KEEPING YOUR BALANCE

Standards for financial administration in schools
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This document highlights the main components of a sound approach to financial control within schools. The main purpose of the document is to outline the general standards of good practice on which auditors and inspectors base their evaluation of financial administration in schools.

The document also provides schools with a framework to evaluate the strengths of their financial administration and identify any shortcomings.

The principles of sound financial management, summarised here under twelve key areas, are the same in all types of schools. However, the way in which these principles are implemented depends on:

**the size and organisation of each school**

- a small primary school would find it impractical to apply some controls which may be standard procedures in a large secondary school.

**the specific financial regulations and guidance with which a school must comply**

- county and voluntary maintained schools are required to ensure that their financial arrangements comply with the financial regulations, standing orders and schemes for the local management of schools issued by each local education authority (LEA).

- grant maintained schools must comply with the management and audit requirements of the so called "Rainbow Pack" issued by the Department for Education (DFE).

For these reasons some controls may be provided in different schools by means other than those suggested here.

These standards do not override financial regulations, the Rainbow Pack or any associated guidance. They have been written primarily as an instrument to assist the evaluation of financial administration in any school. Auditors will have regard for the regulations which apply to a specific school. Inspectors will take as part of their evidence the most recent audit report.

Governors have a statutory responsibility for the oversight of financial management in all maintained schools with delegated budgets. Throughout this document, the use of the terms "governing body", "governor", "headteacher" and "school" is not intended to imply a particular division of responsibilities. In grant maintained schools the "responsible officer" will in practice manage many of the functions outlined in this document. Guidance on the role of governors is available in the publication "School Governors: A Guide to the Law" available from the Department for Education.

"Standards for Financial Administration in Schools" has been prepared jointly by the Office for Standards in Education and the Audit Commission. Both organisations have a remit to review schools’ financial administration although in the case of the Audit Commission that remit covers only local authority maintained schools. In order that only one set of standards be issued to schools, the Office for Standards in Education and the Audit Commission are issuing this document jointly. Primarily it is for use by auditors and inspectors as described in the following section. Together with a self-reporting questionnaire for schools (Appendix) it forms part of the inspection documentation of Her Majesty's Chief Inspector of Schools.
Audit and inspection

AUDIT ARRANGEMENTS

The requirement for there to be an audit of locally managed schools is set out in the Education Reform Act 1988 and Department of Education and Science Circular 7/88. These state that the accounts of schools with delegated budgets will be expected to be subject to regular internal audit and to be available for inspection as necessary by local education authorities’ (LEAs’) external auditors. Internal auditors review the management of schools’ finances on behalf of local authorities. Local authority external auditors are appointed by the Audit Commission whose remit is to ensure that financial safeguards are in place and that value for money is provided. External auditors’ role is to assess the legality and regularity of financial affairs and to ensure that authorities have made proper arrangements to secure value for money.

Grant maintained schools are required to appoint external auditors upon incorporation. The auditors will carry out a survey of financial systems in the first term and follow the audit code set out by the DEE.

One of auditors’ roles is to assess the adequacy of schools’ stewardship of public funds. Accordingly, the school should expect auditors to review its arrangements for financial control. However, auditors also have wide ranging experience in financial management and the achievement of value for money. The school can take advantage of that expertise by asking for advice in any areas of financial management where it requires assistance.

AUDIT REQUIREMENTS

1. The school should give internal and external auditors access, for the purposes of audit, to such premises, documents and assets as the auditors consider necessary.

2. The governing body and school staff should provide auditors with any explanations they consider necessary.

3. The headteacher should consider and respond promptly to recommendations in audit reports and report to the governing body on the results of audits and any action to be taken by the school.

4. The headteacher should immediately notify the auditors of any suspected irregularity.

INSPECTION ARRANGEMENTS

The Education (Schools) Act 1992 requires the “efficiency with which the financial resources made available to schools are managed” to be inspected under the arrangements set out in the Framework for Inspection of Schools by Her Majesty’s Chief Inspector.

The efficiency of the school will be judged in terms of:

- the quality of financial management
- the soundness of financial decisions
- the efficiency and effectiveness with which resources are deployed to achieve the school’s aims and objectives and to match its priorities
- the efficiency of financial control, and
- the assessment of any steps taken by the school to evaluate its cost-effectiveness.

Judgements about the efficiency of financial control will take into account the arrangements made by the school to follow-up any recommendations in the most recent auditor’s report and a completed self-reporting questionnaire (Appendix) which will be sent to schools prior to the inspection. Inspectors will be concerned particularly with the standards relating to “organisation of responsibility and accountability” and “budgets”.

