

AUDIT COMMISSION
Promoting the best use of public money

OFFICE FOR STANDARDS IN EDUCATION

Keeping Your **Balance**

Standards for financial management in schools



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Introduction

Background

Sound financial management and controls are essential to schools because they provide an effective framework for financial planning and accountability and safeguard the use of public funds.

In 1993, the Office for Standards in Education (OFSTED) and the Audit Commission jointly published a set of standards for the administration and control of school finances called *Keeping Your Balance*. Both OFSTED and, for schools maintained by a local education authority (LEA), the Audit Commission have a remit to review schools' financial administration. This set of common standards had wide circulation and has been used extensively by schools, auditors and inspectors. Schools have welcomed the existence of this single set of standards and have made considerable use of the associated self-evaluation questionnaire.

This revised version of *Keeping Your Balance* has also been prepared jointly by OFSTED and the Audit Commission and has been developed from the first edition, following wide consultation with interested groups. It takes account of changes in the funding of schools since the first edition, especially the increased levels of delegation to schools that have been introduced through the School Standards and Framework Act 1998.

Keeping Your Balance sets out the principal elements of a sound approach to the administration and control of a school's funds. Many of the standards are based on legislation; others are based on accepted audit practice. The main purpose of the standards is to set out a framework of good practice to help schools establish and maintain robust financial systems. It also provides a framework for auditors and inspectors when they evaluate these arrangements.

Keeping Your Balance also provides schools with a revised self-evaluation questionnaire that can be used to identify strengths in financial administration and areas in which improvements are needed. This self-evaluation can be enhanced by the use of the new diagnostic software on the Internet which accompanies the standards. **The Finances Self-evaluation Tool** goes into greater detail than the questionnaire and uses responses to a series of questions to identify areas for improvement and produce an action plan for the school.

Applying the standards

The principles of financial management, summarised here in 14 key areas, are the same in all types of schools. The way in which these principles are implemented, however, depends on two key factors:

- the size and organisation of each school;
- the specific financial regulations with which a school must comply.

A small primary school, for example, will find it hard to apply some of the controls which may be typical procedures in larger schools, particularly in the separation of duties. In such cases, the standard must be interpreted within the context of the school and the school must assess whether the controls in place are sufficient to meet the principles behind the standard.



Introduction

All schools maintained by an LEA must ensure that their financial arrangements comply with the current financial regulations, standing orders and schemes of delegation issued by their local authority. For this reason some of the controls in the standards may be provided in different schools by means other that those indicated here. The key point for evaluation is whether or not these alternative methods are effective in providing the same level of financial security.

The roles of governors and headteachers

The governing body has a statutory responsibility for the oversight of financial management in all schools with delegated budgets, and its role encompasses agreeing how the delegated budget is used. It is legally required to agree the school's annual budget plan. The role of governors is set out in the publication *A Guide to the Law for School Governors*, available from the Department for Education and Employment (DfEE) in different versions according to the category of school. In this publication, the term **governing body** is used to mean the full governing body or its committees, where responsibility can be delegated to a committee.

Similarly, the term **headteacher** is used to mean the headteacher or other member of the school's staff, where responsibility has been delegated to that member of staff. This has particular relevance to schools where a bursar, school business manager or school administrator undertakes much of the financial management.

Audit arrangements and requirements

The accounts of schools with delegated budgets are subject to regular internal audit and are available for inspection as necessary by the LEA's external auditor. Internal auditors review the management of the school's finances on behalf of the local authority. Local authority external auditors are appointed by the Audit Commission to assess the legality and regularity of financial affairs and to ensure that the authority has made proper arrangements to secure value for money.

In response to an audit:

- the governing body and staff of a school should give internal and external auditors access to such premises, documents and assets as the auditors consider necessary;
- the governing body and staff should provide auditors with any explanations they consider necessary;
- the headteacher should consider and respond promptly to recommendations in audit reports and report to the governing body the results of audits and any action to be taken by the school;
- the headteacher should immediately notify the auditors of any suspected irregularity.

Introduction

Inspection arrangements and requirements

The School Inspections Act 1996 requires registered inspectors to report on 'whether the financial resources made available to the school are managed efficiently' when a school is inspected under the arrangements set out in section 10 of the Act.

In *Inspecting Schools*, the framework for the inspection of schools by registered inspectors, the efficiency of the school will be judged by reference to:

- the extent to which the school makes the best strategic use of its resources, including specific grants and additional funding, linking decisions to educational priorities;
- the extent to which the principles of best value are applied in the securing and use of resources and services.

In making these judgements, inspectors will consider the quality of financial management, the soundness of decisions and the effectiveness of financial control. Inspectors will take into account the arrangements made by the school to follow up any recommendations in the most recent auditor's report. Where it is available, they will also make use of the completed standards questionnaire (either the paper or Website version), particularly in relation to governance, financial planning and budget monitoring.

However, it is not the place of inspectors to conduct an audit of the school's finances. Inspectors should mainly be concerned with the strategic management of resources and the value for money obtained from their use. The essential differences between audit and inspection are set out in the *Handbook for Inspecting Schools* (separately for *Primary and Nursery Schools, Secondary Schools*, and *Special Schools and Pupil Referral Units*).

In response to an inspection:

- the governing body and staff should give inspectors access to such documents and financial information as they require;
- the governing body and the headteacher should consider and respond appropriately to any recommendations made by inspectors;
- the headteacher should notify the school's auditors of any suspected irregularity and inform the registered inspector where this has occurred.



