

4. INTERNAL FINANCIAL CONTROL

4.1 Introduction

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 and be confident there is no waste or misuse of school resources. By building controls (known as internal financial controls) into systems schools should be confident that transactions will be properly processed or that any errors will be detected promptly.

This section covers specific aspects of financial control, which compliments advice given in other sections e.g. organisation, responsibilities, budgetary control, banking, purchasing and income.

4.2 Personnel with Financial Responsibilities

The appointment of staff should be made with due regard to the qualifications and capabilities commensurate with their duties. Inevitably, the proper functioning of any system depends on the competence and integrity of those operating it. The qualifications, experience and personal qualities of those involved with financial arrangements are important features of a control system.

Consequently, the governing body should ensure that:

- personnel are competent, suitably qualified and trained to perform at a level commensurate with their responsibilities
- clear statements of criteria for personnel selection and formal job descriptions are maintained
- the finance staffing levels are adequate
- there are effective arrangements to deal with the absence of key financial personnel.

The governing body must consider the financial expertise it needs to support the role of the Headteacher and the administrative team. This could involve refreshing and updating the skills of existing staff, employing additional staff on a part-time basis, or buying in skills.

When considering the need for external financial expertise the school may consider approaching their LA Finance Support team or private companies. The internal auditors will only provide such advice if it does not compromise their independence.

Where a school has governors with relevant financial expertise, their skills may be useful in highlighting the areas to which special attention should be given and in checking that the support the school has acquired is adequate and is providing good value for money.

The governing body should keep under review any training needs and opportunities. Training is available through a number of organisations in relation to financial

management and the accounting requirements of schools.

4.3 Segregation of Duties

Duties should be properly segregated between individuals. One of the prime means of control is the separation of those duties which would, if combined, enable one individual to record and process a complete transaction. Segregation of duties reduces the risk of error or intentional manipulation through checks built into the routine.

Functions which should be separated include those of:

- authorisation (the authorisation of a transaction such as a purchase order or a payment)
- execution (the placing of an order, receiving of goods and services or charging and receipt of a fee)
- custody (the holding of the goods or services)
- recording (the completion of the accounting records)
- in the case of a computerised accounting system, systems development and operation (the determination of operating procedures and the carrying out of those procedures).

The segregation of duties will need to be addressed in relation to the staff available and their levels of responsibility. It will not be possible in many schools to allocate all the functions listed above to different staff. In most cases it is not necessary to separate the functions between more than two or three staff.

Internal auditors will review segregation of duties as part of the audit and will advise schools if alterations to the financial systems are required.

Segregation of duties can be simplified if it is possible to centralise the execution and recording functions to be carried out by a person who has no authority to authorise transactions. The person authorising a transaction should therefore never execute or record the transaction. If payments are also authorised by a third person there should be adequate segregation of duties.

4.4 Authorisation and Supervision

Levels of authorisation and supervision of transactions must be specified. All transactions will require authorisation or approval by an appropriate person.

Delegation of Budgets

In a delegated budgetary system each budget holder is responsible for expenditure charged to their budgets. The budget holder should therefore monitor expenditure as it is incurred.

The budget holder authorises each order. Normally a transaction limit will be set, above which authorisation would be required from a more senior manager or the finance committee or governing body may need to authorise a transaction. These limits should be recorded in the school's Financial Management Policy and Procedures document.

In addition to authorising transactions, budget holders will need to supervise staff to whom they have delegated authority. This supervision may be assisted by the Finance Officer in ensuring transactions are carried out in accordance with the school's financial procedures and that they have been correctly authorised. The Finance Officer will also normally supervise the production of reports and reconciliation of bank and supplier accounts.

Post Authorisation Amendments

An important element of control within the authorisation of transactions is that the document receiving authorisation is complete and not subject to alteration. In the case of purchase orders where precise final values are not known at the time the order is placed this may not be feasible. Such transactions requiring post authorisation amendments should be avoided if possible; otherwise, the final values should be reviewed by the person responsible for the authorisation. In the case of cheque or other payments, signatures must never be obtained in advance of completing the cheque or other payment method.

Authorisation Limits

The limits for the authorisation of transactions by each person or committee should be determined by the school by reference to the type of transaction, the size and the organisation of the school. Authorisation limits should be included in the school's financial procedures and communicated to all budget holders.

Payroll Authorisation

Alterations to the payroll must be authorised by someone other than the person preparing the alteration and not by the person the alteration relates to. Payroll alterations will normally be authorised by the Headteacher, with any alterations to the Headteacher's pay being authorised by an appropriate committee of the governing body.

4.5 Documentation

All aspects of the financial arrangements should be documented. Documentation helps to ensure a degree of formality and structure which is essential in financial management procedures. It can aid continuity considerably in the absence of key staff or during any changes of staff. It will also reduce the chance of error, assist in proper and timely accounting and reporting and ensure all items are accounted for.

Schools must have a workable set of instructions. These can be combined to form the **Financial Management Policy and Procedures document** required under paragraph 1.6 of the Scheme for Financing Schools.

Documentation of systems, procedures, duties and responsibilities should be accessible at all times to form a definitive guide be referred to as necessary in order to maintain standards.