However, the main areas included in the efficiency section of school inspection reports are concerned with the strategic management of resources and the value for money obtained from their use.

INSPECTION REQUIREMENTS

1. Registered inspectors or members of their inspection teams should have access, for the purposes of the inspection, to such documents and information as they require. The key documents are listed in “The Framework for the Inspection of Schools”.

2. The governing body and the headteacher should consider and respond appropriately to any recommendations made by inspectors.

3. The headteacher should notify the school’s auditor of any suspected irregularity and inform the registered inspector where this has occurred.
Summary of the Standards

The key standards of financial administration are set out below. Each aspect is then described in greater detail in the remainder of this document.

1. The responsibilities of the governing body, its committees, the headteacher and staff should be clearly defined and limits of delegated authority established.

2. The budget should reflect the school’s prioritised educational objectives, seek to achieve value for money and be subject to regular, effective monitoring.

3. The school should establish sound internal financial controls to ensure the reliability and accuracy of its financial transactions.

4. The school should be adequately insured against exposure to risks.

5. If the school uses computers for administrative purposes, it should be registered under the Data Protection Act 1984. All data should be protected against loss.

6. The school should ensure that purchasing arrangements achieve the best value for money.

7. There should be efficient procedures for the administration of personnel matters including the payroll where this applies.

8. Stocks, stores and other assets should be recorded, and adequately safeguarded against loss or theft.

9. All income due to the school should be identified and all collections should be receipted, recorded and banked promptly.

10. The school should properly control the operation of bank accounts and reconcile bank balances with the accounting records.

11. The school should control the use of petty cash.

12. School voluntary funds should be administered as rigorously as public funds.
I. Organisation of responsibility and accountability

WHY IS THIS AREA IMPORTANT?

Schools should define the responsibilities of each person involved in the administration of school finances to avoid the duplication or omission of functions and provide a framework of accountability for governors and staff.

THE STANDARDS

1.1 The roles of the governing body, its committees, the headteacher and other staff should be defined in writing. This should include stating the respective responsibilities of the governing body and staff.

1.2 The governing body should establish limits of delegated authority and channels of reporting to the governing body and any subsidiary financial committee should be clearly defined and properly used.

1.3 The governing body should establish a register of pecuniary interests for the governors and staff which should be open to inspection. For example, governors and staff should declare any links they have with local firms from which the school may wish to buy goods or services. It is important for anyone involved in spending public money to demonstrate that they do not benefit personally from decisions that they make.

1.4 The headteacher, or responsible officer in grant maintained schools, is responsible to the governing body for ensuring that sound systems of internal control are in place that enable the proper processing of the school's transactions and activities (see section 3 - Internal financial control).

1.5 The headteacher is responsible to the governing body for ensuring that LEA financial regulations or standing orders or DFE financial requirements as appropriate are implemented.
2. Budgets

WHY IS THIS AREA IMPORTANT?

The budget has a controlling influence over the whole cycle of school affairs. Budgetary control is a continuous process in which the school reviews and adjusts budgetary targets during the financial year. It also provides a mechanism to call budget holders to account. The process of allocating the budget should not simply be an incremental process from one year to the next but should reflect, in monetary terms, the school's aims and objectives within the available resources. As the school development plan may lead to changes in priorities for expenditure in successive years, the emphasis should be on the objectives that the school wants to achieve rather than on the monetary inputs. Otherwise the governing body will be unable to assess whether requests for expenditure are warranted and in line with overall objectives and whether value for money is being obtained from the budget.

THE STANDARDS

2.1 The school should have a written statement of its aims and objectives in sufficient detail to provide the basis for constructing budget plans.

2.2 The school should have a medium term educational and budget plan (covering at least three years) indicating the intended use of resources in achieving its educational goals. Even though the funding available to each school will change annually, the school development plan should outline which areas are the priority for spending and why.

2.3 The governing body should establish formal procedures and timetables for planning the budget to ensure that all relevant factors are considered.

2.4 The headteacher should prepare estimates of expenditure and income sufficiently in advance of each financial year to allow for consideration and approval by the governing body. Even if details of the school's funding have not been finalised, it is important that the governing body considers spending priorities in the light of an estimated or indicative budget. There should be a clear, identifiable link between the school's annual budget and its school development plan.

2.5 The governing body should ensure that planned expenditure for each financial year does not exceed the available budget, as adjusted for surpluses from previous years, income receivable, provisions for pay or price increases and other contingencies.