Governance

Why is this area important?

The governing body is collectively responsible for the overall direction of the school and its strategic management. This involves determining the guiding principles within which the school operates and then making decisions about, for example, how to spend the school's budget. Effective governance stems from corporate decision-making based on comprehensive and accurate information about the school. Effective governance also results in clear public accountability for the performance of the school. Weak governance reduces accountability, removes checks and balances and denies the school a potentially valuable source of guidance.

The governing body has a strategic role and has responsibility for setting educational and financial priorities, and for ensuring the budget is managed effectively. It is also responsible for ensuring the school meets all its statutory obligations and, through the headteacher, complies with its LEA's financial regulations or standing orders. To carry out this role effectively, the financial responsibilities of the governing body, its committees, the headteacher and other staff need to be defined. This allows the governing body to ensure that adequate systems of financial control are in place and that it receives the information it needs to carry out its role.

Governance needs not only to be effective but to be seen to be effective. The provision of clear minutes of its decisions is one aspect of openness. Another is the maintenance of a register of business interests of governors, the headteacher and other staff involved in financial management, as evidence that private or personal interests do not influence decisions taken in the school.

Governance

The standards

A1 The roles and responsibilities of the governing body, its committees, the headteacher and other staff in relation to financial decision-making and administration should be set out in writing.

A2 A finance committee should be set up to consider strategic financial issues on behalf of the governing body and its remit and membership should be reviewed annually.

A3 The governing body should establish the financial limits of delegated authority.

A4 The governing body should agree with the headteacher the minimum frequency, level of detail and general format of the financial information to be provided to it, especially in relation to budget monitoring reports.

A5 Minutes should be taken of all meetings of the governing body and its committees and include all decisions and by whom action is to be taken.

A6 The governing body should establish a register of business interests of governors, the headteacher and any other staff who influence financial decisions. This should be open to examination by governors, staff, parents and the LEA.

Notes

A2 Alternative names are acceptable for this committee.

A6 All those involved in spending public money must be able to demonstrate that they do not benefit personally from the decisions they make. For example, governors should declare links they have with local firms from which the school may wish to buy goods or services.



Financial planning

Why is this area important?

Financial planning is an essential part of good financial management. It provides a school with a clear view of how it intends to use its resources. It has two interrelated elements: the school's development plan and the school's budget.

The school's **development plan** forms a major building block for constructing the budget. It identifies the school's educational priorities and usually has a strong focus on raising standards (or maintaining high standards). It is important, therefore, that the school development plan indicates the resource implications of each priority to guide decisions on the school's budget.

The school development plan should reflect the decisions made about the cost-effectiveness of the options considered, and should contain ways in which the progress of the initiative can be monitored. An evaluation framework should also be built into school development plans to assess the success of each initiative.

A summary of ongoing spending also needs to be included in the development plan so that there is a clear link between the school's priorities and spending plans.

Budgeting is essential to good financial management. The budget sets out how resources are allocated and provides a mechanism for monitoring expenditure through the year. It should be the concrete expression of the school's development plan. It provides a coherent framework which allows staff and governors to see how the school's spending will help the school achieve its targets and other objectives. Clearly identified links are, therefore, needed between the school's annual budget and its development plan.

Good budgeting means not running into deficit, but equally it means not carrying large balances of unspent money from year to year without good reason. This means considering how the budget for a particular area of spending will balance out over a longer period than the next financial year. Any surpluses beyond a small contingency should accrue for a specific purpose. Such a purpose might be to smooth out any variations in staffing as a result of fluctuating pupil numbers.

Financial planning

The standards

B1 The school should have a school development plan (SDP) which includes a statement of its educational goals to guide the planning process.

B2 The SDP should cover in outline the school's educational priorities and budget plans for at least the next three years, showing how the use of resources is linked to the achievement of the school's goals.

B3 The SDP should state the school's educational priorities in sufficient detail to provide the basis for constructing budget plans for the next financial year.

B4 Any new initiatives should be carefully appraised in relation to all likely costs and benefits and their financial sustainability before being approved by the governing body.

B5 The SDP should also state intended expenditure on continuing commitments, including a short commentary on any significant changes from the previous financial year.

B6 A formal timetable and procedures should be drawn up for constructing the SDP and budget to ensure that the governors have time to consider all relevant factors.

B7 There should be a clear, identifiable link between the school's annual budget and its development plan.

B8 The school's budget should be based on realistic estimates of all expected expenditure and income, including grant income, so that planned expenditure does not exceed the available budget.

B9 The governing body should ensure that the main elements of the school's budget are periodically reviewed to ensure that historic spending patterns are not unhelpfully perpetuated.

B10 The headteacher should profile the budget and forecast cash flow to take account of likely spending patterns.

B11 Any budget surpluses should be earmarked for specific future needs to ensure that pupils benefit from a planned approach to spending that does not deprive them of resources in a given year.

B12 The governing body should approve the school's budget and SDP after careful consideration and before the beginning of the relevant financial year.

B13 The headteacher should promptly forward details of the approved budget and any subsequent budget changes to the LEA.

