

Section 5: Financial controls

5. Why is this area important?

Schools have many systems for processing and recording transactions. Examples may include purchasing, payroll and income collection systems. These systems are important for two reasons. Firstly, they serve to protect school resources from loss or fraud. Secondly, they provide information to staff and governors about how the budget is being spent. Governors are then able to make use of this information to guide their decision-making.

By building internal controls into systems, governors and staff should be confident that transactions will be properly processed and that any errors or fraud will be detected quickly. 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
- Authorisation - the certification that a transaction or event is acceptable for further processing e.g. authorising an invoice for payment; *and*
- A clear audit trail covering all stages of a transaction, e.g. from copy order to invoice, to accounts, to cheque, and in reverse.

The concept of internal financial control applies to small and large schools. There is a particular issue for small primary schools in the separation of duties. The small number of teaching and administrative staff means that it is not *always* possible to achieve the situation described by the standards. In such cases it is always helpful if the school’s approach to the standard is documented. In schools with only one administrative officer, the head teacher or the deputy will need to exercise some internal checks and authorise transactions to ensure separation of duties. Many schools have involved governors, so that they are within the spirit of a standard, if not its complete implementation.

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5.1. Recording systems and procedures

Recording systems and procedures

The GB must 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.

- All schools must have written description of financial systems indicating procedures and responsibilities of staff, i.e. how, when and by whom procedures are to be carried out. As schools vary in their structure and organisation it is not possible to prepare a model, which would be suitable for all schools. However, an example for ordering goods and services would be:
 - i. The schools official orders must be used for ordering all work, goods and services. The SIMS FMS system produces the orders in the system.
 - ii. The budget holder should complete the order, which records, in full, details of the goods and services required, their estimated cost, the ordering department and relevant account code. The order is then entered on the computer system which places a commitment against the budget, avoiding any overspends etc.
 - iii. In cases of extreme urgency telephone orders may be given but these must be confirmed with a written order, clearly marked “in confirmation”, as soon as possible.
 - iv. It is appropriate for the head teacher/deputy head or senior officer to authorise all orders.
 - v. Before an order is authorised the budget holder must be satisfied that there is adequate budget available.
 - vi. The School Business Manager/Bursar/Finance Officer will:
 - a. Send the top copy of the order to the supplier without delay.
 - b. A commitment will automatically be made if the school operates a local computer accounting system (FMS); and
 - c. File a second copy of the order in the “outstanding order” file.
 - vii. When the goods are delivered they must be received and checked, preferably by a responsible person, who cannot be the person who placed the order or administered it. That person should initial and date the Goods Received Note as evidence of their check.
 - viii. The delivery note must be passed to the School Business Manager/Bursar/Finance Officer without delay, who should then check the details against the copy order.

- ix. The School Business Manager/Bursar/Finance Officer will:
- a. Attach the delivery note to the copy order in the “outstanding order” file.
 - b. Check the invoice details and arithmetic by reference to the copy order and the delivery note and record the payment details.
 - c. Remove the copy order from the “outstanding order” file, attach the invoice onto the copy order and transfer the copy order to the “completed order” file.
 - d. Print out a cheque from the accounting system and issue a cheque for payment (if manual cheques used).
 - e. Pass the cheque with the supporting paperwork (i.e. order, delivery notes and invoices) to the authorised signatories for signature. If the head teacher has authorised the order, there must be a second signatory on the cheque. If the goods were originally ordered by the head teacher or deputy head, the order should be authorised by the other, ditto the invoice.

5.2. Cheque Signatory Limits

The LA requires that the signatories should be the head teacher/deputy head/or other senior members of staff BUT not the person who is responsible for operating the account and preparing the cheques. A second signatory will be required for cheques over £500. Governors cannot be signatories on school accounts as they are not employed by the LA but they may wish to be aware of all cheques above say £5,000.

BACS Procedures

Refer to Appendix 9

5.3. Staff Absence and Shared Responsibilities

- A detailed description of financial systems on financial procedures and systems helps training of new staff and defining roles and responsibilities when key staff are absent.

Financial control during absences

The head teacher should ensure that financial control is maintained in the absence of key personnel through staff training or by arranging job shadowing.

- In all schools at least two people must be involved in passing a payment or recording and banking income. Typically one person would sign for

goods received and another certify the invoice or one person would receive and record income, the other doing the banking. The head teacher or another member of the SMT or a governor must check bank and cash reconciliations and other finance information on a regular basis and must sign and date it as evidence of these checks. This is a vital check on potential fraud.

Shared responsibilities

The head teacher should ensure that duties related to financial administration are distributed so that at least two people are involved. The work of one should act as a check on the work of the other, and all checks should be fully documented where possible due to size of school.

5.4. Document Guidance

Retention of documents

The school should maintain proper accounting records and retain all documents relating to financial transactions for at least the period recommended by the LA/HMRC or Record Management Society.

- The Record Management Society of Great Britain have issued retention guidelines for schools. Web address:
<http://www.irms.org.uk/resources/information-guides/199-rm-toolkit-for-school>
- It is the responsibility of the governing body to determine a document retention policy and develop procedures that would satisfy these needs.

Trace from document to accounts

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.

Alteration of documents

Any alterations to original documents such as cheques, invoices and orders should be clearly made in ink or other permanent form, and initialised.

Access to accounting records

All accounting records should be securely retained when not in use and only authorised staff should be permitted access.

- This also applies to computer records. Authorised staff should have a password, which is not disclosed to anyone, and is changed regularly, at least termly, as a minimum.

Earmarked expenditure to be accounted for separately

The head teacher should ensure that all expenditure from sources of earmarked funding is used for its intended purpose.

5.5. Data protection

- Schools should ensure that they are compliant with the [Data Protection Act 1998](#). A summary of key implications of this act are found on gov.uk under the [Data protection page](#).