2.6 The headteacher should promptly forward details of the approved budget and any subsequent budget changes to the LEA or DFE as required.

2.7 The headteacher should profile the budget and forecast cash flow to take account of likely spending patterns. For example, it is likely that the energy budget would be profiled to account for higher energy consumption in the winter months.

2.8 The headteacher should provide regular reports to the governing body on spending, including sums committed but not yet paid, against the approved budget. For LEA maintained schools this should be reconciled to the LEA accounting records.

2.9 If elements of the budget are delegated to departmental or class level, the headteacher should ensure that responsibility for financial control matches the managerial accountability for the use of resources. Budget managers should be accountable only for items of expenditure and income they can directly control.

2.10 Budget managers should receive and review regular reports comparing the amount spent or committed to date against their budgets. The results of the reviews should be recorded and communicated to the headteacher with details of any significant variations. The headteacher should assess the adequacy of such reviews and any proposed action to deal with variations.
2.11 The governing body should monitor the amount of each budget allocation in the light of known activity. Where it appears that areas of the budget may be over or under spent the school may wish to transfer funds from one area of the budget to another. This process is called virement. The governing body should ensure that virements assist in achieving the school’s overall aims and objectives.

2.12 The headteacher and the governing body should assess progress against the objectives in the development plan at least once a year.

2.13 The headteacher should periodically consult the governing body and staff to ensure that the financial and management information they receive is relevant, timely, reliable and understandable.

2.14 The headteacher should report to the governing body any proposal for policy changes which significantly affects the expenditure or income budgets. The report should highlight current and future year costs or income for consideration alongside the school’s development plan.

2.15 A LEA maintained school should not incur any expenditure of a capital nature over a predetermined sum without the written approval of the LEA. This includes any leasing of equipment which gives rise to a capital charge against the LEA. Similarly, voluntary maintained schools should obtain approval from the appropriate body.
3. Internal financial control

WHY IS THIS AREA IMPORTANT?

Schools have many systems for processing and recording transactions. Examples may include purchasing, payroll and income collection systems. Governors and headteachers will need to rely on the information provided by these systems to inform their decisions. Accordingly, this information should be as accurate as possible.

By building controls (known as internal financial controls) into systems, schools should be confident that transactions will be properly processed or that errors will be detected promptly. Examples of such controls are:

- **Internal check** - the checking of one person's work by another
- **Separation of duties** - distributing duties to ensure that key tasks are assigned to separate members of staff
- **Systems manuals** - descriptions of how systems should operate
- **Authorisations** - the certification that a transaction or event is acceptable for further processing e.g. authorising an invoice for payment.

The concept of internal financial control applies to small and large schools. Although small schools may have fewer hours of administrative support, there are likely to be fewer transactions, so that less staff time is required. In schools with only one administrative officer, it is likely that the headteacher or the deputy will need to exercise some internal checks and authorise transactions.

THE STANDARDS

3.1 The governing body is responsible for ensuring that the duties of staff concerned with financial transactions are, as far as is practicable, distributed so that at least two people are involved with both receipts and payments. The work of one person should act as a check on the work of the other. All such checks should be documented as having been carried out.

3.2 The governing body should ensure that there are written descriptions of financial systems and procedures which are kept up to date. All appropriate staff should be trained in their use.

3.3 The headteacher should ensure that financial control is maintained in the absence of key staff by training or by arranging for staff to shadow each others' duties from time to time.

3.4 The duty of calculating, checking and recording money due to or from the school should as far as possible be separated from the duty of collecting or paying out money.

3.5 Alterations to any original documents such as cheques, invoices, orders and other vouchers should be made clearly in ink or other permanent form. The use of correcting fluid or the erasure of information is not acceptable.

3.6 The school should properly maintain accounting records and hold them securely. Vouchers or other documents relating to the financial transactions of the school should not be destroyed except in accordance with arrangements specified by the LEA or DFE. The school should consult the LEA or DFE regarding the recommended retention period for documents. Documents should not be destroyed before the completion of the audit of the accounts by the external auditors for the financial year concerned.

3.7 All financial transactions should be traceable from the original documentation to the accounting records and vice versa. For example, it should be possible to trace a cheque to the expenditure in the accounts, to the invoice and to the copy order. Equally it should be possible to perform the same exercise in reverse.

3.8 Only authorised staff should be permitted access to the accounting records which should be securely retained when not in use.
4. Insurance

WHY IS THIS AREA IMPORTANT?