Notes

B1 *Other terms such as improvement plan or management plan are equally acceptable.*

B2 *Even though the funding available to each school will change annually, the school development plan should provide an outline of the school's spending intentions.*

B4 *This should include a process of option identification and evaluation.*

B8 *Even if the school's funding has not been finalised, it is important to consider spending priorities in the light of an estimated or indicative budget allocation. If a deficit budget is to be set, the school's recovery plan will require explicit LEA approval.*

B10 *For example, energy consumption is usually higher in the winter months.*

B12 *Where the school's budget has not been finally determined, approval at this stage will have to be based on provisional figures.*



Budget monitoring

Why is this area important?

Regular monitoring of income and expenditure against the agreed budget is central to effective financial management. It allows governors, the headteacher and staff to maintain financial control by reviewing the current position and taking any remedial action necessary. But budgets are not set in stone. The original budget may need regular updating, following consultation with governors, to take account of in-year developments. If this is done it is important to retain a copy of the original budget to support future budget construction.

Careful monitoring of the budget also provides a mechanism to hold budget holders to account. This applies both to the use of devolved budgets within the school and to the way the school's resources are being used more broadly.

In practical terms, budget monitoring involves producing monthly monitoring reports and drafting proposed plans of action to tackle any significant variances. This process should be carried out at all levels to include any devolved budget elements. Expenditure on individual initiatives should also be tracked to enable the school to assess their cost and effectiveness against the criteria set out in the school development plan. By receiving regular reports, the governing body can feel secure about the way their decisions are being implemented and take action where it is needed to bring about changes. In this way, budget monitoring becomes an important guide when setting the budget for the following year.

Budget monitoring

The standards

C1 The headteacher should produce monthly budget monitoring reports for income and expenditure, including sums committed but not yet paid and outturn forecasts, against the approved budget. These reports should be reconciled with the LEA's and, where necessary, the school's accounting records.

C2 The headteacher should provide budget monitoring reports to the finance committee at least once a term. These should show any significant variances against the budget with explanatory notes and, where necessary, remedial action plans including virements.

C3 The headteacher should monitor expenditure on the initiatives set out in the school development plan.

C4 If budget elements have been devolved, departmental budget holders should receive and review monthly reports comparing the amount spent or committed to date against their budgets. The headteacher should monitor these reports periodically and take action where necessary.

C5 In schools with bank accounts, the headteacher should produce monthly cash flow forecasts to ensure that the school does not go overdrawn.

Note

C5 In schools with their own bank accounts, the production of cash flow forecasts is important to avoid any account going into deficit.



Purchasing

Why is this area important?

Because they are using public funds, it is vital that schools achieve the best value for money they can from all their purchases, whether they are of goods or services. In this context, value for money is about getting the right quality at the best available price. This often means looking further ahead than the immediate purchase, especially when selecting equipment, and taking into account associated costs such as supplies and maintenance.

Increased delegation to schools has lent even greater significance to the contracting element of this area as schools now have greater control over spending decisions. It is important that contract specifications contain detailed service and quality provisions.

Many of the standards in this section are there to protect individuals and to ensure that public money is spent without any personal gain. Purchasing procedures are needed to prevent waste and fraud. The governing body needs to know whom it has designated to authorise purchases and be confident that they are carrying out the task effectively. Most schools will already have set up a process that tracks purchases through from requisition to payment and encapsulates many of the standards in this section. Schools need to be aware of the implications for interest payments of the Late Payments of Commercial Debt (Interest) Act 1998.

Purchasing

The standards

D1 The school should always consider price, quality and fitness for purpose when purchasing goods or services.

D2 Prior approval from the governing body should be obtained for all expenditure above a predetermined limit.

D3 Three written quotations should be obtained for all expenditure above a predetermined limit unless it is impracticable to do so. In such circumstances, the reasons for not doing so should be reported to the governing body.

D4 Where a quotation other than the lowest is accepted, the reasons for this decision must be reported to the governing body and included in the minutes of the relevant meeting.

D5 All purchases estimated to exceed a predetermined amount should be put out to tender.

D6 Contract specifications should define the service to be provided in terms of its nature, quality standards, information and monitoring requirements and contract review procedures.

D7 The school should not enter into any financial agreement with capital implications without the approval of the LEA or appropriate body.

D8 Official, pre-numbered orders should be used for all goods and services except utilities, rents, rates and petty cash payments. Where urgency requires an oral order, this should be confirmed by a written order.

D9 Orders should be used only for goods and services provided to the school. Individuals must not use official orders to obtain goods or services for their private use.

D10 All orders must be signed by a member of staff approved by the governing body and the school should maintain a list of such staff.

D11 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 quotations or tenders have been obtained if necessary.

D12 When an order is placed, the estimated cost should be committed against the appropriate budget allocation so that it features in subsequent budget monitoring.

D13 The school should check goods and services on receipt to ensure they match the order and the order should be marked accordingly. This should not be done by the person who signed the order.

D14 Payment should be made within time limits specified in law for the payment of debts and only when a proper invoice has been received, checked, coded and certified for payment.

D15 A member of staff approved by the governing body should certify invoices for payment. This should be neither the person who signed the order nor the person who checked the receipt of goods or services.

D16 The school should maintain a list of staff authorised to certify invoices for payment. Where the payments are made by the LEA on behalf of the school, the names of authorised staff, together with specimen signatures, should be forwarded to the LEA.

D17 All paid invoices should be marked with the cheque number and the word 'Paid'. They should be securely stored in order.

Notes

D3 This amount is usually above the limit set in D2. 'Quotation' means asking several suppliers to provide a written quotation of how much they would charge for the goods or services required.

D5 This amount is usually above the limit set in D3. '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.

