge all costs to the school. This may solve the regular problem that Internal Audit has in obtaining audit certificates for some schools.

Underlying weakness – A significant number of schools are not sending their school fund audit certificates promptly to Internal Audit as required.

All school funds should be audited within three months of the end of the financial year and a copy of the audit certificate sent to Internal Audit by 31 October of that year. Historically, there have been several schools not providing certificates within the timescale and some that we have had no success in chasing up.

Root Cause 4 – Nobody has designed a modern approach to holding the financial procedures documentation.

Underlying weakness – It is proving difficult for Education Support to maintain an up to date financial procedures document for schools.

The amount of time it is taking to produce an up to date Financial Planning and Procedures Manual for Schools suggests that this is not an easy task. Given that Education Support has now produced separate guidance regarding school funds and that a lot of the regulations are picked up in the Scheme for Financing Schools, having a separate Financial Planning and Procedures Manual increases the risk of these documents not being consistent.

In addition, the fact that Internal Audit has identified issues with school funds for several years suggests that this method of providing guidance has not been completely effective.

Since this is an invaluable resource for everyone involved in financial processes and procedures in schools, including school funds, it is vital that this information is available and kept up to date. Rather than provide this information in one document, consideration should be given to developing a repository of separate financial procedure documents, which cross-reference to each other and are easier to keep up to date

Root Cause 5 – There was lack of consultation with potential users of the school fund guidance to understand their needs.

Underlying weakness – Further work is required to ensure that the Guidance for Operating School Funds provides sufficient information to address the issues that Internal Audit and others have identified.

Given the lack of controls that we have found in school funds over several years, it is apparent that issuing guidance on a one-off basis is not effective in ensuring that schools implement and embed procedures and controls.

Also, the guidance was intended as an overview of ‘dos and don’ts’ for school fund administrators, but it has become clear that this, in itself, is not enough, and more detailed procedural guidance is needed.

Underlying weakness – Schools do not have clear guidance on what their school fund can be used for.

During our review, we identified several items of school fund expenditure that could be considered as inappropriate. Consideration should be given to governing bodies producing a school fund constitution specifying what the school fund can and cannot be used for.

Some schools have a significant amount of money in their school fund, but not all have plans in place for these funds.

Underlying weakness – Schools need to be aware of the Financial Services Compensation Scheme that provides compensation up to a specific value if the financial institution they bank with fails.

The Financial Services Compensation scheme is in place to protect investors if the financial institution where they hold their accounts fails. The maximum protection limit is £75k.

One school has a school fund balance that is significantly higher than this, so risks losing a significant sum of money if the financial institution fails. There are also a few schools with balances approaching £75k, which may at times exceed this limit.

Underlying weakness – Internal Audit has not received final audit certificates for any of the schools that have closed or amalgamated in the last five years.

Several schools have amalgamated over the last few years and their school funds should have been ‘closed off’ when amalgamating and transferred to one new school fund; however, Internal Audit has not received final audit certificates for any of these schools or for the two schools that have closed in the last five years. Instructions should be issued to all schools due to close and/or amalgamate explaining what action should be taken regarding the school funds, including the audit requirement.

Underlying weakness – VAT advice regarding school funds is not included in the Guidance for Operating School Funds.

The Draft Schools Financial Planning and Procedure Manual includes guidance on VAT for ‘unofficial funds’ such as school funds. This guidance has been taken from the Council’s VAT manual. Our review identified that most schools are not aware of the above guidance. Without a detailed examination of individual school fund income and expenditure activity, we are unable to confirm whether any funds should be registered for VAT.

It is crucial that governing bodies are aware of VAT registration requirements to avoid penalty charges. In the current economic climate, it is also in the best interests of every school to reduce the amount of VAT it has to pay on school fund purchases by donating the net value of the desired purchase to the school, where permitted, and ordering and paying for the goods via Accounts Payable.

Underlying weakness – Schools are not running Parent Pay reports to confirm that all monies received by the school and manually input onto Parent Pay have been banked in full.

ParentPay provides an on-line payment system to reduce the levels of cash transactions. Monies received at schools for events and/or activities set up on ParentPay are manually entered on the relevant ParentPay account by administration support and then banked. None of the schools we visited were aware of a report that they can be run from ParentPay to reconcile income manually input by the school against the banking records.

Underlying weakness – Schools are not running Parent Pay collection service statements to establish the breakdown of payments received for school fund income and expenditure analysis and reporting.

