**School Fund Administration, Accounting and Auditing**

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**INTRODUCTION**

1. This guidance manual has been prepared at the request of Heads and the Education Department in order to provide practical advice on the sound management and administration of school funds resulting from NAHT, OFSTED and County Council requirements. Consultation has been made with, and the guide endorsed by, NAHT representatives.
2. The manual is not meant to be prescriptive although the principles are essential to sound financial practice. Schools should tailor the advice given here to their own practical situations. The manual is, however, regarded as best practice and sets certain basic minimum requirements that must be met by all schools. Minimum standards are printed in bold throughout the guide.
3. In addition to accounting procedures, advice is also given on tax, insurance and charitable status.
4. Voluntary funds frequently provide schools with substantial additional sources of finance. Although not public money, school funds are administered by employees of the LEA in normal work time and therefore minimum standards are expected. In addition, parents, pupils and benefactors who contribute to the fund are entitled to minimum levels of financial stewardship and accountability.

**DEFINITION AND PURPOSE OF SCHOOL FUND**

1. The NAHT guidelines define a school fund as “a fund containing other than official monies of the funding authority (i.e. LEA), which is controlled wholly or in part by a Headteacher or Principal by reason of his or her employment at the school”.
2. The general purpose of the fund is to act as a processing account to enable the financing and accounting for extra curricular activities e.g. trips and to generally support the school from non-LEA sources, e.g. fundraising, charitable donations, sponsorship, uniform sales, tuck shops etc. for the purchase of items such as books and equipment.
3. In general terms, school funds should be for the benefit of the pupils of the school, not any other body or members of staff. Unless saving for a specific project funds should not be accumulated beyond normal requirements and should be spent for the overall benefit of the pupils.

**RESPONSIBILITIES**

**THE HEAD**

1. The ultimate responsibility for the control of all private funds operated within the school by school staff lies with the Head. This responsibility does not extend to governor accounts or PTA funds unless specifically stated, and may rest in another nominated person under charitable status.
2. Where practicable, the administration of the fund may be delegated to another member of staff e.g. bursar, secretary or another teacher, this is recommended. Where this is the case, the Head should examine regularly (at least once a term, preferably more frequently) the ledgers, bank statements and other records of the fund to ensure:

**a) the records are up-to-date and accurate**

**b) bank reconciliations are being performed correctly and promptly**

**c) bank statements are being reconciled to the ledger correctly and promptly**

d) **petty cash is being accounted for and is correct.**

1. A small number of transactions should be checked, i.e. expenditure is supported by a voucher and is recorded properly, income has been recorded, receipted and banked promptly.
2. Examination of the records offers some protection both to the Head and administering staff. The examination of the accounts should be evidenced on records by initials and date. Should any dispute occur, Heads would then have clear evidence that their responsibility has been properly discharged.
3. The Head should determine:

a) cheque signatories

b) who is authorised to approve expenditure

c) appointment of suitably qualified auditors (in consultation with the Governors)

1. The Head should ensure annual accounts are drawn up in an approved form, audited and presented to Governors within a reasonable period of time after the end of the fund’s financial year (NAHT guidelines state no later than one year, although in Shropshire, within 6 months is considered to be a reasonable period).
2. The Head should report any suspected irregularities immediately to the LEA.

**THE GOVERNORS**

1. Governors have a general responsibility for the oversight of the management of school funds. Heads are accountable to Governors for the good management of funds, this is normally discharged through the presentation of annual audited accounts. Governors must ensure that this is done within a reasonable time period after the end of the school fund year. This is a requirement under LM Financial Regulations.
2. The Articles of Government should include a statement to the effect that “the Head shall submit to Governors not less frequently than once each year a certified statement of all school funds”.
3. Governors (unless Trustees under charitable status) have no statutory right of access to the school fund during the year but should have the right of inspection and to seek explanation or clarification when the accounts are presented to them.
4. Governors should ensure that a record is kept of all private school funds operating in the school and should be consulted on the appointment of auditors.
5. The Governors should report any suspected irregularities immediately to the LEA.

**THE LEA**

1. The LEA is responsible for setting minimum standards and guidance on the operation of school funds and to ensure that Articles of Government are adhered to.
2. The LEA reserves the right of access to any school fund administered by its own staff and to conduct investigations on the suspicion or reporting of fraud or irregularity on the fund.

**INTERNAL AUDIT**

1. Internal audit have a duty to give advice on the operation of school funds and comment on the adequacy of systems during routine school audits.
2. Internal audit are responsible for carrying out investigations into suspected fraud and irregularity reported by the LEA or the school.

**THE SCHOOL FUND AUDITOR**

1. The auditor has a responsibility to audit the accounts in accordance with this guidance manual and any professional standards they are subject to.

**BASIC PRINCIPLES**

**SEPARATION OF FUNDS**

1. It is important that school fund monies are kept totally separate from all other monies in the school. Do not mix or borrow between school fund, imprest, dinner or other monies, otherwise errors are likely to occur. Monies held on school premises must be clearly labelled and held securely and separately, otherwise cash balances cannot be independently verified to school fund records.

**ACCOUNT BOOKS**

1. Clear, comprehensive accounting records must be maintained. All transactions of the fund must be recorded as they occur in order to avoid disputes, ambiguity or error. Accounting records must be kept up to date. Day books should be kept up to date at all times and ledgers at least monthly.