Documentation should cover areas such as:

- accounting systems detailing the documents involved and the records to be

produced, e.g. for recording the placing of an order through to raising the payment to the supplier. These systems should include the procedures necessary to produce the returns required by the LA

- financial decisions of the governing body and any committees which may be by way of minutes of meetings
- computer systems - in many cases the accounting package will include an operating manual which should include sufficient information, although it is often useful to prepare in-house instructions for regular tasks
- operating procedures which will provide the timetable and detailed job instructions for producing the financial records and information at the appropriate time in order to meet the overall financial objectives
- security of personnel and payroll data, clarifying the procedures to be followed to ensure only authorised staff have access to this information. The procedures for changes to the payroll should include details of the persons who may authorise the changes. This should be communicated to the payroll provider or internal payroll staff
- security systems relating to the storage of information and the recovery procedures to be followed in the event of the loss of such information including back up procedures for computer based system
- individual duties and responsibilities including job specifications and levels of authority in relation to each person's position having regard to the segregation of duties
- authorisation limits as discussed above.

4.6 Accounting System

The accounting system used must record all transactions so that source documents can be traced. This is commonly called the audit trail. It must also be capable of producing management information for use by the governors and budget holders in addition to providing the figures from which the monitoring returns to the LA are prepared.

Computerised Systems

Irrespective of the accounting system operated by the school the relevant procedures should be documented as a basis for ensuring compliance with procedures. Computerised systems will need additional management controls to ensure the integrity and confidentiality of the information. A systems manager will normally be required to take responsibility for the operation of the system including the maintenance of both the hardware and software and the regular backup of financial information.

Other Funds

The school may need to administer funds provided by organisations other than the LA. Funds provided must be administered in accordance with the requirements specified by the relevant organisation. Control procedures must be implemented to ensure the requirements are complied with and any reports or certificates are produced.

Copies of all agreements held relating to funds provided by various organisations

must be retained together with any reports provided to those organisations. The funds and expenditure form part of the school's financial operations and must therefore be consistent with, and included in, any financial reports of the school.

4.7 Payroll

Staff Appointments and Changes

Approval of appointments and changes for all members of staff must be made in accordance with the arrangements for delegated authority approved by the governing body. In particular, a staff member must not approve a change to their own conditions.

Payroll Administration

The most appropriate levels of authority for particular changes to payroll data should be determined by each governing body. The person authorising changes to the payroll must not authorise changes relating to themselves. Authority should normally rest with the Headteacher except where such changes are of a relatively trivial and routine nature, such as a change in tax code. Such changes should be authorised by the Finance Officer. Changes to the Headteacher's pay should be authorised by an appropriate committee of the governing body and subsequent changes checked and evidenced by the Chair of governors.

All adjustments to normal payroll disbursements (e.g. overtime and honoraria) should be authorised by appropriate staff. Time sheets or other supporting records should be prepared and checked to ensure that they are proper and reasonable. Travelling expenses and other allowances are paid through the payroll must be properly determined and authorised.

Control should be exercised through the segregation of duties between payroll preparation, review and final approval of payments. Whether paying its own staff or using a payroll provider, the school should ensure through monthly reviews that all, and only, bona fide staff are included and that all payroll changes are correct and appropriately authorised. The school should also ensure, at least annually, that gross pay agrees with contracts or other authorised documents and that deductions have been correctly determined and authorised.

The governing body should consider the need to buy in the services of a payroll provider. This may be either the LA payroll services or an external bureau. The governing body should ensure, however, that when a payroll provider is used a contract or service agreement is signed. This should include details on ownership of programs and data files and responsibilities of the provider and the school, including

- notification of changes to data
- who may authorise provider to make changes to data
- control and accuracy of data
- the preparation and submission of year end returns to the HMRC
- backup provision
- notification of changes to the pay date
- provision for access to both personal information and payroll analysis by the

school's staff and LA internal auditors

- funding dates if the provider originates payments
- indemnification in the event of lost or corrupted data.

The school should critically review its payroll services irrespective of how they are provided. In negotiating a contract price it should have regard to the financial benefit a payroll provider will receive if payment by the school is gross salaries inclusive of Pay As You Earn and National Insurance deductions, the payment of which is not required by the HMRC until the 19th of the following month.

Any governing body deciding to operate its own payroll should ensure that the person preparing the payroll has the relevant skills, qualifications and experience to ensure the payroll is calculated accurately and complies with current legislation relating to employment law and taxation. There must also be adequate procedures to provide cover in the event of the person normally preparing the payroll being unavailable.

Deductions from the payroll for tax, national insurance and pension contributions must be made in accordance with current legislation, and paid over by the due date. The LA is responsible for remitting teachers pension contributions to the Teachers Pensions Agency for all its schools, irrespective of the payroll provider. Liability for tax and National Insurance contributions rests with the school if payroll costs are met from a local bank account rather than a central LA account; otherwise, responsibility rests with the LA.

Payments

Payments to staff must normally be made by bank credit. There should be a monthly reconciliation of the total of individual payments to the gross salaries amount due. Schools with payroll costs met from a local bank account should ensure that payments to the payroll provider are checked against the payroll analysis and paid over by the due date.

Payroll amounts must be paid to staff on the due contractual date. All payments, whether by BACS or any other method must be made in accordance with the delegated authority approved by governors.