All the schools we visited were recording the amounts received from ParentPay (as per their bank statements) as one amount on the school fund records. For openness and transparency, transaction charges should be recorded and reported separately. None of the schools were aware of a report that they can run from ParentPay that gives a breakdown of the income received or knew how the transaction fees were paid and collected.

Underlying weakness – Several schools have only two signatories for the voluntary school fund account. This does not allow for one of the signatories being unavailable and increases the temptation to pre-sign blank cheques.

Several schools have only two signatories to their school fund bank account. It is good practice for schools to have at least three signatories for the account. This helps to prevent delays in signing cheques and reduces the temptation for people to pre-sign cheques if they will not be available to sign them later. It also helps to avoid conflicts of interest where a cheque payee is actually one of the signatories, so that they are not signing cheques made payable to themselves.

Underlying weakness – Some schools lack a clear distinction between their parent/teacher association (PTA), ‘friends’ activities and accounts and school fund activities and accounts.

All the schools we visited had PTA or ‘friends of the school’ accounts as well as voluntary school funds. While most schools operate these completely separately to the school fund, some operate them within the school fund, which they should not. Although we acknowledge that school administration staff may manage both types of accounts, they should ensure that there is clear separation between the different accounts and activities.

Underlying weakness – Several schools have other groups and/or clubs operating on site, some run in-house and others run by external providers. These should be administered and audited appropriately.

All the schools we visited during our review have a breakfast club, some run by the school and others run by external providers. Most are administered completely separately from the school or via the delegated budget, but some are run through the school fund, which they should not be.

Several of the schools we visited advised us that they have other groups and/or clubs operating in the school. External providers deliver and administer most of these, but some are delivered and administered by the school and these require the same stewardship as school funds.

As above, although we acknowledge that school administration staff may administer the finance of these groups and/or clubs, they should ensure that there is clear separation between the different accounts and activities.

Although not required by law, it is good practice for governing bodies to be presented with audited accounts for its PTA / 'friends of' activities.

Underlying weakness – The type and standard of school fund accounts vary greatly from one school to another.

Some of the schools that we visited during our review keep manual school fund records, some use spreadsheets and one uses specific software. The spreadsheets used also vary in quality from one school to another - some are quite simple, while others are much more comprehensive.

Ideally, all schools (other than those that are already using a software package that provides them with all the information and controls needed) should be provided with a spreadsheet that is as easy to use as possible, but one that provides for bank reconciliations; income and expenditure categorisation; petty cash transactions; and reports.

Some schools have already got such spreadsheets in place, but are either not using them correctly, or not using them to their full potential.

Underlying weakness – Most school funds are administered by just one member of staff. This increases the risk of error and/or fraud. Someone should carry out independent checks of the school fund records on a regular basis.

Only one of the schools that we visited during our review has some form of independent check of the school fund. All the others are managed by one member of staff within the school. It is good practice to have at least a regular, preferably monthly, reconciliation of the accounts by a second person to ensure that all monies are accounted for.

Overall, school finance managers have very little involvement in monitoring of school funds. Given the quality of the record keeping that we found during our review, the role of finance managers should be reviewed so that their financial expertise can be used proactively to improve school fund management.

Underlying weakness – In some schools, the transfer of income from one person to another is not signed for as evidence of transfer. This increases the risk of income going missing and fails to protect those involved.

Only two of the schools that we visited have arrangements in place to record the transfer of income from one person to another. Although this may seem to be a bureaucratic process, it does provide evidence if cash goes missing at any stage before banking, so provides protection for members of staff handling cash.

Underlying weakness – Source documents, such as income collection sheets for trips, are not always provided with the school fund accounts when passed to the school fund auditor.

Some schools use collection sheets when recording income for trips etc. As these provide evidence of income collected, they should be provided with the school fund accounts when sent for audit.

Underlying weakness – Most schools do not reconcile their school fund balance account(s) against bank statements, except at year-end.

Regular, preferably monthly, reconciliations should be carried out between the accounting records and bank statements, and these should be independently reviewed. Only five of the schools that we visited during our review carry out any form of in-year reconciliation. Others leave it until the year-end, which makes it a more difficult task if there are errors to trace and fails to identify any anomalies and/or misappropriation promptly.

Underlying weakness – Several school funds contain income belonging to the delegated budget.

All income paid into the school fund that belongs to the school's delegated budget should be fully transferred over to the budget promptly so that funds are properly accounted for and the school's budget is accurately portrayed.

Underlying weakness – Some schools are using school funds for delegated budget expenditure as they find it easier to purchase some items using the school fund.