**BANKING ARRANGEMENTS**

1. A separate bank account with cheque facilities should be opened for the school fund. In addition, an interest earning deposit account or building society account should be opened for holding monies surplus to current requirements and funds earmarked for specific future use e.g. saving for a minibus.
2. The account title must bear the name of the school and any other description necessary to distinguish it as a school fund and separate from all other accounts. The account title must not include the name of an individual or Shropshire County Council.
3. Bank balances should not be allowed to build up beyond what is reasonably required, with regard to current accounts, any amounts over and above a working balance and known outstanding commitments should be transferred to the interest earning account.
4. Bank accounts should not be allowed to become overdrawn.
5. Bank statements should be obtained regularly (weekly or monthly) and reconciled promptly to the school fund record.
6. Cheques should be crossed “a/c payee”.
7. All financial transactions should be made through the school fund and not through personal bank accounts.

**ACCOUNT SIGNATORIES**

1. All cheques and other withdrawals should require the signature of two persons of suitable seniority at the school. For practical purposes this can be two of three or four persons.
2. Signatories should not sign blank cheques. Cheque signatories should see the supporting voucher and check that the payee details and amount agree to it. Blank cheques must not be signed, however under exceptional circumstances (i.e. a school trip involving unknown admission fees run by a teacher who is not a signatory) it would be permissible to pre-sign a blank cheque providing the sig­natory checks the receipt after the event. If the payee is known it must always be entered before the cheque is signed.

**CASH HANDLING**

1. Whenever cash passes from one person to another, an acknowledgement should be given by the person receiving the cash. This can be in the form of a receipt or in a daybook designed for this purpose (see paragraphs 49 - 54).
2. Cash held in school should be kept to a minimum and banked promptly and intact (i.e. do not make deductions to finance petty cash expenditure, instead draw separate cheques for cash to avoid confusion and discrepancies).
3. Cash must be held securely at all times, preferably in a safe or locked drawer/cupboard. Large amounts of cash should not be left on the premises overnight and should never be left unattended.
4. Income should be requested by cheque to reduce cash handling and all payments made, wherever possible, by cheque to reduce the need for holding petty cash. Cheques should be accepted with a bankers card and the card number recorded on the reverse.

**SEGREGATION OF DUTIES**

1. As a principle to protect all parties, duties should be divided between members of staff so that each transaction involves more than one person. If this is not the case people are in a vulnerable position as they have the ability to abuse the system undetected; division of duties also helps protect staff against allegations of abuse, malicious or otherwise.
2. No one person should be in a position to receive all monies, receipt them, bank them and record them in the ledger. Similarly, no one person should approve expenditure, make the payment and record the transaction.

**USE OF THE FUND**

1. School funds must be considered as trust funds and should therefore be used for the object or purpose for which they were set up, namely for the benefit of the pupils.
2. Improper use of the fund would include the following (this list is illustrative, not definitive):

- Payment of Christmas presents to staff or outsiders (e.g. postman).

- Leaving or wedding presents not financed by a specific collection for that purpose (although such collections should be processed through the fund to account for the transactions. Minor ‘topping up’ if reasonable would be acceptable at the discretion of the Head).

- Cashing of personal cheques for anyone (including staff) to avoid the problems and embarrassment of cheques referred to drawer.

- Loans or advances to any person.

- Replacement of private monies lost or stolen.

- Staff refreshments.

**ACCOUNTING RECORDS**

1. In order to ensure that all transactions are properly accounted for and that information is readily available to management and for audit purposes, some suggestions as to the types of record required are offered below.

**CASHBOOK**

1. The cash book is a record of income received and deposited into the bank and of payments made; all school funds must have one. The cash book records all transactions of the fund, be they cash, cheque, direct debits (such as bank charges) or direct credits (such as bank account interest).
2. A suitably ruled cash analysis book should be maintained, an exam­ple of which is shown at Appendix 1; alternatively a computer accounting package could be used.
3. It is recommended that a book with sufficient columns be purchased to enable proper analysis of receipts and payments over the Funds activities. This greatly simplifies the preparation of the year end statement.
4. The cash book should be written up at least once a week if completed from supporting records, otherwise immediately as transactions occur. All entries should be supported by documentary evidence e.g. receipts, daybook entries, payment vouchers.

**OFFICE DAYBOOK**

1. An office daybook is a simple record to record all cash handed in to the school office as it is received and is highly recommended to all schools. The daybook can be modified to act as a receipting record if receipts are not required to be issued. The use of daybooks is already commonplace in Shropshire and enables the administrator to record items quickly allowing the more time-consuming task of ledger maintenance to be done at a quieter, more convenient time.
2. An example of an office daybook is shown at Appendix 2. In order to comply with the principle that whenever cash passes from one person to another it must be acknowledged, it is recommended that the receiver signs (or initials) the record as does the depositor. In this way, there can be no confusion as to what has been handed over and recorded in the fund records. Where pupils bring cash on behalf of their teacher to the office or when classroom collections occur, it is recommended that class daybooks (see paragraph 53) are used and the transactions cross-referenced to give an audit trail.
3. When a banking is made, the daybook should be ruled off, totalled and the date banked recorded.
4. The daybook should always record sufficient detail to enable the update of the ledger and provide an audit trail.

**CLASSROOM DAY BOOKS**

1. It is recommended that, if cash is collected in the classroom, teachers maintain their own classroom daybook, an example of which is shown at Appendix 3.
2. The daybook is a list of amounts received from parents and pupils. The daybook should be totalled whenever income is to be deposited with the fund administrator and should accompany the income to the office so that the receiver may check and sign it to acknowledge receipt of the income.