D7 This could, for example, include the purchase of a photocopier through leasing arrangements. In the case of most Voluntary Aided schools the appropriate body will be the diocese.

D13 Payments, for example, should not be made on a photocopied invoice or on a statement, but only on the original invoice.

D17 This is usually in date order.



Financial controls

Why is this area important?

Schools have many systems for processing and recording financial transactions. These extend from petty cash to purchasing, through payroll and contracting services to income collection systems. The systems are important for two reasons. Firstly, they serve to protect the school's resources from loss or fraud. Secondly, they provide information to staff and governors about how the budget is being spent. Accuracy is, therefore, important. Governors are then able to make use of this information to guide their decision-making.

By building internal financial 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 internal controls are:

- internal checks – one person checking another person's work;
- separation of duties – distributing the work so that key tasks are assigned to separate members of staff;
- systems manuals – clear, readable descriptions of how systems work and who does what;
- a system of authorisations – each transaction is authorised before passing on to the next stage of the process;
- an audit trail – this tracks all stages of a transaction, for example from copy order to invoice, to accounts, to cheque, and in reverse.

These controls are there to safeguard staff and governors alike. They ensure that:

- payments are made only to bona-fide employers and suppliers;
- payments are made only for goods and services actually received;
- cash transactions, whether income or petty cash expenditure, are secure in all respects.

This means that clear and well-organised records are needed. As a minimum, documents and computer files should not be destroyed before the completion of the audit of accounts for the relevant financial year. For security, erasing information and the use of correcting fluid are not acceptable practices.

There is a particular issue for small primary schools in the separation of duties. Often the very small number of teaching and administrative staff means that it is not 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. Many such schools have been creative in the way they have allocated responsibilities to staff, for example by involving governors, so that they are within the spirit of a standard, if not its complete implementation.

Financial controls

The standards

E1 The governing body should ensure that the school has written descriptions of all its financial systems and procedures. These should be kept up to date and all appropriate staff should be trained in their use.

E2 The headteacher should ensure that financial control is maintained in the absence of key personnel through staff training or by arranging job shadowing.

E3 The headteacher 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.

E4 The school should maintain proper accounting records and retain all documents relating to financial transactions for at least the period recommended by the LEA.

E5 All financial transactions must be traceable from original documentation to accounting records, and vice versa.

E6 Any alterations to original documents such as cheques, invoices and orders should be clearly made in ink or other permanent form, and initialled.

E7 All accounting records should be securely retained when not in use and only authorised staff should be permitted access.

E8 The headteacher should ensure that all expenditure from sources of earmarked funding is accounted for separately and that the funding is used for its intended purpose.

Note

E8 Separate accounting here means the ability to track income and expenditure relating to individual earmarked grants



Income

Why is this area important?

Income is a valuable asset and is, therefore, vulnerable to fraud. It is vital that appropriate controls are in place to ensure its security. It is also important that the school does not exceed its insurance or LEA limits on holding cash on school premises.

Income can come from a variety of sources, including grant funding, school dinner money and lettings. The governing body should establish a charging policy and review it every year. The headteacher is responsible to the governing body for accounting for all income due and cash collected, and accurate records are needed for this.

This section covers general income controls. These include establishing procedures that ensure that income is banked regularly and that the amount banked is reconciled with the amount receipted in the cashbook. Frequent and regular checking against bank records is important to ensure that all income is secure. The person who sent out the invoice should not collect the income.

The standards

F1 The governing body should establish a charging policy for the supply of goods or services. This policy should be reviewed annually by the full governing body.

F2 Proper records should be kept of all income due.

F3 All lettings must be authorised by the headteacher within a framework determined by the governing body and should be recorded in a diary or register.

F4 The responsibility for identifying sums due to the school should be separate from the responsibility for collecting and banking such sums.

F5 Where invoices are required, they should be issued within 30 days.

F6 The school should always issue official, pre-numbered receipts or maintain other formal documentation for all income collected. Receipts should be securely stored in order.

F7 Cash and cheques should be locked away to safeguard against loss or theft.

F8 Collections should be paid into the appropriate bank account promptly and in full. Bank paying-in slips must show clearly the split between cash and cheques and list each cheque individually.

F9 Income collections should not be used for the encashment of personal cheques or for other payments.

F10 The headteacher should reconcile monthly the sums collected with the sums deposited at the bank.

F11 The school should have procedures for chasing any invoices which have not been paid within 30 days. Debts should be written off only in accordance with LEA regulations and schools should keep a record of all sums written off.

F12 The headteacher should ensure that machines taking money, including telephones, are emptied and the cash counted by two people.

F13 The headteacher should ensure that transfers of school money between staff are recorded and signed for.

Banking

Why is this area important?

The proper administration of bank accounts is at the heart of financial control. In particular, regular bank reconciliations are essential. They prove that the balances shown in the accounting records are correct and provide assurance that the underlying accounts are accurate. The standards in this section cover bank account and cheque controls. Failure to keep to these standards leaves areas of the school's finances open to potential error or fraud, and indicates a possible breakdown in the school's internal control systems.

The standards

G1 The school should obtain bank statements at least monthly and these should be reconciled with their accounting records. Any discrepancies should be investigated.

G2 All bank reconciliations should be signed by the person performing the reconciliation. They should also be reviewed and countersigned by someone who understands the reconciliation process.

G3 Staff responsible for undertaking bank reconciliations should not be responsible for the processing of receipts or payments.

