

FINANCIAL ADMINISTRATION IN LOCAL PAYMENTS SCHOOLS

SECTION : 19 FINANCIAL ADMINISTRATION IN LOCAL PAYMENTS SCHOOLS**19.1 INTRODUCTION**

Local payments schools are responsible for the maintenance of proper accounting records on an ongoing basis so that the financial position of the school can be accurately determined at any time.

It is the responsibility of the governing body to ensure that adequate resources are made available for the efficient and effective administration of the school. Quality time should be made available to those involved in financial processes which require accuracy and concentration.

Governors and staff have a duty to prevent and detect fraud.

19.2 POLICIES

To ensure that the required outcomes are identified and responsibilities allocated governing bodies will have in place the following policies

- Finance
- Budget monitoring

Additional policies are desirable in respect of

- Investments
- Treasury Management
- Debt Management

Governors are obliged by law to ensure that creditors are paid on time. However it may be appropriate to have a payments policy which deals with related issues such as disputes, refunds, payment incentives, discounts and like matters.

19.3 EXPECTATION

Management and Governors should expect to receive materially correct management information within 7 calendar days of the end of each month.

19.4 RISK

Governors, headteachers and other staff must appreciate that where there is closer involvement with financial transactions there is an increased risk of fraud. To discharge their duty to prevent and detect fraud Governors and staff must ensure that processes are sound. It follows that it is imperative that control processes such as reconciliation, cash checks, separation of duties and reporting are strictly maintained. Governors may choose to designate a responsible officer for the purpose of scrutinising transactions and checking key controls. The responsible officer must be completely independent of any school financial or management process.

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19.5 CO-ORDINATION

Timeliness is the key to efficient financial management. Therefore a tight timetable is an essential tool in the process leading to the production of management information to target. It is recommended that each school constructs a simple timetable for completion of financial tasks.

The Bursar should ensure that support staff activities are co-ordinated so that so far as possible activity is concurrent rather than consecutive. The timetable should recognise that activities are cyclical and so far as possible financial processes should work on the basis of continuous updating. Effective separation of duties will facilitate concurrent activity.

Failure to complete tasks to the deadlines implies a substantial weakness in the processes and their management. One common cause of this is failure to delegate and resource at appropriate levels with the result that senior staff are routinely embroiled with inappropriate detail.

The Headteacher, or a designated individual of appropriate seniority, should set aside time to carry out management checks that confirm the efficient and effective operation of control processes.

19.6 FREQUENCY AND PLANNING OF TASKS

The end of each calendar month provides a clear cut off point. All routine tasks should, ideally, be completed by the end of the working day prior to the completion of the VAT return. The user defined and standard reports generated from within the accounting system may be used to streamline processes.

The following tasks need to be considered in the construction of a timetable

1 Download of payroll information.

Payroll data is generally available 3 working days before the nominated pay day and should be downloaded and automatic reconciliation run prior to completion of the VAT return. Where payroll data is provided by other means then entries should be complete by month end

2 Bank reconciliation

Should be done at least weekly. This is a key control process (additional notes are provided later in this section). Where statements are available electronically transactions can be reconciled on the day after they occur.

A formal month end reconciliation must be performed and presented to the appropriate person. This may be the same day as the VAT return is completed however year end balances must always be reconciled at the 31st March.

3 Review out of date cheques.

Remind payees at the 3 month point and issue duplicates if required. Write back after 6 months as necessary.

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4 Review orphan credit notes

Any credit note more than two months old should be reviewed. If it is unlikely that further business will be done with that supplier in the near future a “cash” refund should be sought. If the amount is significant consider raising an invoice.

5 Post Petty Cash

This should be done on a regular basis and posting at a point immediately prior to the VAT return will ensure that the VAT will be recovered. The monthly Petty Cash reconciliation should be completed at this point.

6 Creditor payments

Timely payment of creditors is mandatory and outstanding creditors invoices should be reviewed weekly to identify those that are due and arrange payment. Use of program features should enable the identification of payments that are falling due. Where electronic payment means such as BACS are available it is possible to set value dates for the future so that the payment and the value date can be aligned.

Review of suppliers statements may prove helpful in identifying missing invoices. Reconciliation of suppliers statements may also prove to be helpful.

