
Overall Financial Management

Section : 1 Overall Financial Management

1.1 Fundamental Principles

- Accountability - whereby individuals are responsible for their actions and decisions.
- Openness - of information, allowing scrutiny.
- Integrity - representing professional standards and completeness.

1.2 Public Accountability

Governing Bodies, in common with all public sector organisations, are expected to manage their affairs in accordance with a public sector ethos based on a distinct set of values, comprising impartiality, openness and transparency, and the highest ethical standards of probity and propriety which apply in the handling of public money.

1.3 Overall Financial Management

There are a series of layers to the process of Financial Management with each having distinct roles and responsibilities.

1.3.3 The County Council

- Establishes and maintains an appropriate scheme for Local Management of Schools (LMS);
- Determines the total resources available to schools;
- Monitors the performance of schools and gives advice or takes corrective action as necessary;
- Supports Governing bodies with professional advice and guidelines;
- Operates sanctions, including notices of concern and withdrawal of delegation where necessary.

1.3.4 The Governing Body

- Approves and monitors the School Development Plan;
- Approves annual and medium term financial budget;
- Approves Financial Procedures Policy setting out limits of delegation;
- Approves reports of Committees monitoring detailed aspects of financial management;
- Prepares annual report to parents including financial statement (nursery schools only);
- Approves policy on lettings;
- Approves policy on charging and remission of Fees;

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- ❑ Approves all orders above delegation limits in Financial Procedures Policy;
- ❑ Approves policy on disposal and write-off of surplus stock, equipment and land;
- ❑ Approves a Procurement Policy.

1.3.5 The Finance Committee

- ❑ Prepares and reviews financial policy statements;
- ❑ Considers strategies for medium term financial planning;
- ❑ Considers and recommends an annual budget to Governing Body;
- ❑ Monitors income and expenditure of all funds under the Governing Body control and considers the implications of variations from the plan together with corrective actions;
- ❑ Considers statistics, performance indicators, key ratios and their implications;
- ❑ Reviews and implements Financial Procedures Policy;
- ❑ Considers Internal Audit report and associated action plan for implementation;
- ❑ Monitors non-financial data affecting budgets (principally but not exclusively free school meal entitlements and pupil numbers).

The Governing Body may choose to reserve consideration of any of these items to itself or require the Committee to report thereon.

1.3.6 The Head Teacher

- ❑ Prepares draft School Development Plan for consideration by Governors including medium term financial plan;
- ❑ Prepares draft annual school budget for consideration by Governors (Finance Committee);
- ❑ Prepares outline budget for the two following years; the medium term financial plan;
- ❑ Monitors and reports on income and expenditure of all funds under Governing Body control, initiates management action as required;
- ❑ Monitors and reports on non-financial data which has budgetary implications;
- ❑ Implements Financial Procedures Policy on delegated areas;
- ❑ Submits returns to County Council when required;
- ❑ Prepares action plan in response to Internal Audit.

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1.4 Review of Standards

There are a number of organisations that are involved in the review of financial management and administration within schools.

1.4.3 The County Council

The County Council operates a rolling programme of reviews of service delivery. This is part of the County Council's ongoing quality assurance procedures. These may bring to notice shortcomings in Financial Management or other areas which have financial consequences for the school. From 1st April 2010 all schools must have achieved the Financial Management Standard in Schools (FMSiS). FMSiS is a mandatory national standard.

1.4.4 Office for Standards in Education (OFSTED)

The Education Act 2005 requires the "efficiency with which financial resources made available to schools are managed" to be inspected under the arrangements set out in the Framework for Inspection of Schools by Her Majesty's Chief Inspector.

The efficiency of the school will be judged in terms of:

- The quality of financial management;
- The soundness of financial decision-making;
- The efficiency and effectiveness with which resources are deployed to achieve the school's aims and objectives and to match its priorities;
- The efficiency of financial control;
- The assessment of any steps taken by the school to evaluate its cost effectiveness;
- Judgements about the efficiency of financial control will take into account the arrangements made by the school to follow up any recommendations in the most recent auditor's report. However, the main areas included in the efficiency section of the school inspection reports are concerned with the strategic management of resources and the value for money obtained from their use.