All schools have risks against which they should be protected by insurance. Such risks may include third party liability, property, money, personal accident, motor vehicles and fidelity guarantee (to cover the loss of assets due to fraud or dishonesty on the part of employees). It is important that schools review their exposure to such risks to ensure that cover remains adequate.

THE STANDARDS

4.1 The headteacher of a LEA maintained school should liaise with the LEA or their agent to effect and review insurance arrangements. All risks should be reviewed annually to ensure that sums insured are commensurate with risks. A grant maintained school should cover the risks required by the DFE and should review risks annually to ensure that sums insured are adequate.

4.2 The governing body of a county or voluntary maintained school should consider whether or not to insure risks not covered by the LEA or voluntary body. The cost of premiums should be met from the school’s delegated budget.

4.3 The school should notify its insurers, the LEA or their agent as appropriate, of all new risks, property, equipment and vehicles which require insurance or any other alteration affecting existing insurances.

4.4 Schools should not give any indemnity to a third party without the written consent of their insurers, the LEA, the DFE or their agents.

4.5 The school should immediately inform its insurers, the LEA or their agent of all accidents, losses and other incidents which may give rise to an insurance claim.

4.6 Insurance arrangements should cover the use of school property, e.g. musical instruments or computers, when off the premises.
5. Computer systems

WHY IS THIS AREA IMPORTANT?

Increasingly, schools are reliant on computers to process and record financial and other management data efficiently. Accordingly, it is important that such information is properly protected and backed-up and that access is restricted only to authorised users. Further, the use of computer systems in schools, particularly for administrative purposes, requires the registration of governing bodies and headteachers under the Data Protection Act 1984. The Act imposes requirements of openness and good practice on computer users. It sets up a public register of data users who hold personal data and requires them to comply with the code of practice incorporated in the Act, known as the Data Protection Principles. LEA maintained schools should determine whether they need to register independently or are covered under their LEA’s data protection registration.

THE STANDARDS

5.1 Where a school has a computer-based management system it should ensure that it is registered in accordance with the Data Protection Act 1984.

5.2 The headteacher should ensure that there are effective back-up procedures. All back-up disks, tapes etc. should be securely retained in a fireproof location, preferably off site. The school should also have a disaster recovery plan in the event of loss of accounting facilities or financial data.

5.3 Only authorised staff should have access to computer hardware and software used for school management. Passwords should not be disclosed and should be changed regularly. Only authorised software should be used in order to prevent viruses being imported.
6. Purchasing

WHY IS THIS AREA IMPORTANT?

Schools will want to achieve best value for money from all of their purchases. Value for money in this context means getting what is needed in the correct quality, quantity and time at the best price possible. Although price is not always the overriding factor in deciding which supplier to use it is an important one. There are various ways of establishing whether the prices being obtained are competitive. Consulting the LEA supplies department, checking trade journals and catalogues and seeking quotations or formal tenders are all examples of good practice. This section highlights the procedures schools should adopt in testing the market. It also covers the placing of orders and paying for goods and services.

THE STANDARDS

Value for money

6.1 The governing body should ensure that the school obtains best value for money from any purchases by testing the market before the school is committed to any expenditure.

6.2 The governing body should establish procedures for obtaining quotations where the estimated value of a purchase exceeds a predetermined sum. Generally, the school should obtain three written quotations unless it is impracticable to do so. In such circumstances, the reasons for not doing so should be reported to the governing body and recorded in the minutes of the meeting.

6.3 The governing body should specify a sum above which all quotations should be reviewed by it.

6.4 If a quotation other than the lowest is accepted this should be reported to the governing body and the reasons for the decision should be recorded in the minutes of the meeting.

6.5 The governing body should establish a policy for putting all purchases estimated to exceed a predetermined amount out to tender. For example, the policy should cover:

- advertisement of tenders
- compliance with EEC regulations
- the procedures for the submission, receipt, opening and recording of tenders
- the circumstances when financial or technical evaluation is necessary
- acceptance of tenders
- the form of contract documentation
- cancellation clauses in cases involving corruption or bribery

Orders for goods and services

6.6 Written, pre-numbered orders should be used for all goods and services except utilities (e.g. water, electricity, gas.), rents, rates and petty cash payments. Where urgency requires a verbal order, this should be followed up by a written confirmatory order.

6.7 Only official order forms should be used. They should be securely retained when not in use.

6.8 Orders should be used only for goods and services provided to the school. Individuals must not use official orders to obtain goods and services for their private use.

6.9 Order forms should be properly completed and ruled off below the last item or service ordered so as to prevent alteration. Copy orders should be securely retained in order.