7 Clear suspense file

Where possible this should be done promptly after each payroll download. There should only be payroll entries on this file and if personnel mapping is complete there should be few of them. This will ensure so far as possible completeness of the schools figures.

8 Clear down payroll commitments

This should be done once payroll reconciliation is complete but should not be held back while minor suspense items are cleared.

9 Compare ledger code balances with LEA figures

The LEA notifies certain payments to schools and these figures can provide useful control totals. These provide a convenient means of checking that moneys have been received and correctly posted. Check that the cash received matches both the budgeted and notified amounts. Profiles may be a convenient way of helping with this. Timing differences will need to be taken into account.

10 Review of commitments

Non-pay commitments should be reviewed and cleared down monthly. In most cases orders are fulfilled within a month and therefore orders older than 6 weeks should be questioned. Significant sums can be locked into commitments that have not been cleared, generally this because invoices have not been matched to the original order. This has an impact on resource management and failure to do this may result in poor decision making.

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11 Debt management

Credit control is an important function if the school is not to suffer financial loss. Ideally all school services will be sold on a cash basis but where this is not possible credit may need to be advanced. The prompt rendering of invoices and follow up by statements and letters are vital to creating a payment culture. Debt should not be allowed to mature beyond the due date. The greater the volume of transactions the more important it is to spread the task. Depending on volume this should be done weekly. Old debt should be pursued and drawn to the attention of management. Debt may only be written off in accordance with the provisions of the LMS scheme.

12 VAT return

This is a mandatory process that must be completed on the penultimate working day of each month. Once complete there must be no further transactions until the return has been finalised.

13 Internal recharges

These should be effected prior to month end so that they may be included in the monthly management figures. Creation of template journals may assist in speeding data entry. It should be noted that internal recharges are an adjustment of expense items and do not affect income.

14 Bank cash

Where possible cash should be banked immediately prior to month end so that entries are recorded on bank statements and timing differences reduced.

15 Update budgets

Budgets should be updated to reflect additional allocations of Standards Funds money and to reflect adjustments to school budget share.

16 Month end

At the end of every period even if a formal period end is not done the following reports should be run

- o Trial balance
- o Statement of balances & reserves
- o Aged debtors report
- o Aged creditors report
- o Periodic balance report
- o Bank reconciliation

The reports should be run consecutively with no other users logged in. If timing differences are to be avoided simultaneity is vital. These reports form the basis of reconciliation.

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It is important to check that the debtors control balance on the statement of balances and reserves agrees with the balance on the aged debtor listing. Similar checks should be made in respect of creditors control. If they are not in balance then there is almost certainly a problem with the data that will require fixing. It is worth carrying out this check whenever there is a system crash.

17 CIS returns and payments

These are required by the Inland Revenue, timeliness and accuracy are vital if penalties are not to be incurred.

18 Payment of Tax and NI contributions

Those schools who have their own PAYE reference are required to pay these contributions to the Inland Revenue, by the due date if penalties are to be avoided.

19 Gross error checks

It may be worth reviewing ledger code and cost centre code balances to see if there are any obvious oddities. Wildly under or overspent headings should be scrutinised to ensure that the rogue answer is not due to a posting error.

20 Management reports.

Once the VAT return has been completed, simple management reports for Internal use should be run and distributed. The production of a Monitor report should be undertaken promptly.

21 Cash flow

Management of cash flow is important and the cash flow forecast should be updated each month. This will be informed by the budget profiles, commitments and the spending plans of departments.

22 Quarterly LEA cash reconciliation

This is a synthesis of the monthly Bank reconciliation and a verification that, after allowing for timing differences, the LEA control figures agree with the school record.

23 Year end tasks

These must be planned to ensure that they are completed by the deadline in the LMS scheme and they must include all reconciliations and year end debtor & creditors adjustments as laid down in the year end instructions. Good housekeeping through the year should facilitate this process.

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19.7 CASHFLOW MANAGEMENT

A cash flow forecast will be compiled. This will be a dynamic document maintained on an ongoing basis. The forecast will identify the requirements for cash both in the short term and the longer term. The aim is to ensure that the school has sufficient cash to meet all its liabilities when they fall due. Since schools may not (by law) overdraw their bank accounts and are equally obliged to pay their creditors on time the cash flow forecast is an important tool in ensuring that goods are not ordered before funds are available to pay for them.