G4 All funds surplus to immediate requirements should be invested to optimal effect in accordance with the LEA's investment policy.

G5 Individuals should not use their private bank accounts for any payment or receipt related to the school's budget.

G6 The school's bankers should be advised that schools should not be allowed to go overdrawn or negotiate overdraft facilities.

G7 The school should not enter into any loan agreements, other than with the LEA, without the prior approval of the Secretary of State for Education and Employment.

G8 School procedures should stipulate that all cheques must bear the signatures of two signatories approved by the governing body.

G9 School procedures should ensure that supporting vouchers are made available to cheque signatories to safeguard against inappropriate expenditure.

G10 School procedures should stipulate that all cheques drawn on the account(s) are crossed 'account payee only' to avoid the possibility of improper negotiation of the cheques.

G11 School procedures should stipulate that manuscript signatures only are used and cheques should not be pre-signed.

G12 Chequebooks should be held securely when not in use.

G13 The headteacher should maintain a list of all bank and building society accounts held and the signatories for each.



Payroll

Why is this area important?

In most schools, staff costs make up around two-thirds of the entire budget. From 1 April 2000, schools have been able to buy their payroll, personnel and other services from an external provider. However, contracting another organisation to administer payroll and personnel does not relieve the governing body and the headteacher of the responsibility for ensuring that payroll and personnel controls are in place.

Schools need to be aware of a number of areas where Inland Revenue regulations may affect or determine the way payments are made. For example, there are strict rules about payments to individuals who are self-employed. Schools are advised to seek advice from their LEA in such cases.

The standards

H1 The governing body should establish procedures for the administration of personnel activities, including appointments, terminations and promotions.

H2 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.

H3 The headteacher should ensure that at least two people are involved in the processes of completing, checking and authorising all documents and claims relating to appointments, terminations of employment and expenses.

H4 Where the payroll is administered by the LEA or a bureau, the school should send in the names and specimen signatures of certifying officers.

H5 The headteacher should ensure that only authorised staff have access to personnel files and that arrangements for staff to gain access to their own records are in place.

H6 Payroll transactions should be processed only through the payroll system.

H7 The headteacher should maintain a list of staff employed. School procedures should ensure that this list is updated promptly to reflect new starters and leavers.

H8 The headteacher should obtain regular reports on payroll transactions and check them against the school's documentation on staffing and pay to ensure that they match.

Note

H6 This includes taxable benefits, for example. If in doubt, a school should consult its LEA.

Petty cash

Why is this area important?

Petty cash is useful for making small purchases with a minimum of fuss. However since cash is portable and desirable, it is important that proper controls are in place to prevent its abuse or loss. These standards contain petty cash controls covering authorisation, documentation and secure storage of cash.

The standards

J1 The governing body should set out in writing an appropriate level for the amount of petty cash to be held. This amount should represent a balance between convenience and the risk of holding cash on the premises.

J2 The headteacher should ensure that the petty cash fund is held securely and that only authorised staff have access to it.

J3 Payments from the petty cash fund should be limited to minor items which have been approved in advance by an authorised member of staff.

J4 All expenditure from the fund must be supported by receipts, identifying any VAT paid. It must be signed for by the recipient and countersigned by an authorised member of staff.

J5 Proper records should be kept of amounts paid into and taken out of the fund.

J6 The amount in the petty cash fund should periodically be checked against the accounting records and reviewed by an independent member of staff.

J7 Personal cheques should not be encashed from the petty cash fund.

J8 If the school has an imprest account, periodic checks should be carried out between the petty cash accounting records and the bank statements, and reviewed by an independent member of staff.



Tax

Why is this area important?

The headteacher is responsible for ensuring that the school complies with Value Added Tax (VAT) and other tax regulations. VAT is a complicated area and the following controls merely set out the minimum framework. The LEA's guidance on VAT, or an equivalent manual, should be consulted for a detailed interpretation. Similarly, schools should follow the guidance given on the Construction Industry Scheme (CIS), which is available from the Inland Revenue orderline.

The standards

K1 The headteacher should ensure that all relevant finance and administrative staff are aware of VAT, Income Tax and the CIS regulations.

K2 School procedures should stipulate that only proper VAT invoices are paid, as the school will not be reimbursed in the absence of such documentation.

K3 School procedures should set out how VAT on business activities, school trips and other taxable activities should be accounted for, both within the delegated budget and in voluntary funds.

K4 The school should make payments to contractors and subcontractors only in accordance with the Construction Industry Scheme (CIS).

Voluntary funds

Why is this area important?

Voluntary funds often provide schools with a substantial additional source of income. Although such funds are not public money, the standards for the guardianship of these need to be as rigorous as those for the administration of the school's delegated budget. Parents, pupils and other benefactors are entitled to receive the same standards of stewardship for the funds to which they have contributed.

Voluntary fund accounts must be certified by an auditor who is completely independent of the school and, in maintained schools, the resulting audit certificate sent to the LEA. Schools will also need to ensure that any voluntary funds with income or expenditure over £1,000 are registered with the Charity Commission.

This section applies to voluntary funds which belong to the school and not, for example, to funds held by other organisations, such as PTAs, which have a connection with the school.

The standards

L1 The headteacher should ensure that voluntary funds are accounted for separately from the school's delegated budget and are held in a separate bank account.

L2 The governing body should ensure that relevant voluntary funds are registered with the Charity Commission.