**RECEIPT BOOKS**

1. Receipts are a method of acknowledging receipt of monies which allows the depositor to retain evidence of the money handed over.
2. Receipt books can be used either instead of, or as a supplement to, daybooks (i.e. issued only when specifically requested, as the acknowledgement of receipt is recorded in the daybook).
3. Only duplicate receipt books should be used. These should contain sequentially pre-numbered receipts available commercially, however these tend to be numbered from one in each book, therefore duplica­tion of numbers occurs. The County Council provide uniquely num­bered receipt books, contact the Cashier, Resources (Tel: 01743-252186, ask for a private fund receipt book).
4. A log of all receipt books should be maintained. The log should record the receipt of all receipt books and who they are issued to. The log should be signed by the recipient to acknowledge custody of the receipt book.
5. Cancelled receipts should be annotated as such and retained for audit purposes.

**TRIP RECORDS**

1. When cash is collected by members of staff for trips, a trip record should be maintained, detailing in list form the amounts and date received from each pupil. An example of a school fund trip record is shown at Appendix 4. An option for instalment payments (dotted lines) is also shown.
2. Amounts deposited with the fund administrator should be entered on the trip record (and class daybook if used).
3. Where income is being collected by instalments (e.g. foreign trips), a record showing the amount and date collected from each pupil should be kept. Where the amounts are large, it is desirable (but not essential) that receipts be issued providing a trip record and classroom daybook are maintained.

**PETTY CASH RECORD**

1. A separate petty cash book should be maintained to record cash payments. This is a simple record recording the amounts spent, top-up of cash and the cash balance - an example is shown at Appendix 5.
2. Invoices to support payments should be obtained, but a pad of petty cash vouchers may be purchased and used as a supporting voucher if no invoice is available. Vouchers should be filed in petty cash book transaction order.
3. At the year end, a second person should verify the cash in hand and sign the petty cash record as evidence that the cash balance has been independently verified.

**STOCK RECORDS**

1. A stock record should be maintained for uniform sales such as sweat­shirts, an example is shown at Appendix 6.
2. All deliveries and sales should be recorded and a running balance of actual stock maintained. Periodically and at year end the actual stock should be physically checked and agreed to the stock record. The stock record should be annotated as checked, signed/initialled and dated.

**YEAR END FINANCIAL STATEMENT**

1. **At the end of the fund’s financial year, a year end financial statement (receipts and payments account) must be produced, audited and presented to Governors within a reasonable time.** A suggested format is shown at Appendix 7. It is essential that the account be drawn up and audited promptly after the year end, i.e. no later than 6 months after the year end, but preferably reported to the first full Governors meeting in the term following that in which the school fund year ended.
2. All the funds records should be made available to the auditor and the Governors have right of inspection of the cash book and supporting records when the financial statement is presented to them.
3. **Confirmation that the audited accounts have been presented to Governors should be recorded in the Governors’ minutes.**
4. Any item owed to or by the fund should be shown as a note on the account if it materially affects the balances shown e.g. where a large amount has been collected for a trip the invoice for which will not be paid until the next school fund year.

**RETENTION OF RECORDS**

1. The accounting records of the fund should be kept in a safe place e.g. locked cupboard and retained for six years in addition to the current year.

**DAY TO DAY MANAGEMENT**

**INCOME COLLECTION PROCEDURES**

1. **All income must be recorded when it is received, be it in a daybook or receipted. Similarly, when it passes from one person to another, it should be formally acknowledged (again by daybook entry or receipt) by signature of the recipient. Entries should show:**

-Amount

-Description

-Date

-Type of payment (cash, cheque)

1. Donations and large amounts should always be receipted.
2. Where income is collected in classrooms, staff concerned should record it and pass it on to the administrator as soon as is practical. Cash should never be stored overnight in classrooms but handed in daily.
3. Income from fund raising by fetes or similar events where cash is received at multiple locations should be counted by the individuals who ran the stall (preferably two persons) and taken to a designated person who should then count the money again, agree, and receipt it via a receipt book or daybook.
4. Where admission charges are made to gain entry, pre-numbered tickets should be issued. A simple record should be kept of the number of tickets issued and sold which should be reconciled to the actual cash received. Unsold tickets and the reconciliation statements should be retained for audit purposes. Similar procedures should be adopted for raffles.
5. Fundraising by a sponsorship event should be done on pro-forma sponsorship forms, preferably pre-numbered for control purposes. Receipt of the sponsorship monies should be checked to the sponsorship form to ensure all monies collected have been handed over and acknowledged by signing the sponsorship form as well as the daybook or receipt.
6. Tuck shop income should be accounted for in a separate record book held in the tuck shop. At the end of each session, the float should be deducted from the total cash and the remainder counted by two persons who should then update the tuck shop record and both sign it. The record should then accompany the cash to the administrator who should check and sign it to acknowledge receipt of the cash. A tuck shop record is shown at Appendix 8.
7. Uniform sales should also be recorded in a stock book, an example of which is shown at Appendix 6. Deliveries should be added to stock and sales deducted. Periodically, a stock check should be undertaken to verify the book stock balance in hand. Closing stock values should be noted on the annual financial statement.
8. **All money received should be banked promptly and intact**. No deduction should be made to finance petty cash or other expenditure. The daybook or cash book should be ruled off and totalled to agree with the banking made. The date of banking should also be recorded.
9. Large cash balances should not be allowed to accumulate in the school. School fund monies are not covered by insurance but the LEA have a policy of making ex-gratia payments of up to £100 (with a £10 excess) in the event of theft, providing the monies have been held securely (see Insurance Cover, page 26).
10. **Pending banking, cash should be held securely, preferably in a safe, but if not available, in a locked drawer or cupboard. Cash should not be left insecure and unattended at any time.**