6.10 Only staff approved by the governing body should certify orders. Ideally such staff should be budget holders and the school should maintain a list of them.
6.11 The signatory of the order should be satisfied that the goods or services ordered are appropriate and needed, that there is adequate budgetary provision and that quotes or tenders have been obtained if necessary.

6.12 To enhance budgetary control and cash flow planning, the school should establish a system which enables accurate identification of expenditure already committed i.e. orders placed for which payments have yet to be made. Upon placing an order, the estimated cost should be committed against the appropriate budget allocation so that it features in subsequent budget monitoring.

Payment of accounts

6.13 The school should check goods and services upon receipt to ensure that they are in accordance with the order. Ideally this check should be carried out by someone other than the person who signed the order and be recorded on the order, delivery note and the invoice as having been done.

6.14 Payment should not be made unless a proper invoice has been received, checked, coded and certified for payment confirming, for example:

- receipt of goods or services, cross-referenced to the order number
- expenditure has been properly incurred and that payment has not already been made
- prices accord with quotations, tenders, contracts or catalogue prices and arithmetic is correct
- correct accounting treatment of VAT
- the invoice is correctly coded
- that copy orders and inventories have been properly endorsed
- discounts where available have been taken.

6.15 An approved member of staff who, wherever possible, should be neither the person who signed the order nor the person who checked the receipt of goods or services, should certify invoices.

6.16 The school should maintain a list of staff authorised to sign invoices. Where payments are made by the LEA on behalf of the school, the names of authorising officers together with specimen signatures should be forwarded to the LEA.

6.17 All paid invoices should be marked "Paid" and with the cheque number and stored securely in order.

6.18 The school should not make any payment on a photocopied invoice or a statement from a supplier.

TERMINOLOGY

**Quotations** - getting competitive quotations or estimates involves the school asking several suppliers to provide a written quotation of how much they would charge for the goods or services required.

**Tender** - means a formal written offer, in a form common to all tenderers, on the basis of a detailed description or specification of the goods or services required.

Where payment is to be received by the school, references to the lowest tender should be read as references to the highest offer.
7. Personnel

WHY IS THIS AREA IMPORTANT?

In most schools the largest item of expenditure is the cost of staff although the majority of schools do not administer their own payroll. Generally, the LEA or a bureau will provide this function. However, contracting another organisation to administer payroll does not relieve the governing body and the headteacher of the responsibility for ensuring:

- payments are made only to bona-fide employees
- payments are in accordance with individuals’ conditions of employment
- payments are made only in respect of services provided to the school
- deductions, including income tax and national insurance, are properly administered
- amendments to the payroll are promptly and properly processed.

THE STANDARDS

7.1 The governing body should establish procedures for the administration of personnel activities including appointments, terminations and promotions.

7.2 The headteacher should ensure that the processes of completing, checking, and authorising all documents and claims related to appointments, terminations of employment and expenses are not the sole responsibility of one person. Where the payroll is administered by the LEA or a bureau, the school should send them names and specimen signatures of certifying officers.

7.3 The headteacher should ensure that, where practicable, the duties of authorising appointments, making changes to individuals’ conditions or terminating the employment of staff are separated from the duties of processing claims.

7.4 The school should retain personnel records securely and administer those records held on computer files in accordance with the provisions of the Data Protection Act 1984.

7.5 Payroll transactions should be processed only through the payroll system.

7.6 The headteacher should obtain regular, e.g. termly, reports on the content of payroll master files and check them against the school’s documentation to ensure that they match.
8. The security of stocks and other property

WHY IS THIS AREA IMPORTANT?

Schools often have attractive and portable items of materials and equipment ranging from library books to computers and videos. These assets should be kept under proper control. Headteachers should make arrangements to identify the items as school property, to record the location of the assets and to insure them for off-site use where necessary.

Most schools also carry stocks, mainly of the kind which are in constant use such as stationery, cleaning materials and sports equipment. Generally, they are consumable items and the costs are charged to the various budget allocations as each purchase is made. Often stock records are not maintained and therefore schools should keep a close watch on the quantities ordered and the frequency of ordering. They should ensure that stocks are adequately safeguarded and in the charge of a responsible member of staff.

THE STANDARDS

8.1 The headteacher is responsible to the governing body for the safe custody and control of cash and other property belonging to the school.

8.2 The headteacher should ensure that stocks are maintained at reasonable levels and subject to a regular, independent physical check.

8.3 Inventories should be maintained of all attractive or portable items e.g. videos, cameras and televisions, with a note of make, model number and serial number where appropriate. Such items should be identified with security marking as belonging to the school.