The longer term forecast will apply profiling techniques to the school development plan and project the incidence of expenditure and subsequent payment. This will be compared with the estimated tranches of money from the LEA and other assumptions about school income.

This will determine how much money can be safely committed to spending plans and/or longer term deposits and will identify likely pressure points sufficiently far in advance to plan for them and if necessary adjust spending plans.

The short term forecast will generally relate to the current month and the forward month and seek to firm up the detailed picture as the actual patterns of income and expenditure becomes known. This will allow for the fine tuning of investments and spending plans.

19.8 RECONCILIATION

This is a process by which financial records are proved to be complete and in agreement with third party records. It is a key control process and takes place in a number of situations. It accounts for variations between those records which are caused by timing differences or by error.

It follows that the two sets of records can have different balances and yet both are correct. If the difference can be satisfactorily explained as a timing difference then they are in fact reconciled. If a timing difference is not the reason for the difference it will be necessary to look for the cause which may be an error or omission.

A timing difference is the time lag between an entry being made in one system and it being recognised in another. There are a number of situations where a simple reconciliation will prove the totals concerned. Broadly these are explained in the following examples.

The statement from a supplier dated the first of the month shows an unpaid balance of £600 at month end but the school records shows a balance due to the supplier of only £200. Closer examination shows that a payment of £400 was sent just before month end but as yet is not recognised by the supplier. The supplier balance less the payment made equals the school ledger balance and therefore the two accounts can be said to reconcile.

Should this not provide the answer more detailed checking will be needed to see if all of the invoices on the statement have been processed, are the invoice totals recorded in accordance with the invoice and the statement? The process therefore reveals posting errors and errors of omission. It does not reveal errors in coding.

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The debtors control works in the same way and it is important to ensure that credits are allocated promptly to debtors accounts and indeed are recognised as such and not treated as cash income. This later results in a double count and a misstatement of the schools position but it will not make the bank wrong.

All external transactions for monetary value affect the bank balance. Bank reconciliation is a key control and is simply the process of agreeing the school ledger balance to the bank ledger balance. The process is mechanical and can be done at anytime and use any date. The regular routine of balancing makes it easier to identify differences and rectify them.

The bank reconciliation only reveals

- o omissions and
- o duplication of postings and
- o errors of affecting the value of postings.
- o errors by the bank (clearing differences, unwanted transactions and omissions).

It does not reveal allocation errors. Wherever possible bank reconciliation should be done by someone who is not involved with the authorisation of payments or transaction recording.

It is important that each reconciliation uses a common point. This can sometimes be chosen to reduce the number of possible timing differences although a regular reconciliation will sometimes fall at an awkward date. Bank accounts should in any event be reconciled at month end.

Always work from the ledger balance in the accounting record. The value at this date acts as the datum. Compare this with the bank closing ledger balance at the same date. The process of reconciliation will explain the difference between the two.

	Bank ledger balance	Notes	Example
Add	Un-presented cheques	These reduce the ledger balance in the accounting record and until they are presented the available funds at bank are overstated.	Cheques drawn on last day of period.
Deduct	Credits not shown	These increase the ledger balance in the accounting record and until they are recognised by the bank the available funds at bank are understated.	Cash recorded but not yet banked.
Add	Credits on the bank statement not yet recorded.	These will not be included in the ledger balance which is temporarily understated.	Income received by standing order
Deduct	Debits on the bank statement not yet recorded.	These will not be included in the ledger balance which is temporarily overstated.	Bank charges, direct debits
Equals	Adjusted bank balance	This must agree with the ledger balance. If it does not there is something missing or wrong and the bank does not reconcile. Investigate.	

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This process is straightforward but requires accuracy. A simple pro-forma or spreadsheet may be useful to assist in the process. Supporting papers should be retained and the results of the reconciliation presented to management for review and countersignature. After reconciliation the entries identified from the bank statement should be posted. It is suggested that managers keep unposted items under review to ensure that any surrounding issues are resolved.

Relatively little is needed to test check ledger balances for key headings. In the same way at the end of the VAT period or similar date compare the ledger balance with the figure notified by the LEA, allowing for timing differences these should be the same. Test checking in this way may also provide a useful means of monitoring the general accuracy of postings.