**EXPENDITURE PROCEDURES**

1. Wherever possible, payments should be made by crossed cheques authorised by two signatories. Cash payments should be avoided but where necessary, processed through a separate petty cash record (see para. 63).
2. **Payments should be supported by vouchers or documents in the form of receipts or invoices. Expenditure must be approved by the Head or person with delegated authority to do so prior to payment**. This should be evidenced on the supporting voucher by words to the effect that it is ‘authorised for payment’ and signed by the authorising officer (in the same way that official invoices are passed for payment).
3. Payment vouchers should be sequentially numbered for reference purposes and the number recorded in the cash book. Vouchers should be filed in reference number order.
4. Cheques should only be made payable to the payee on the supporting voucher (with the exception of PSF donations where the cheque should be payable to Shropshire Council). The supporting voucher should accompany the cheque to the cheque signatory who should check the date, amount and payee details before signing the cheque. Blank cheques should never be pre-signed.
5. Payments to individuals for work done should not be made from the school fund because of income tax implications i.e. storytelling, lifeguard, cleaning etc. Payments can be made if income tax is deducted, or alternatively, the payment can be processed through the school budget on a PSF form marked ‘Tax List Item’ requesting payment to be made to the individual, care of the school. A Council cheque will then be sent to the school. The payment will appear on the Council’s annual taxable payment schedule sent to the Inland Revenue. This will discharge the School Funds liability and place the responsibility on the individual concerned to declare their income to the Inland Revenue.

**PETTY CASH**

1. Petty cash payments should be avoided if at all possible. Some schools have adopted a policy of cheque payments only which is commended but may not be practical in other schools.
2. Where petty cash payments are to be made, it is recommended that an imprest system be adopted. The petty cash float is established at a set amount by a cheque drawn for cash. Expenditure is met from the cash and when the float requires topping up a cheque is drawn for cash for the total amount that has been spent, thereby returning the float to its original level. The reimbursement can then be recorded in the cash book and analysed accordingly.
3. Alternatively, (although not recommended) cheques are drawn for rounded amounts. The cash book is periodically updated from analysis of petty cash expenditure on a monthly/half-termly basis.
4. A petty cash record must be maintained (see Appendix 5). Cash put into the float should be recorded, as well as a running balance.
5. All expenditure should be supported by a voucher which shows the amount and a description of the purchase. All expenditure should be approved (evidenced by signature) by somebody with authority to do so.
6. Vouchers should be consecutively numbered and filed in order. The voucher reference number should be recorded on the petty cash record.
7. It is possible that a voucher will not be available. In these circumstances a petty cash voucher, or a note, can be used to record the amount and description in order to support the payment, providing the principle that the expenditure has been authorised is followed.
8. The petty cash running cash balance should be regularly checked to actual cash and occasionally checked by the Head. The balance should be annotated as checked, signed and dated.
9. A bank reconciliation and bank to ledger reconciliation should be performed whenever a bank statement is received (normally monthly). A model layout is shown at Appendix 9.
10. An up to date unpresented cheque list should be drawn up as follows:

-by checking the previous unpresented cheque list to the latest bank statement to determine those which have now been presented

-cheques which remain uncleared should be carried forward on to the new unpresented list

-cheques which are more than six months old and therefore out of date should be removed from the unpresented cheque list and written out of the cashbook

-cheques written since the last reconciliation should be checked from the ledger to the latest bank statement to determine that the presented amounts are correct (any discrepancies should be investigated) and any cheques which have not yet been presented should be added to the current unpresented cheque list

-entries on the bank statement should be ticked to signify that they have been verified to the ledger.

1. All payments made into the bank should then be checked against the bank statement and ticked off. Any discrepancies should be followed up immediately with the bank. Any bankings made, which do not yet appear on the statement, should be added to the reconciliation.
2. **Check down the bank statement to ensure that all items have been ticked and agreed. Any that have not require some action**. Any bank charges, standing order or direct debit entries will need adding to the cash book. Any cheques referred to drawer (bounced cheques) will need to be written out of (i.e. deducted from) the income side of the cash book and either re-banked or the drawer separately contacted regarding their payment.
3. Once all items on the bank statement have been agreed and all entries are in the cash book, the true balance at bank should be established by deducting the total of unpresented cheques from the final balance on the bank statement and adding bankings made but not yet appearing. Add to this the balance on any other accounts (deposit or building society accounts) and cash in hand to arrive at the total assets of the fund.
4. The income and expenditure pages in the cash book should be totalled and cross cast at the reconciliation date and entered on to the reconciliation sheet. Total income should be added to the fund balance brought forward and total expenditure deducted to arrive at the cash book balance; this should agree to the total assets of the fund. Any discrepancy should be followed up and the exercise checked thoroughly to identify any errors or omissions.

**SCHOOL FUND AUDITORS**

**AUDIT**

1. The term ‘audit’, has a legal definition under the Companies Acts which requires the auditor to carry out more than is expected by the County Council on the examination of a school fund. However, the lay person understands the term and therefore the term is used here, consequently for all purposes in this guidance note the reference to audit is to an independent examination as laid down in these notes and not to the accountancy profession’s strict legal definition.

**APPOINTMENT OF AUDITOR**

1. The Head, in conjunction with the Governors, should appoint a suitably qualified auditor to audit the school fund accounts annually. The auditor must be totally independent from the administration of the fund and have no connection which might inhibit the impartial conduct of the audit; this precludes the following

a) a relative of the Head or administrator;

b) a member of staff involved in the collection of monies.

In addition the auditor should have the requisite ability and practical experience to carry out a competent examination of the accounts.