L3 The governing body should ensure that a treasurer has been appointed to oversee the funds.

L4 The governing body should appoint an auditor who is independent of the school. The auditor should not be a member of the governing body.

L5 The headteacher should ensure that the same standards of financial accounting which apply to income and expenditure for the school's delegated budget are applied to the voluntary funds.

L6 Any income which properly relates to the school's delegated budget should not be credited to a voluntary fund.

L7 The headteacher should present the audited accounts, the auditor's certificate and a written report on the accounts to the governing body as soon as possible after the end of the accounting year.

L8 The headteacher should ensure that the audited accounts are copied promptly to the LEA after the governing body has accepted them.

L9 The headteacher should ensure that every cheque drawn against a voluntary fund bank account is signed by two signatories authorised by the governing body.

L10 Any voluntary fund income should be paid into the relevant bank account at least once a month.

L11 Receipts should always be issued for any donations or income entering voluntary funds.

L12 The headteacher should ensure that regular reconciliations between the accounting records and bank statements are undertaken and independently reviewed.

L13 The governing body should ensure that voluntary funds are covered by insurance, including fidelity guarantee insurance.



Assets

Why is this area important?

Schools often have attractive and portable items of material and equipment ranging from library books to computers, video recorders and televisions. These assets need to be kept securely and recorded in an inventory. Schools and LEAs may establish a threshold value below which inclusion in the inventory is not necessary. Headteachers should make the necessary arrangements to identify such items as school property, to record where they are located and to insure them for on-site and off-site use, as appropriate. It is equally important to maintain records of stocks of materials and other useable resources to ensure that educational work is not delayed because of their unavailability and to guard against waste and loss.

The delegation of funding for structural maintenance since April 1999 and for some capital projects from April 2000 has given most schools much more responsibility for their buildings and other parts of their premises than was previously the case. It is important, therefore, that schools plan how they intend to use, maintain and develop their buildings. Where the governors own the school's buildings, the building development plan will take on a different dimension. In all cases, however, a school's own plan will need to match the LEA's asset management plan in relation to that school.

The standards

M1 The headteacher should ensure that stocks are maintained at reasonable levels and subject to a physical check at least once a year.

M2 Up-to-date inventories should be maintained of all items of equipment. Such items should be identified as school property with a security marking.

M3 The headteacher should arrange for inventories to be checked at least once a year against physical items. All discrepancies should be investigated and any over a predetermined sum reported to the governing body.

M4 Whenever school property, for example musical instruments or computers, is taken off the school site it should be signed for and a register noted accordingly.

M5 The governing body should authorise all write-offs and disposals of surplus stocks and equipment in accordance with the LEA's regulations.

M6 Safes and similar deposits should be kept locked and the keys removed and held in a different location.

M7 The governing body should have a plan for the use, maintenance and development of the school's buildings.

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 insurance (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. Under current delegation arrangements, insurance will continue to be provided centrally unless a school specifically requests delegation of this funding so that it can make its own arrangements.

The standards

N1 The school should review all risks annually, in conjunction with the LEA where appropriate, to ensure that the sums insured are commensurate with the risks.

N2 The governing body should consider whether or not to insure risks not covered by the LEA, voluntary body or foundation. The cost of such premiums should be met from the school's delegated budget.

N3 The school should notify its insurers, the LEA or other agent as appropriate of all new risks, property, equipment and vehicles which require insurance or of any other alteration affecting existing insurance.

N4 The school should not give any indemnity to a third party without the written consent of its insurers, the LEA or other agent as appropriate.

N5 The school should immediately inform its insurers, the LEA or their agent of all accidents, losses and other incidents that may give rise to an insurance claim.

N6 Insurance arrangements should cover the use of school property, for example musical instruments or computers, when off the premises.

Note

N1 Where the governing body is the employer, this will include employers' liability cover.



Data security

Why is this area important?

Most schools are now fully reliant on computers to process and record personal, financial and other management data. Most of the controls in this section cover access to data held on computers. It is important that such information is properly protected from unauthorised access and that it is backed-up regularly. It is also important that the school has a recovery plan to ensure continuity of financial management in the case of an emergency.

The Data Protection Act 1998 is designed to protect the rights of individuals in relation to the personal data that is held about them. It sets out requirements about the processing, storage and disclosure of that data and extends the coverage of the previous legislation from data handled electronically to certain manual record systems. The Act requires governing bodies and headteachers to notify the Data Protection Commissioner where the activities they are engaged in are covered by this legislation. It is highly probable that pupils' paper records will fall wholly or partly under the requirements of the Data Protection Act 1998 and be subject to notification.

Headteachers and governing bodies will need to satisfy themselves that they are meeting the requirements of the 1998 Act and any subsequent regulations and amendments. They will need to consider the security of electronically and manually held data, how it is processed and rights of access by data subjects.

The standards

P1 Computer systems used for school management should be protected by password security to ensure that only authorised staff have access. Passwords should be changed regularly and updated for staff changes.

P2 The headteacher should ensure that data is backed up regularly and that all back-ups are securely held in a fireproof location, preferably off-site.

P3 The headteacher should establish a recovery plan to ensure continuity of financial administration in the case of emergency.

P4 The headteacher should ensure that systems are in place to safeguard school software and data against computer viruses. To prevent viruses being imported, only authorised software should be used.