8.4 The headteacher should arrange for inventories to be checked at least once per year against physical items. Any discrepancies should be investigated and pursued to a satisfactory conclusion. The headteacher should report discrepancies over a predetermined sum to the governing body.

8.5 Whenever school property, e.g. musical instruments or computers, is taken off the school site it should be signed for and a register noted accordingly.

8.6 The governing body should authorise all write-offs and disposals of surplus stocks and equipment in accordance with LEA or DFE regulations.

8.7 Safes and similar receptacles should be kept locked and the keys removed. Key holders should normally carry keys on their person and keys should not be left in the vicinity of the secure area. The loss of any keys should be reported immediately to the headteacher and in the case of a LEA maintained school to the LEA.
9. Income

WHY IS THIS AREA IMPORTANT?

Income is vulnerable and the income collection system should meet the following objectives, namely that:

- All income including VAT due to the school is identified.
- All collections are receipted and banked promptly and completely.
- The accounting records and debtors accounts are properly and promptly updated.

Where possible schools should obtain money in advance of supplying goods or services as it improves the school’s cash flow and also avoids the time and cost of administering debts.

THE STANDARDS

9.1 The governing body should establish a charging policy for the supply of goods or services. A LEA maintained school should ensure the policy is aligned with the LEA charging policy. The headteacher is responsible to the governing body for accounting for all income due and cash collected as set out in the governing body’s or LEA’s charging policies.

9.2 The school should separate, as far as is practicable, the responsibility for identifying sums due to the school from the responsibility for collecting and banking such sums.

9.3 Where invoices are required they should be issued promptly.

9.4 The school should issue official, pre-numbered, receipts or maintain other formal documentation for all income collected.

9.5 Transfers of money between staff should be signed for.

9.6 Receipts, tickets and other records of income should be securely retained.

9.7 Cash and cheques should be locked away to safeguard against loss or theft.

9.8 Collections should in their entirety be paid promptly into the appropriate bank account.

9.9 Income collections should not be used for the encashment of personal cheques or for other payments.

9.10 The school should reconcile the sums collected to the sums deposited at the bank. Bank paying in slips must show clearly the split of cash and cheques. Cheques should be identifiable by reference to the receipt numbers and names of the drawers and cash by reference to receipt numbers.

9.11 Debts should only be written off in accordance with LEA or DFE regulations. Schools should keep a record of all sums written off.
10. Banking arrangements

WHY IS THIS AREA IMPORTANT?

The proper administration of bank accounts is a fundamental financial control. In particular, regular bank reconciliations are essential. They prove that balances are correct and provide assurance that the underlying accounts have been properly compiled and are accurate. Auditors give particular attention to the frequency of bank reconciliations and view failure to keep them up to date as an indication of potential error or fraud and as a breakdown in the system of internal control.

THE STANDARDS

10.1 Where the school has its own cheque book for local payments the governing body should establish (with guidance from the LEA in respect of a LEA maintained school or the DFE for a grant maintained school):

- limits as to the categories of expenditure to be permitted e.g. not salaries in the case of a LEA maintained school
- that two authorised signatures are required on cheques. Supporting vouchers should be made available to cheque signatories
- a limited number of authorised signatories
- limits as to the maximum value of any individual transaction without the approval of the governing body
- that all cheques drawn on the account(s) are crossed “account payee only” to avoid the possibility of improper negotiation of the cheques
- that only manuscript signatures should be used and cheques should not be presigned
- that the school should retain cheque books securely when not in use
- that the school should not be able to go overdrawn nor be able to negotiate overdraft facilities. The school’s bankers should be advised of these requirements.

10.2 The school should obtain bank statements at least monthly and these should be reconciled with their accounting records. Discrepancies should be investigated. All bank reconciliations should be certified by the person performing the reconciliation. They should also be reviewed and countersigned by someone who understands the reconciliation process.

10.3 Where practicable, staff responsible for undertaking bank reconciliations should not be responsible for the processing of receipts or payments.

10.4 All funds surplus to immediate requirements should be invested to optimal effect in accordance with the LEA’s or school’s investment policy.

10.5 Individuals should not use their private bank accounts for any payment or receipt related to the school’s budget.

10.6 Under the provisions of the Education Reform Act 1988 a grant maintained school is prohibited from borrowing. The governing body should advise its bank in writing of this.
11. Petty cash

WHY IS THIS AREA IMPORTANT?