1. Where vatable income of the fund (see paragraph 138) exceeds the VAT registration threshold (currently £85,000), the auditor should be a member of one of the six recognised accountancy bodies - (the Institutes of Chartered Accountants of England and Wales, Scotland and Ireland, the Chartered Association of Certified Accountants, the Chartered Institute of Management Accountants and the Chartered Institute of Public Finance and Accountancy).
2. It is most important that an effective audit is carried out by a person with experience appropriate to the level of turnover of the fund.
3. Where turnover (total income or total expenditure, whichever is the higher) of the fund exceeds £50,000, or the year end balance normally exceeds £10,000, the accounts should be audited by a suitably qualified person, whether paid or in an honorary capacity. A list of bodies, membership of which satisfies the criteria of ‘suitably qualified auditors’, is given at Appendix 10.
4. Where turnover is below £50,000 and the year end balances less than £10,000, the accounts should be audited by an independent person with suitable experience of financial matters, e.g. a bank or building society official or other person normally engaged in finance work and qualified by knowledge and experience of accounting principles and practice.
5. The appointment of the auditor must be approved by the Governors and recorded in the minutes, which should clearly state the terms of the appointment. Any audit fee should be met from the fund.

**POWERS OF THE AUDITOR**

1. School fund auditors have the right of access to the accounting records and all other supporting records of the fund.
2. Auditors are entitled to require such information and explanations from officers in charge and involved in the fund as are deemed necessary to carry out their duties.

**DUTIES OF THE AUDITOR**

1. Auditors should carry out such investigations as are required to satisfy themselves that:

(i) proper books of account have been kept;

(ii) the annual statement of account is in agreement with such books of account;

(iii) the receipts and payments are in accordance with the general purposes for which the fund exists;

1. If an auditor is not satisfied as to the correctness of the accounts and/or has not succeeded in obtaining satisfactory answers to questions, the matter is to be drawn to the attention of the Head and reported to the Governing Body.
2. If the auditor is satisfied with the correctness of the accounts and has verified the bank and cash balances and the accuracy of the financial statement, a certificate along the following lines should be recorded on the account.

“In accordance with the school fund notes of guidance, I have examined the receipts and payments account together with the books, vouchers and documents relating to The .......................... School Fund for the period ended .................. and of the balances held at that date. In my opinion the books have been properly kept and the above account is in agreement with the books, vouchers and documents submitted and explanations given to me.

Signed ............................................ Auditor”

Note, if the auditor performs the audit without a fee the statement can be signed ................................. Honary Auditor.

**GUIDANCE NOTES FOR AUDITORS**

1. These items are intended as guidelines only. They are not intended either to limit the extent of the auditor’s enquiries or to be used as a ticking programme! What is required is that the auditor conducts sufficient checks to ensure that the accounts give a true and fair view of the transactions for the period under review, that income, expenditure and accounting systems are sound, and to demonstrate to interested persons that monies have been properly accounted for and that the financial statements are correct.
2. Auditors should satisfy themselves:

- that income is duly accounted for in the accounts and banking records;

- that expenditure has been properly authorised and recorded;

- that the fund is administered according to the financial arrangements agreed by the Governing Body;

- that the accounts and supporting records are such as to provide information as to the accuracy of the financial statements submitted to the Governing Body;

- of the existence of any substantial assets, e.g. vans, minibuses, expensive equipment, the amount of cash at the bank and in the hands of officers, as stated in the financial statement;

- that the accounts are correct. If they are not satisfied then a qualified certificate should be issued by means of a note of the items where the auditor was unable to obtain satisfactory evidence of answers to queries raised.

1. The completed annual statement of accounts, books of accounts, supporting invoices and petty cash vouchers, bank statements or certificates of balances, cheques and paying-in books, receipt books, postage books and balance of cash in hand, should all be produced at the same time. It is useful to have access to any minutes or correspondence to substantiate unusual items of expenditure or income, e.g. purchase or sale of a vehicle, writing off a debt, or the making of an ex gratia payment.

**Income**

1. The auditor should:

a) Ensure that all receipt books are produced and trace a sample of receipts to the cash book. Tuck shop, special functions, trips and expeditions may be recorded on separate statements; examine them for date, amounts and certifications, and trace amounts into cash book;

b) Check payments to bank, compare cash book entry with bank paying-in slip and bank statement and follow up any discrepancies. As each operation is completed, mark the relevant voucher or book entry with a distinctive mark or tick (use a distinctively coloured pen, i.e. red or green, to identify audit marks);

c) Check the frequency of banking. The amount of cash accumulating between bankings should be kept to a minimum;

d) Check that cash not banked at the end of the financial year was counted and certified as correct by an independent person;

e) Compare telephone coin box income to the cost of calls on telephone bills, follow up if call costs exceed income.

**Expenditure**

1. Except for small items purchased from petty cash, each item of expenditure should be supported by an invoice. Large items of expenditure should be covered by minuted approval. Invoices or supporting vouchers should be filed in cash book order.
2. Payments should only be made against suppliers’ official invoices, specifically addressed to the school fund. Examine for the validity of items purchased, amount, and discounts if applicable. Check the invoice amount to the cheque stub for payee and amount and through to the bank statement and cash book. Mark each operation with a distinctive character, following each transaction through the chain of sequences.
3. Trace the advances of petty cash from cash book to the petty cash records, verifying the amounts of expenditure and the reimbursement. Check that the level of petty cash is reasonable.
4. Ensure that bank charges, if any, are included in the cash book.
5. Check all totals and pay particular attention to the accuracy of carried forward and brought forward totals.

**Bank Statement Reconciliation**

1. It is important that the cash book balance as stated in the accounts is reconciled with the bank statement on the closing date of the period of account. A worked example is set out in Appendix 9.