P5 The governing body should ensure that the Data Protection Commissioner is notified in accordance with the Data Protection Act 1998 and that the school's use of any electronic or relevant manual systems to record or process personal information, and any disclosure of that information, complies with this legislation.

Note

P4 *Transitional arrangements apply in the case of schools already registered under the Data Protection Act 1984 and in relation to certain classes of manual data. For further information, refer to the guidance published by the Data Protection Commissioner.*

Using the standards in schools

Using the standards questionnaire

The printed standards questionnaire in *Keeping Your Balance* is designed to give a very broad picture of the way in which a school meets the standards for financial administration and control. It goes into much less detail than the diagnostic software described below.

Many of the questions have implications for the governing body. Governors should rightly expect that the implementation of much of what is contained in *Keeping Your Balance* is undertaken by the headteacher and relevant staff. The role of the governing body is to ensure that the headteacher and other staff are held to account for the school's finances. Except where the governing body has delegated a function to a single governor, individual governors should not become concerned about their personal role in this.

Use of the questionnaire or the diagnostic software is a voluntary but useful activity for a school, especially in preparing itself for an audit or inspection. Auditors and registered inspectors will find the outcomes particularly useful and, if provided, the completed questionnaire or software printout will form part of the evidence base for the audit or inspection.

The diagnostic software

The Finances Self-evaluation Tool for schools is an interactive version of *Keeping Your Balance*. It probes the robustness of schools' financial controls and financial management through a series of self-assessment questions grouped under the standards set out in this document. Good practice notes are attached to some of the standards to illustrate key points. The answer to each question is given as a percentage score. A comments box at the end of each set of questions allows schools to type in any immediate thoughts as they go through the tool. The scores and comments are then distilled into feedback tables at varying levels of detail, culminating in an overall school score on a four-point scale. The tool also produces an action plan on the basis of the school's scores, in priority order and in a format which can be customised by the school.

The Finances Self-evaluation Tool can be found at the following Website:

www.schools.audit-commission.gov.uk



The standards questionnaire

A	Governance	Fully in place	Partly in place with improvement needed	Not in place and comment needed
A1	Roles and responsibilities	✓		
A2	Finance committee	✓		
A3	Clear limits of delegated authority	✓		
A4	Financial information to governors	✓		
A5	Minutes of all meetings	✓		
A6	Register of business interests	✓		

Comment (if needed)

B	Planning	Fully in place	Partly in place with improvement needed	Not in place and comment needed
B1	SDP – educational goals			
B2	SDP – three-year outline priorities			
B3	SDP – one-year detailed objectives			
B4	New initiatives fully costed			
B5	Continuing commitments costed			
B6	Financial planning timetable			
B7	School development plan - budget link			
B8	Balanced budget based on income/expenditure			
B9	Periodic review of main budget headings			
B10	Profiled budget			
B11	Earmarking of surpluses			
B12	Approval of the budget			
B13	Information to the LEA			

Comment (if needed)

The school plan is amalgamated with the SEF, Ed goals are set out in line with the Ofsted framework. Many Ed goals are met with internal support. At times the budget is considered to achieve targets using external inspection to validate judgements.

EARRATUM: Please use the below rather than the Questionnaire on the next page - apologies for the inconvenience.

QUESTIONNAIRE SECTION C

C	***Budget monitoring***	Fully in place	Partly in place with improvement needed	Not in place and comment below
C1	Monthly budget monitoring	✓		
C2	Regular monitoring reports to governing body	✓		
C3	Monitoring spending on SDP initiatives	✓		
C4	Reviewing devolved budget elements	✓		
C5	Cash flow forecasting (in bank account schools)	✓		
Comment (if needed)				

The standards questionnaire

C	Budget monitoring	Fully in place	Partly in place with improvement needed	Not in place and comment needed
C1	Roles and responsibilities			
C2	Finance committee			
C3	Clear limits of delegated authority			
C4	Financial information to governors			
C5	Minutes of all meetings			

Comment (if needed)

D	Purchasing	Fully in place	Partly in place with improvement needed	Not in place and comment needed
D1	Seek value for money when purchasing	✓		
D2	Expenditure limits - governors' authorisation	✓		
D3	Expenditure limits - three quotations	✓		
D4	Reporting when quotation accepted is not the lowest	✓		
D5	Policy and limit for going out to tender	✓		
D6	Contracts specification defines service	✓		
D7	Approval for agreements with capital implications	✓		
D8	Use of written pre-numbered order forms	✓		
D9	Orders used for school purposes only	✓		
D10	Order signatory on list approved by governing body	✓		
D11	Responsibilities of signatory	✓		
D12	Orders entered as commitments on budget	✓		
D13	Checks on receipt of goods and services	✓		
D14	Payment on proper invoices only	✓		
D15	Certification of invoices for payment	✓		
D16	List of those authorised to certify invoices	✓		
D17	Paid invoices marked 'Paid' and stored securely	✓		

Comment (if needed)

The Chair receives a set of documents before each meeting which includes a list of committed orders and outstanding purchase orders.



