

Section 2: Financial Controls

2.1.1 Application of Financial Controls to Schools

Schools are required to abide in the management of their delegated budgets by the Authority's requirements on financial controls and monitoring. Detailed requirements are included in the LMS Finance Manual.

2.1.2 Provision of Financial Information and Reports

Schools are required to provide the Authority with details of anticipated and actual expenditure and income, in a form and at times determined by the authority. Authorities cannot require this data more often than once every three months except for those returns connected with tax or banking reconciliation, unless the Authority has notified the school in writing that in its view the school's financial position requires more frequent submission or the school is in its first year of operation. The restriction to a minimum 3 month interval does not apply to schools which are part of an on-line financial accounting system operated by the Authority.

The details of these requirements are as follows:

- a monthly statement of Income and Expenditure passed through the local bank account by 18th of each month;(Required in respect of tax (VAT) and bank reconciliation)
- specified reports at year end that will enable the Authority to reconcile the school local bank account.
- a Cash Flow statement for all schools operating 100% local bank accounts which will be required on a monthly basis.
- A financial monitoring statement, plus supporting documentation, upon request, where the Authority has concerns;
- a financial monitoring report, including projected current year outturn, and including a reconciliation of school expenditure to County ledger, to accompany the draft budget plan submitted in November. The date at which the report should be compiled will be specified annually by the Authority.

2.1.3 Payment of Salaries; Payment of Bills

The procedures to follow will vary according to the choices made by schools on school banking arrangements and the buy back of the Authority's payroll system. The procedures are set out in the LMS Finance Manual as follows:

Section E - Purchasing Arrangements

Section F - Payments of Accounts
Section G - Local Bank Accounts/Petty Cash
Section H - Guide to Purchasing
Section P - Claims and Casual Staff.

2.1.4 **Control of Assets**

Each school must maintain an inventory of its moveable non-capital assets. Details of the coverage of assets, the form of the inventory and arrangements for the disposal of assets are contained in the LMS Finance Manual - Section U. However, schools are free to determine their own arrangements for keeping a register of assets worth less than £1,000. Schools exercising this discretion must keep a register in some form.

2.1.5 **Accounting policies (including year-end procedures)**

The accounting policies of the Authority, including closure of accounts, are contained in the LMS Finance Manual. Schools are required to abide by the requirements laid down in these documents, in respect of all income and expenditure from public funds, or derived from the use of publicly funded assets, including income and expenditure for community purposes and income and expenditure of confederations and partnerships.

2.1.6 **Writing-off of debts**

All Maintained (including Aided and Foundation) schools must agree any debt write off with the Authority. This is to ensure that there is some external check on the losses to public funds. This is subject to a de minimis level of £150 i.e. schools can write off a sum up to that amount.

2.2 **Basis of accounting**

The Authority prepares its statutory accounts on an accruals basis. Maintained schools are required to ensure that annual spending notified to the Authority is on an accruals basis. Their Consistent Financial Reporting returns to the DFE should also be on an accruals basis, so that they are on the same basis as reports to the Authority. However, schools can choose their own basis of accounting for internal accounting and reporting.

Schools can choose which financial software they wish to use, provided they meet any costs of modification to provide output required by the Authority. In particular, schools should be able to report separately to the Authority on revenue and capital expenditure, and on any funds held by them on behalf of collaborative ventures with other schools where specified by the Authority, to demonstrate that only public funds have been reported to the Authority, and to demonstrate an audit trail back to its accounts for each of these separate funds.

2.3 **Submission of budget plans**

Every school maintained by the Authority is required to submit an annual budget plan by 1 May each year detailing its income and expenditure plans for the year. The format of this plan is contained in the Finance Manual Chapter A. The budget plan format allows schools to take full account of estimated deficits/surpluses at the previous 31 March.

Schools are required to complete a draft budget for the following financial year by 30 November. This is formalising good practice carried out by many schools in the past. These drafts can be prepared using the verification and forecasting tool which will be available by October, to forecast the budget for the following year at current prices. The draft budget should be prepared and presented to the Governors' Finance Committee. The Chairman's signature is not required on the draft budget.

The Authority is required to supply schools with all school income and expenditure data which it holds which is necessary to efficient planning by schools, and to supply schools with an annual statement showing when this information will be available at times through the year.