Sometimes, schools find it more convenient to make purchases relating to their delegated budget through the school fund. If they do this, they should reimburse the school fund from the delegated budget promptly so that funds are properly accounted for and the school's budget is accurately portrayed. Using the school fund for delegated budget expenditure can also have VAT implications that could result in added costs to the delegated budget.

Consideration should be given to extending the use of cluster credit cards to all schools to alleviate this problem.

Underlying weakness – Schools are retaining school fund records for longer than the required period.

Most of the schools that we visited during our review have school fund records going back further than six years, which is not necessary under normal retention rules for financial records, which is six years plus the current year. Most schools were unaware of the suggested retention period.

Consideration should be given to using the Council's archives to free up valuable space in schools, provide greater protection for the financial records, and ensure that surplus records are disposed of promptly and securely.

Underlying weakness – Items sold in schools to raise money for the school fund e.g. school uniforms, water bottles, are not held securely, stock records are not maintained and no stock checks are carried out to prevent and detect loss.

Most of the schools that we visited during our review sell items to pupils to raise money for their voluntary school funds. Although the stock value of these is not significant in most cases, some schools informed us that they have a large turnover.

Most schools do not hold these stock items securely, e.g. they are in open boxes in unlocked areas and there is no reconciliation to ensure that all stock is accounted for.

Root Cause 6 – Nobody has taken responsibility for arranging for key stakeholders to discuss their responsibilities concerning school funds.

Underlying weakness – The roles and responsibilities of Education Support, school finance managers and Internal Audit concerning school funds is not clearly defined.

Over the years, it has been unclear where responsibilities lie for advising schools on operating school funds, chasing outstanding school fund certificates, monitoring of school funds etc. This lack of clarity has not helped in managing and improving school fund administration and needs to be addressed to ensure that schools implement and embed the improvements arising from our review.

Underlying weakness – There is no formal record of the school fund accounts held in each school, several of which have more than one account. This increases the risk of financial misappropriation.

While some schools have only one bank account for their school funds, several have more than one account. The current school fund guidance states that Head Teachers should keep a record of all bank accounts but this does not happen in practice.

Underlying weakness – Most schools have not received the Voluntary School Fund Guidance, which Education Support sent to all Business and Finance Managers in February 2014.

We understand that the Voluntary School Fund Guidance was issued to Business and Finance Managers in November 2014; however, the majority of the schools visited during our review said that they had not seen the guidance document.

Root Cause 7 – Nobody has decided whether the Council requires confirmation from schools that they are paying school fund auditors in line with tax and NI requirements or whether the onus lies with the school as the ‘employer’.

Underlying weakness – We are unable to confirm whether payments for school fund audits are being made in line with tax and NI requirements.

Our review highlighted that some schools pay their school fund auditors directly from the school fund but these people should be set up as employees of the school and paid through the Council’s payroll unless they are registered as trading / self-employed. Payments to anyone not registered, should be subject to tax and NI, where applicable.

Root Cause 8 – Nobody has taken responsibility for seeking professional advice on school fund charitable status from legal services.

Underlying weakness – Legal advice is required to confirm whether school funds are classed as charities and what income is included in the Charity Commission threshold.

Voluntary school funds need to be registered with the Charity Commission if their gross annual income exceeds £5k and they operate for exclusively charitable purposes. Despite our extensive research, we are unable to confirm categorically whether voluntary school funds (as we refer to them) are classed legally as a charity.

We have not identified any school funds that are registered with the Charity Commission, other than PTA, ‘friends’, playgroups and church schools.

This does not mean that school funds are not classed as a charity; it may just mean that their gross annual income does not exceed £5k but, without a detailed examination of individual school fund income and expenditure activity, we are unable to confirm whether any exceed the Charity Commission threshold.

Report Recipients

- Education Resources & Support Manager
- School Funding Manager
- Principal Education Managers (x2)
- Head of Education & Children's Services
- Corporate Director: Communities
- Head of Finance
- Scrutiny Co-ordinator
- Lead Officer, Destination, Marketing & Communication
- Lead Member for Education
- Chair – Performance Scrutiny Committee
- Lead Member for Finance, Corporate Plan & Performance
- Corporate Governance Committee

Key Dates

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| Review commenced | June 2015 |
| Review completed | April 2016 |
| Reported to Corporate Governance Committee | 15 June 2016 |
| Proposed date for 1st follow up review | To be agreed with Corporate Governance Committee |