**Value of Stocks in Hand**

1. Where the operation of a tuck shop, or other sales, have developed into a sizeable venture, it is prudent to value stocks in hand at the close of the period of account. Ideally, an independent member of staff should supervise the stock-take and the calculation of the stock value at cost price. The stock list and valuation should be certified as being correct. This is an important facet of audit as the stock value has a direct bearing on the surplus stated. A deliberately inflated stock figure may conceal long term losses caused by carelessness or theft.
2. After completing the checks on receipts and payments for such activities as the tuck shop and sales of other goods, a check should be made on the amount and percentage of profit or loss made on these activities.

**Outstanding Accounts**

1. The simplicity of the receipts and payments system does not provide for the recording of monies due but not yet received and invoices not yet paid. The accounts can therefore be misleading and reduce a seemingly healthy surplus or hide an embarrassing deficit because debtors and creditors are not shown. This is not a problem providing a note is made to the accounts.
2. The auditor should confirm that there are sufficient funds in the account to meet outstanding liabilities, particularly in relation to trip monies collected in advance. Cross subsidisation of trips should not occur.
3. The auditor should ask for a statement and evidence of outstanding invoices or receipts and establish their effect on the financial statement or balance, particularly where income for major trips has been collected but the invoice not yet paid. If outstanding income or expenditure is significant, the auditor should insist that a note is placed on the accounts to that effect (see paragraph 71) e.g. ‘£5,000 has been collected for the French trip, the invoice for which has not been paid’.
4. It is necessary for the auditor to certify that the accounts have been examined and found to be correct, and that the financial statement or balance sheet show the true financial state of the fund. If the auditor is not satisfied as to the authenticity of the accounts he should refuse to certify, or provide a qualified certification, and report the reasons to the Governing body.
5. If auditors have any reservations or comments regarding the annual statement, or the operation of the fund, then the certificate should be amended to comment on the specific matters about which there are reservations. Examples of such reservations could include:

- overdrawn bank balances;

- transactions outside the scope of the fund policy or constitution;

- ineffective financial control of the fund such as

 (i) signed blank cheques;

 (ii) lack of receipting or income recording;

 (iii) large cash amounts not banked promptly;

 (iv) inadequate separation of school and County funds;

- unacceptable level of creditors and debtors at year end.

1. In such circumstances the auditor should qualify his acceptance of the accounts by modifying the second sentence of the audit certificate shown in paragraph 114, for example:­

“It was not possible to verify the recorded deficit of £130 on the Icelandic trip as a number of vouchers are missing. Subject to the acceptance of the managing body of this deficit, to the best of my knowledge and belief, I consider the accounts and financial statement (or balance sheet) to be a correct record at that date.

Signed ............................................ Auditor”

or

“I have been unable to ascertain whether these books have been properly kept because the vouchers have been destroyed by fire. Accordingly I am unable to verify the account, but have verified the bank reconciliation statement in accordance with the balance at bank.

Signed ............................................ Auditor”

**TAXATION AND INSURNCE**

**INCOME TAX AND NATIONAL INSURANCE**

1. School funds are separate taxable entities and are not covered by any tax concessions that the LEA may enjoy.
2. Interest and profits earned by school funds are liable to income tax in principle. According to NAHT guidance, it is understood that the Inland Revenue have accepted that school funds, if applied solely for charitable purposes, can be exempt from tax under Section 505(1) of the Income and Corporation Taxes Act 1988, subject to the adoption of a resolution in the school fund constitution that the funds will only be used for purposes considered in law to be charitable. If a local Inspector of Taxes submits a claim for tax on the school fund, a claim for exemption from tax on school Headed paper should be made along the following lines:

“I, , Headteacher of the School, declare that the object of the school fund is to advance the education of the pupils of the school by providing and assisting in the provision of education facilities at the school not normally provided by LEA funds.”

1. Although the Inland Revenue agreed the above with the NAHT, it appears that their rules have been tightened, and now will only accept exemption from income tax if the fund is registered with the Charity Commission, or has been deemed not to require registration. The Inland Revenue policy is to refer all applications for tax exemption on charitable status grounds to the Charity Commission for their decision on charitable status before they consider exemption.
2. **School funds should not be used to make payments to staff at the school, or any other persons, for work done at the school unless a supplier’s invoice is submitted to the fund for the work done**.
3. **Payment to individuals for work done at the school should be made through the Council’s payroll to ensure that the appropriate income tax and national insurance is paid by the person who has carried out the work**. Failure to account for income tax and National Insurance renders the school fund liable to the unpaid tax and possible penalties and fines if discovered by the Inland Revenue (also see paragraph 88).

**VAT**

1. School funds are not part of the County Council for VAT purposes. They escape VAT involvement provided they stay small enough. However, if their taxable turnover is expected to exceed the VAT threshold (currently £85,000), they must register with Customs and Excise for VAT.
2. To estimate your taxable turnover it is suggested that you use the following method:

|  |  |
| --- | --- |
| i.  | Start from your total estimated income in the next year.  |
| ii.  | Deduct any income relating to school trips.  |
| iii.  | Add the total profit made on all school trips.  |
| iv.  | Deduct any donations or grants (gifts without strings).  |
| v.  | Deduct any subscriptions - provided the subscribers do not  |
|  | receive any obvious tangible benefits from the subscriptions.  |
| vi.  | Deduct any other exempt or out of scope income.  |

vii. The balance is taxable turnover.