- 2.3.1 The authority may require schools to submit a financial forecast covering each year of a multi-year period for which schools have been notified of budget shares beyond the current year.

2.4 **Efficiency and Value for Money**

Schools must seek to achieve efficiencies and value for money, to optimise the use of their resources and to invest in teaching and learning, taking into account the Authority's purchasing, tendering and contracting requirements.

It is for heads and governors to determine at school level how to secure better value for money.

2.5 **Virement**

Schools are free to vire between budget heads in the expenditure of their budget shares but governors are advised to establish criteria for virements and the financial limits above which the approval of the governors is required.

2.6 **Audit: General**

All schools are subject to the audit regime determined by the authority as regards internal audit and to the authority's external audit regime as determined by the Audit Commission. Schools are required to co-operate with any internal and external audit inspection and provide access to the school's records.

2.7 **Separate External Audits**

Governing Bodies are able to spend funds from their budget share to obtain external audit certification of its accounts, separate from any local authority internal or external audit process. This audit would have to take account the status of the school as a spender of local authority funds, rather than being a grant aided institution. Any school securing a separate external audit should be aware that the statutory responsibility for audit remains with the authority. There is no expectation that routine annual external audit at school level of the budget share should be a usual feature of the new funding system.

2.8 **Audit of Voluntary and Private Funds**

Voluntary and private funds are separate from the school's delegated budget, and are often administered by Surrey County Council staff. The authority must satisfy itself that public funds are not being misused. Schools are therefore required to provide audit certificates in respect of voluntary and private funds held by schools and of the accounts of any trading organisations controlled by the school. The procedures for furnishing these audit certificates and advice on handling of such voluntary and private funds is set out in section X of the LMS Finance Manual.

2.9 **Register of Business Interests**

Governing Bodies must maintain a register which lists for each member of the Governing Body and the head teacher, any business interests they or any member of their immediate family have; to keep the register up to date with notification of changes and through annual review of entries, and to make the register available for inspection by the authority, Governors, staff and parents.

2.10 **Purchasing, Tendering and Contract Requirements**

The Authority has Purchasing Rules and Guidelines and Standing Orders relating to purchasing, tendering and contracting matters. A summary of Purchasing Rules and Guidelines is attached as Annex D. The detailed Purchasing Rules and Guidelines and Standing Orders are contained in the LMS Finance Manual Section E.

Schools are required to abide by these Financial Regulations and Standing Orders except where these would require schools:

- (a) to do anything incompatible with any of the provisions of the scheme, or any statutory provision, or any EU Procurement Directive;
- (b) to seek Authority officer countersignature for any contracts for goods or services for a value below £60,000 in any one year;
- (c) to select suppliers only from an approved list;
- (d) to seek fewer than three tenders or quotations in respect of any contract with a value exceeding £10,000 in any one year.

2.11 **Application of Contracts to Schools**

Schools have the right to opt out of contracts arranged by the Authority with the following exceptions:

for contracts which schools have agreed to be covered by in respect of services for which funding was delegated by the Authority prior to 1 April 1999;

for contracts which schools agree to be covered by in respect of services for which funding is delegated by the Authority after 1 April 1999;

Although governing bodies are empowered under paragraph 3 of schedule 10 to the School Standards and Framework Act 1998 to enter into contracts, in most cases they do so on behalf of the Authority as maintainer of the school and the owner of the funds in the budget share. However other contracts may be made solely on behalf of the governing body, when the governing body has clear statutory obligations-for example, contracts made by aided or foundation schools for the employment of staff.

2.12 **Central Funds and Earmarking**

The Authority is authorised to make sums available to schools from central funds, in the form of allocations that are additional to and separate from the schools' budget shares. Such allocations are subject to the conditions attached to the allocations that set out the purpose or purposes for which the funds may be used. These funds cannot be assimilated into the schools budget share, although some limited virement may be possible.

Earmarked funding from centrally retained funds can only be used for the purpose specified. Schools will be required to account separately for such funds. Earmarked funds must be returned to the Authority if not spent in-year, or within the period over which schools are allowed to use the funding if different.

The Authority will not make any deduction, in respect of interest costs to the Authority, from payments to schools of devolved specific or special grant.