The standards questionnaire

E	Financial controls	Fully in place	Partly in place with improvement needed	Not in place and comment needed
E1	Written description of financial systems	✓		
E2	Finance control when staff absent	✓		
E3	Separation of duties	✓		
E4	Properly maintained accounting record	✓		
E5	Traceability of transactions	✓		
E6	Rules for document alteration	✓		
E7	Security of accounting records	✓		
E8	Separate accounting for earmarked funds	✓		

Comment (if needed)

Separation of duties, financial systems and financial control when staff absent are stated in the Finance Manual

F	Income	Fully in place	Partly in place with improvement needed	Not in place and comment needed
F1	Governors' charging policy	✓		
F2	Records kept of all income due	✓		
F3	Lettings authorised by headteacher	✓		
F4	Separation of responsibilities	✓		
F5	Invoices issued within 30 days	✓		
F6	Pre-numbered receipts issued and securely stored	✓		
F7	Security of cash and cheques	✓		
F8	Banking arrangements	✓		
F9	Income collection not used for payments	✓		
F10	Reconciliation of collections and deposits	✓		
F11	Procedures for unpaid invoices and writing-off debts	✓		
F12	Machine cash handling by two people	✓		
F13	Record of transfers of money between staff	✓		

Comment (if needed)

Banking is collected weekly by Security Cash Collection Company.

The standards questionnaire

G	Banking	Fully in place	Partly in place with improvement needed	Not in place and comment needed
G1	Regular bank statements and reconciliation	✓		
G2	Reconciliations reviewed and certified	✓		
G3	Separation of duties	✓		
G4	Optimal investments of surpluses	✓		
G5	No use of private bank accounts	✓		
G6	No overdrafts	✓		
G7	Approval for loans not from the LEA	✓		
G8	Procedures for chequebook use	✓		
G9	Supporting vouchers for chequebook signatories	✓		
G10	All cheques crossed	✓		
G11	Cheque signature requirements	✓		
G12	Security of chequebooks	✓		
G13	List of bank accounts and signatories	✓		

Comment (if needed)

H	Payroll	Fully in place	Partly in place with improvement needed	Not in place and comment needed
H1	Procedures for personnel/payroll matters	✓		
H2	Separation of duties	✓		
H3	Staff responsibilities	✓		
H4	Procedures for payroll administration	✓		
H5	Authorised access to personal files	✓		
H6	Proper payroll transactions	✓		
H7	Regular updating of staff employed	✓		
H8	Regular payroll checks	✓		

Comment (if needed)



The standards questionnaire

J	Petty cash	Fully in place	Partly in place with improvement needed	Not in place and comment needed
J1	Agreed level of petty cash	✓		
J2	Security of and authorised access to petty cash	✓		
J3	Proper use of petty cash	✓		
J4	Expenditure supported by receipts and vouchers	✓		
J5	Proper records of transactions	✓		
J6	Regular independent check on petty cash	✓		
J7	No personal cheques encashed	✓		
J8	Imprest accounts reconciled with bank statements			

Comment (if needed)

K	Value-added and income tax	Fully in place	Partly in place with improvement needed	Not in place and comment needed
K1	All relevant staff know VAT and other tax regulations	✓		
K2	Payments on VAT invoices only	✓		
K3	Procedures for VAT on trips and business activities	✓		
K4	Payments according to CIS			

Comment (if needed)

IR 35 checks for paying any individual are now fully in place.

The standards questionnaire

L	Voluntary funds	Fully in place	Partly in place with improvement needed	Not in place and comment needed
L1	Separate accounting from school budget	✓		
L2	Funds registered with Charity Commission			
L3	Treasurer appointed to oversee the fund	✓		
L4	Independent auditor appointed	✓		
L5	Same standards of accounting as for school budget	✓		
L6	Use for voluntary funds only	✓		
L7	Audited accounts to governing body annually	✓		
L8	Audited accounts copied to the LEA after acceptance	✓		
L9	Procedures for signing cheques	✓		
L10	At least monthly banking	✓		
L11	Procedures for issuing receipts	✓		
L12	Regular reconciliations with bank statements	✓		
L13	Insurance cover for voluntary funds	✓		

Comment (if needed)

Banking is done promptly but not always monthly as the income is mainly paid in to SBS.

M	Assets	Fully in place	Partly in place with improvement needed	Not in place and comment needed
M1	Maintenance of stock levels	✓		
M2	Security marking and maintenance of inventories	✓		
M3	Check on inventories annually		✓	
M4	Procedures for property taken off-site	✓		
M5	Authorisation of write-offs and disposals	✓		
M6	Security of safes and keys	✓		
M7	Plan for maintenance and development of buildings	✓		

Comment (if needed)

IT Manager maintains inventory for all IT equipment. Inventory for all other equipment is maintained by School Office.



The standards questionnaire

N	Insurance	Fully in place	Partly in place with improvement needed	Not in place and comment needed
N1	Annual review of risks and arrangements	✓		
N2	Additional insurance for risks not otherwise covered	✓		
N3	Procedures for notification of new risks and changes	✓		
N4	No indemnity to third parties without authorisation	✓		
N5	Notification of insurance losses and claims	✓		
N6	Insurance of property taken off-site	✓		

Comment (if needed)

IT Manager keeps a log of all IT equipment taken off site. Site Agent keeps a log of all other equipment that may be taken off site.

P	Data security	Fully in place	Partly in place with improvement needed	Not in place and comment needed
P1	Security of access	✓		
P2	Back-up procedures	✓		
P3	Recovery plan for emergency or disaster	✓		
P4	Protection against computer viruses	✓		
P5	Data Protection Act notification	✓		

Comment (if needed)

New GDPR legislation in place. GDPR Audit has taken place and all areas needing attention are in the process of being addressed. All staff in process of completing GDPR on-line training course.
Reference in both Finance Manual & Continuity Plan.

Notes



Notes