1. If taxable turnover will exceed the annual threshold, the fund has a duty to register – Contact Corporate Finance for further advice.
2. The Council may reclaim any VAT incurred on purchases made with donated funds, provided that the following conditions are fully met:

 i. The Local Authority the purchase itself - i.e. places the order, receives the supply, receives a tax invoice addressed to it or the School and makes the payment;

 ii. The Local Authority (i.e school) retains ownership of the purchase and uses it solely for its own purposes;

 iii. Sufficient records are kept of the purchase, i.e. they should be entered on the school inventory;

 iv. Any subsequent hire must be charged for, plus VAT if applicable.

1. School fund purchases made through the Council must be processed on a PSF donations form. The form (PSF1) should be completed and attached to the front of the invoice together with a cheque, payable to Shropshire Council, for the net amount.
2. The PSF donation system is a concession from Customs and Excise and abuse could result in its withdrawal; problems have occurred in this area in the past. Particular attention should be given to the following:

 i) Tuckshop items, e.g. crisps, confectionery etc. for sale in the tuckshop where the income is banked into the school fund, cannot be purchased via the Council in order to avoid VAT;

 ii) Clothing and sportswear for sale by the school fund cannot be purchased via the Council in order to avoid VAT,

 iii) Audit fees must be borne by the fund. The payment must not be processed through the Council to save the VAT.

1. It is important to stress that for such transactions the articles purchased become the property of the Authority. It follows that if such an item is subsequently sold, the proceeds must be paid into the Authority (for the credit of the school budget) and it should be appreciated that the price must include VAT, since VAT at the current rate will be deducted and paid to Customs and Excise.

**INSURANCE COVER**

1. **School funds are not covered by the Council’s insurance although the LEA operates an ex-gratia payment covering losses up to £100 (with a £10 excess) providing funds are kept securely. Schools are advised to take out their own insurance to cover school fund monies.**
2. Advice on other aspects of school fund insurance e.g. 3rd party and motor vehicle, can be obtained from Risk Management and Insurance.

**REGISTRATION OF SCHOOL FUNDS AS A CHARITY**

1. There are both advantages (income tax exemption on interest) and disadvantages (additional administration and Charities Act regulations) to registration of school funds as charities. Governors and Headteachers need to consider these carefully before registering.
2. The Charities Act requires accounts to be ‘independently examined’ and an annual report to be produced both of which are prescribed in various Charity Commission booklets. An annual return has to be completed and sent to the Charity Commission and the accounting arrangements are prescribed under the Statement of Recommended Practice ‘Accounting by Charities’.
3. Registration requires the appointment of Trustees and the adoption of a formal school fund constitution which provides clear guidelines on the way that monies can be utilised and on the way the fund should be generally administered. The NAHT Council Memorandum provides a model Declaration of Trust approved by both the Charity Commissioners and the Inland Revenue.
4. Charities can take advantage of covenanted payments. Contributors guarantee a regular annual donation for a minimum of 4 years. As this money has been taxed at source (normally when the contributor was taxed on their income through PAYE) the Charity can claim back the tax thereby receiving £1.20 for every £1 contributed at current tax rates.
5. Charities can also take advantage of Gift Aid. Individuals or Companies make a donation of at least £250 from monies which have had tax deducted at source enabling the charity to reclaim the tax at the basic rate similar to covenanted payments. Donors complete a certificate (R190[SD] for individuals and R240[SD] for companies) and send it to the Inland Revenue. Further information can be obtained from a free booklet ‘R 113 Gift Aid’ available from your local Inland Revenue office.
6. Registration as a charity is effected by submitting an application to the Charity Commissioners on a form available from :

The Charity Commissioner

14 Ryder Street London

SW17 6AH

1. Further information and explanatory leaflets can be obtained from the above address or by calling the Commission’s Accounts Helpline on 0151-703 1570.

**EXAMPLE SCHOOL FUND CASH BOOK ANALYSIS LEDGER**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date  | Expenditure Details  | Cheque Number  | Voucher Number  | Amount | Analysis of Expenditure (Headings to suit your needs) |
| Tuck Shop  | Photos  | Trips  | Petty Cash  | Miscellaneous  |
| 01/02/xx  | Petty Cash | 123 |  | 20.00 |  |  |  | 20.00  |  |
| 02/02/xx | Britannia | 124 | 1 | 160.00  |  |  | 160.00 |  |  |
| 02/02/xx | Booker Cash and Carry | 125 | 2 | 85.72  | 85.72  |  |  |  |  |
| 05/02/xx | Ironbridge Gorge | 126 | 3 | 105.00 |  |  | 105.00  |  |  |
| 08/02/xx | Stars Newshop | 127 | 4 | 8.73 |  |  |  |  | 8.73 |
| 09/02/xx | Petty Cash | 128 |  | 7.80 |  |  | 3.80 |  | 4.00 |
| 12/02/xx  | Stationary | 129  | 5  | 25.00 |  |  |  |  | 25.00  |
|  |  |  |  |  |  |  |  |  |  |
|  | Totals Carried Forward  |  |  | 412.25  | 85.72  |  | 268.80  | 20.00  | 37.73  |

**EXAMPLE OFFICE DAY BOOK**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Income Details** | **Amount Received** | **Total Amount** | **Received By** | **Deposited By** | **Analysis of Income (Optional)** |
| **Cash** | **Cheque** |  |  |  |
| **01/02/xx** | **Class 2 Theatre Trip** | **45.00** | **50.00** | **95.00** | **Secretary** | **Teacher** |  |  |  |
| **05/02/xx** | **Class 1 Sweatshirt** |  | **9.50** | **9.50** | **Secretary** | **Teacher** |  |  |  |
| **08/02/xx** | **Banked** |  |  | **104.50** |  | **Secretary** |  |  |  |
| **15/02/xx** | **Photographs** | **210.00** | **115.00** | **335.00** | **Secretary** | **Teacher** |  |  |  |
| **16/02/xx** | **Sponsorship*** **Red Nose Day**
 | **150.00** |  | **150.00** | **Secretary** | **Teacher** |  |  |  |
| **18/02/xx** | **Class 3 Trip** | **60.00** | **30.00** | **90.00** | **Secretary** | **Teacher** |  |  |  |
| **21/02/xx** | **Banked** |  |  | **565.00** |  | **Secretary** |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