2.13 **Spending for the Purposes of the School**

Section 50(3) of the School Standards and Framework Act 1998 allows Governing Bodies to spend budget shares for the purposes of the school, subject to the provisions of the scheme. Under section 50(3)(b) the Secretary of State may prescribe additional purposes for which expenditure of the budget share may occur. Such purposes are prescribed in the Schools Budget Shares (Prescribed Purposes) (England) Regulations 2002 (SI 2002/378) and the School Budget Shares (Prescribed Purposes) (England) Amendment regulations 2004(SI 2004/444). In particular, budget shares may

be spent for the educational benefit of pupils registered at other maintained schools. From 1 April 2011, under section 50(3A), amounts spent by governing bodies of all schools on community facilities or services under s27 of the Education Act 2002 may be treated as spent for the purposes of the school.

2.14 **Capital spending from budget share**

Governing bodies are permitted to use their delegated budgets to meet the cost of capital expenditure on the school premises. This includes expenditure by the Governing Body of a voluntary aided school on work which is their responsibility under paragraph 3 of Schedule 3 of the School Standards and Framework Act 1998.

Any planned capital expenditure from the delegated budget must be notified to the Authority. If the expected capital expenditure from the budget share in any year will exceed:

- £15,000 or
 - 2% of the school's budget share if between £15,000 and £100,000 or
 - £100,000 if 2% of the school's budget share is higher than this,
- the Governing Body must notify the Authority and take account of advice given as to the merits of the proposed expenditure. Where the premises are owned by the Authority, or the school has voluntary controlled status, then the Governing Body should seek the prior consent of the Authority to any works proposed to the premises, irrespective of value, in accordance with established procedures which are intended to ensure that the appropriate constructional and health and safety standards are complied with. Consent can be withheld only on health and safety grounds

2.15 **Notices of concern**

The authority may issue a notice of concern to the governing body of any school it maintains where, in the opinion of the Chief Finance Officer and the Chief Education Officer/Director of Children's Services, the school has failed to comply with any provisions of the scheme, or where actions need to be taken to safeguard the financial position of the local authority or the school.

Such a notice will set out the reasons and evidence for it being made and may place on the governing body restrictions, limitations or prohibitions in relation to the management of funds delegated to it.

These may include, without limitation:

- insisting that relevant staff undertake appropriate training to address any identified weaknesses in the financial management of the school;
- insisting that an appropriately trained/qualified person chairs the finance committee of the governing body;
- placing more stringent restrictions or conditions on the day to day

financial management of a school than the scheme requires for all schools – such as the provision of monthly accounts to the local authority;

- insisting on regular financial monitoring meetings at the school attended by local authority officers or nominees;
- requiring a governing body to buy into a local authority's financial management systems; and
- imposing restrictions or limitations on the manner in which a school manages extended school activity funded from within its delegated budget share – for example by requiring a school to submit income projections and/or financial monitoring reports on such activities.

The notice will clearly state what these requirements are and the way in which and the time by which such requirements must be complied with in order for the notice to be withdrawn. It will also state the actions that the authority may take where the governing body does not comply with the notice.

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2.16 **Schools Financial Value Standard**

All local authority maintained schools (including nursery schools and Pupil Referral Units (PRUs)) must demonstrate compliance with the Schools Financial Value Standard (SFVS) and complete the assessment form on an annual basis. It is for the school to determine at what time in the year they wish to complete the form.

Governors must demonstrate compliance through the submission of the SFVS assessment form signed by the Chair of Governors. The form must include a summary of remedial actions with a clear timetable, ensuring that each action has a specified deadline and an agreed owner. Governors must monitor the progress of these actions to ensure that all actions are cleared within specified deadlines¹.

2.17 **Fraud**

All schools must have a robust system of controls to safeguard themselves against fraudulent or improper use of public money and assets.

The governing body and head teacher must inform all staff of school policies and procedures related to fraud and theft, the controls in place to prevent them; and the consequences of breaching these controls. This information must also be included in induction for new school staff and governors.

School staff should notify Surrey County Council Internal Audit (Telephone 020 8541 9190) of any matter coming to their attention that involves or is thought to involve corruption or financial irregularity. In addition the council

¹ Sentence added 25 April 2012 following amendments to DfE model scheme

expects that the police are made aware of, and investigate independently, any offence where material financial impropriety may have occurred.

The link to the council's strategy against fraud and corruption and the confidential hotline telephone number for whistleblowing can be found in Section D of the Schools' Finance Manual

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