Petty cash is administratively convenient for making small payments, particularly if the signatories of the main bank account are not available. However, cash is a vulnerable asset which must be properly controlled. The governing body should ensure that the size of the cash holding is appropriate, that it is used only for approved purposes, that proper records are maintained and that there are regular reconciliations and occasional spot checks to verify that the sums in hand are correct.

THE STANDARDS

11.1 The governing body should agree an appropriate level for the amount of petty cash to be held. This amount should represent a balance between the need for ready access to funds for local payments and the risk of holding cash on the premises. The school should ensure that the likely maximum value of cash held on site is covered by insurance.

11.2 Only authorised staff should have access to petty cash. Payments should be limited to minor items for which there is proper authority and provision in the budget. The school should not use petty cash for transactions with regular suppliers.

11.3 Each school employee authorised to hold petty cash should be responsible for:

- obtaining proper vouchers and receipts for all cash payments made
- obtaining a receipt or acknowledgement of payment which identifies any VAT paid
- ensuring the safe custody of cash
- producing on demand to the head teacher, auditor or other authorised person, cash or vouchers to the total of the amount drawn
- submitting regular claims for reimbursement, properly certified and supported by vouchers and receipts.

11.4 Personal cheques should not be encashed from petty cash.

11.5 The headteacher should arrange for periodic checks on the completeness of funds held by petty cash holders.
12. Voluntary funds

WHY IS THIS AREA IMPORTANT?

Voluntary funds often provide schools with a substantial additional source of finance. Although such funds are not public money, the standards outlined elsewhere in this document are equally applicable. Parents and other benefactors are entitled to the same standards of stewardship for such funds.

THE STANDARDS

12.1 The school should ensure that there is a safe and efficient system for the custody and control of voluntary funds under the control of the governing body, including:

- the appointment of a treasurer and an independent auditor
- accounting procedures which reflect the standards for accounting for public money
- an annual audit of the accounts
- two signatures on cheques
- the submission of annual accounts, and a report thereon, to the governing body
- copying the audited accounts to the LEA, or DFE in the case of grant maintained schools
- the immediate reporting of any suspected irregularities to the LEA auditor or the school's external auditor in the case of grant maintained schools
- establishing adequate insurance arrangements, e.g. fidelity guarantee insurance
- proper separation of voluntary funds and related records from official school funds.
Appendix  "Standards" questionnaire

This list summarises the Standards and may be of use to schools in monitoring their procedures, and in preparing for audit and inspection visits.

The "NOT APPROPRIATE" box is used to record a comment if the measure is impracticable, for example owing to a school having few staff. Alternatively the measure might be inappropriate because the school uses a different procedure in accordance with local authority regulations or the DFE requirements of the Rainbow Pack.

## I ORGANISATION OF RESPONSIBILITY AND ACCOUNTABILITY

<table>
<thead>
<tr>
<th></th>
<th>IN PLACE</th>
<th>ACTION NEEDED</th>
<th>NOT APPROPRIATE (COMMENT)</th>
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<tbody>
<tr>
<td>1.1</td>
<td>Key roles defined</td>
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<td>1.2</td>
<td>Clear limits of delegated authority</td>
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<tr>
<td>1.3</td>
<td>Register of pecuniary interests</td>
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<td>1.4</td>
<td>Sound internal control systems</td>
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<td>1.5</td>
<td>Compliance with financial regulations</td>
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## 2 BUDGETS

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<thead>
<tr>
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<th>ACTION NEEDED</th>
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<tbody>
<tr>
<td>2.1</td>
<td>Statement of aims and objectives</td>
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<td>2.2</td>
<td>Medium term plans</td>
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<td>2.3</td>
<td>Budget planning timetable</td>
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<td>2.4</td>
<td>Timely estimates</td>
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<td>2.5</td>
<td>Planning for solvency</td>
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<tr>
<td>2.6</td>
<td>Details of budget to LEA or DFE</td>
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<td>2.7</td>
<td>Budget profiling</td>
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<td>2.8</td>
<td>Regular reports to governing body</td>
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<tr>
<td>2.9</td>
<td>Responsibility of budget holders</td>
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<tr>
<td>2.10</td>
<td>Regular reviews of budget</td>
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<td>2.11</td>
<td>Virement procedures</td>
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<tr>
<td>2.12</td>
<td>Monitoring progress against plan</td>
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<tr>
<td>2.13</td>
<td>Consultation on information quality</td>
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<tr>
<td>2.14</td>
<td>Reporting proposed policy changes</td>
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<tr>
<td>2.15</td>
<td>Capital expenditure controls</td>
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</tbody>
</table>
### 3 Internal Financial Control

| Duties/checks specified by governors |  |  |
| Agreed written procedures |  |  |
| Cover for staff absence |  |  |
| Separation of duties: records/cash |  |  |
| Rules for document alteration |  |  |
| Security of accounting records |  |  |
| Traceability of transactions |  |  |
| Limited access to accounting records |  |  |