**EXAMPLE CLASSROOM DAY BOOK**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date**  | **Income Details**  | **Amount Received** | **Total****Amount**  | **SentBy**  | **ReceivedBy**  |
|  |  |  |
| **10/01/xx**  | **Theatre Trip - P Smith** |  | **12.00** |  |  |  |
| **10/01/xx** | **Theatre Trip - A Foulkes** | **12.00** |  |  |  |  |
| **10/01/xx** | **Theatre Trip - A Hand** |  | **12.00** |  |  |  |
| **10/01/xx** | **Theatre Trip - M Roberts** | **12.00** |  | **48.00** | ***A Teacher*** | ***A Secretary*** |
| **15/01/xx** | **Sponsor Money - A Sutton** | **19.50**  |  |  |  |  |
| **15/01/xx** | **Sweatshirt - Tim Smith**  |  | **9.50**  | **29.00**  | ***A Teacher***  | ***A Secretary***  |
|  |  |  |  |  |  |  |

**EXAMPLE SCHOOL FUND TRIP RECORD**

**TRIP TO ……………………………..**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Pupil Name** | **Amount** | **Date Received** | **2nd Instalment** | **Date Received** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

**EXAMPLE SCHOOL FUND PETTY CASH BOOK**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Details** | **Voucher No** | **Amount in** | **Amount Out** | **Balance** | **Cash Recd by** | **Analysis of Expenditure** |
| **Trips** | **Postage**  | **Misc** |
| **Xx/xx/xx** | **Set up** |  | **50.00** |  | **50.00** |  |  |  |  |
| **02/02/xx** | **Postage** | **1** |  | **5.50** | **44.50** |  |  | **5.50** |  |
| **02/02/xx** | **Pencils** | **2** |  | **1.20** | **43.30** | **A Teacher** |  |  | **1.20** |
| **15/02/xx** | **Trip Maps** | **3** |  | **4.50** | **38.80** | **A Teacher** | **4.50** |  |  |
| **28/02/xx** | **Reimbursement** |  | **11.20** |  | **50.00** |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

**EXAMPLE STOCK CONTROL RECORD**

**SWEATSHIRT STOCK RECORD**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Pupil Name & Class** | **Receipt No (If applicable** | **Number Purchased** | **Number Sold** | **Actual Stock balance** |
| **Xx/xx/xx** |  | **R 1234** | **50** |  | **50** |
| **02/02/xx** | **A Smith Class1** |  |  | **2** | **48** |
| **04/02/xx** | **T Jones Class 3** |  |  | **1** | **47** |

**EXAMPLE ACCOUNTS LAYOUT**



**EXAMPLE TUCK SHOP RECORD**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date  | Amount Collected  | Operator 1  | Operator 2  | Received By  |

**EXAMPLE BANK RECONCILIATION**

**Example of a monthly reconciliation (for January xx)**

Cash Book Balance Cash book balance as at 31 December xx £3,382.88

Receipts to 31 January xx £479.88

Less Payments to 31 January xx £659.26

Cash book balance as at 31 January xx **£3,203.50**

**Current Account Bank Balance**

Balance at bank per statement No xx, 31/01/xx £426.23

Less cheques drawn but not yet presented:

Cheque number 349 £10.00

Cheque number 353 £29.30

Cheque Number 354 £112.20 £151.50

Add bankings made but not yet on statement:

29/01/xx £25.00

30/01/xx £74.50 £99.50

**True bank balance** £374.23

**Deposit Account** per statement No 9, 31/01/xx £2,805.50

**Cash in Hand** £23.77

**Total Assets of the fund as at 31/01/xx** **£3,203.50**

**SUITABLY QUALIFIED AUDITORS**

**Suitably Qualified Persons to Audit School Funds where Turnover Exceeds £50,000 or the Year End Balance Exceeds £10,000**.

A member of one of the following Accountancy bodies :

 a) Institute of Chartered Accountants of England and Wales (Chartered Accounts Hall, PO Box 433, Moorgate Place, London, EC2P 2BJ)

b) Institute of Chartered Accountants of Scotland (27 Queens Street, Edinburgh, EH2 1LA)

c) Institute of Chartered Accountants of Ireland (Chartered Accounts House, 87-89 Pembroke Road, Dublin 4, Dublin)

d) Chartered Association of Certified Accountants (29 Lincoln’s Inn Fields, London, WC2A 3EE)

e) Chartered Institute of Public Finance and Accountancy (3 Robert Street, London, WC2N 6BH)

f) Chartered Institute of Management Accountants (63 Portland Place, London, WC2N 6BH)

g) Association of Accounting Technicians (154 Clerkenwell Road, London EC1R 5AD)

h) Institute of Internal Auditors (3 Abbeville Mews, 88 Clapham Park Road, London, SW4 7BX)

**Where turnover is below £50,000 and the year end balances less than £10,000.**

An independent person with suitable experience of financial matters for example a member of one of the following:

a) Chartered Institute of Bankers (10 Lombard Street, London, EC3V 9AS)

b) Chartered Institute of Bankers in Scotland (19 Rutland Square, Edinburgh, EH1 2DE)

c) Qualified by knowledge and experience of accounting principles and practice.