### 4 Insurance

| Review of insurance arrangements |  |  |
| Reviewing insurance needs |  |  |
| Notification of new risks |  |  |
| Consent for third party indemnities |  |  |
| Notification of insurance claims |  |  |
| Insuring property off site |  |  |

### 5 Computer Systems

| Data protection registration |  |  |
| Back-up procedures |  |  |
| Protection of computer facilities |  |  |

### 6 Purchasing

| Testing the market |  |  |
| Procedures for getting quotations |  |  |
| Limits of authority |  |  |
| Procedures for accepting quotations |  |  |
| Procedure for tendering |  |  |
### Orders for goods and services

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<thead>
<tr>
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<th>IN PLACE</th>
<th>ACTION NEEDED</th>
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<tbody>
<tr>
<td>6.6</td>
<td>Written orders used</td>
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<td>6.7</td>
<td>Official order forms used</td>
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<tr>
<td>6.8</td>
<td>No private orders</td>
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<tr>
<td>6.9</td>
<td>Proper completion of order forms</td>
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<td>6.10</td>
<td>Approved certification of orders</td>
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<td>6.11</td>
<td>Responsibilities of signatories</td>
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<tr>
<td>6.12</td>
<td>Recording committed expenditure</td>
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### Payment of accounts

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<tr>
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<tbody>
<tr>
<td>6.13</td>
<td>Checking goods and services received</td>
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<tr>
<td>6.14</td>
<td>Payment procedures</td>
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<tr>
<td>6.15</td>
<td>Certification of invoices</td>
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<td>6.16</td>
<td>Authorised signatories</td>
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<td>6.17</td>
<td>Marking invoices “Paid”</td>
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<td>6.18</td>
<td>Rules for photocopied invoices</td>
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### Personnel

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<tr>
<td>7.1</td>
<td>Procedures for personnel matters</td>
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<td>7.2</td>
<td>Procedures for administration</td>
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<td>7.3</td>
<td>Separation of duties</td>
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<td>7.4</td>
<td>Security of personnel records</td>
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<td>Proper payroll transactions</td>
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<td>7.6</td>
<td>Regular payroll checks</td>
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### The security of stocks and other property

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<td>8.1</td>
<td>Responsibility for cash and property</td>
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<td>8.2</td>
<td>Maintenance of stock levels</td>
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<td>Maintenance of inventories</td>
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<td>8.4</td>
<td>Checking inventories</td>
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<td>8.5</td>
<td>Procedures for property off site</td>
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<td>Authorisation of write-offs and disposals</td>
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<td>Security of safes and keys</td>
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# INCOME

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<td>9.1</td>
<td>Governor's charging policy</td>
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<td>Separation of duties</td>
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<td>Prompt issue of invoices</td>
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<td>9.4</td>
<td>Issue of official receipts</td>
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<td>9.5</td>
<td>Transfer of money between staff</td>
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<tr>
<td>9.6</td>
<td>Secure records of income</td>
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<td>9.7</td>
<td>Security of monies</td>
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<td>9.8</td>
<td>Banking arrangements</td>
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<td>9.9</td>
<td>Avoiding unofficial payment</td>
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<tr>
<td>9.10</td>
<td>Reconciling income and deposit</td>
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<tr>
<td>9.11</td>
<td>Writing off debts</td>
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# BANKING ARRANGEMENTS

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<td>10.1</td>
<td>Procedures for cheque book use</td>
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<td>10.2</td>
<td>Regular statements and reconciliations</td>
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<td>10.3</td>
<td>Staff responsibilities</td>
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<td>10.4</td>
<td>Surplus</td>
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<td>10.5</td>
<td>No use of private bank accounts</td>
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<td>10.6</td>
<td>No borrowing</td>
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# PETTY CASH

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<td>Agreed level of petty cash</td>
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<td>11.2</td>
<td>Authorised access to petty cash</td>
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<td>11.3</td>
<td>Clear responsibilities for petty cash</td>
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<td>11.4</td>
<td>Personal cheques not encashed</td>
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<td>Checks on funds</td>
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# VOLUNTARY FUNDS

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<td>Efficient custody and control</td>
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