1.5 Scrutiny

1.5.3 Internal Audit

It is the responsibility of the Internal Auditor to review, appraise and report on:

- The effectiveness of internal controls (both financial and non-financial) as a contribution to the efficient use of resources within an organisation;
- The soundness, adequacy and application of the system of administrative controls established by management in each department or service;
- The soundness, adequacy and application of controls on computer systems;

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- ❑ The extent to which assets and interests are accounted for and safeguarded from losses;
- ❑ Measures to protect against losses arising from waste, extravagance or poor value for money;
- ❑ Prevention and detection of fraud;
- ❑ The suitability and reliability of financial and other management data developed within the organisation.

For the Internal Auditor to fulfil these responsibilities, independence is essential but this should not prevent the close working relationship with interested parties before, during and at the conclusion of the audit. All audit work is undertaken in accordance with minimum standards. The Schools Portfolio of Services provides details of the Audit Service available from Devon Audit Services.

1.5.2 External Audit

As a statutory requirement the County Council is subject to scrutiny by an External Auditor. The External Auditor is responsible for certification of the Authority's accounts and ensuring that the internal audit is effective. The external auditors may therefore, as part of this process, choose to examine the records of individual schools. The External Auditor is able to do this 'as of right'.

1.5.3 Statutory

There are also Statutory Bodies that may have a right to access the records held by the school:

1.5.3.1 HM Revenue and Customs

Have access to Financial Records in order to ensure compliance with statutory requirements in respect of

- ❑ PAYE, and National Insurance contributions
- ❑ Minimum wage legislation
- ❑ Corporation Tax (in respect of Private School Funds)
- ❑ Value Added Tax

1.5.3.2 Charity Commission

The Commission has regulatory to access to private funds with charitable status. Governors have an obligation to ensure that where activities involve fund raising they comply with the provisions of the charities acts including registration.

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1.6 Further Information

A Guide to the Law for School Governors – DfES 2007 (now DCSF) available to download from www.governornet.co.uk

Other information for Governors can be found at <http://www.devon.gov.uk/governors.htm>

The Effective Governing Body – DCC 2006

Charity Commissioners, Woodfield House, Tangier, Taunton, TA1 4BL

<http://www.charity-commission.gov.uk>

Devon County Council Minimum Standards for Schools Internal Audit Services.

Funding

Section : 2 Funding

2.1 Introduction

Schools have a variety of sources of funding that change annually, each of which has its own freedoms and constraints. It is the role of the Governing Body to take advantage of these funds and then monitor them to ensure that they are fully utilised for the purpose intended and achieve best value for money.

2.2 The School Budget Share

2.2.1 Description

Section 47 of The School Standards and Framework Act 1998 requires schools to be allocated their own budgets. It is the school's responsibility to plan and implement the effective use of these funds. Section 50(3) empowers Governors (subject to the provisions of statutory regulations) to spend the School Budget Share (SBS) as they "think fit" for the purposes of the school. The total made available is also referred to as the Individual Schools Budget (ISB).

Schools derive their mainstream funding from the Dedicated Schools Grant which is determined by Government and distributed by the County Council using a formula. The permissible distribution mechanisms are controlled by statutory regulation and reviewed annually by the Secretary of State for Children, Schools and Families who may use this power to target resources.

The County Council is advised by a Schools Forum which consists of representative Head Teachers and Governors from schools and other interested parties. They are concerned with issues of strategy and of distribution of resources to be spent by schools and other budget holders for the benefit of schools.

2.2.2 Principles

The Age Weighted Pupil Unit (AWPU) is the largest source of funding for schools. Across the country at least 75% of the ISB must be allocated on the basis of pupil numbers, except in Special Schools where funding is based on the places provided.

The approach to allocating resources is a realistic ideal Activity Led formula that:

- reflects local priorities;
- is simple;
- is fair;
- is transparent and therefore easily understood;
- follows an agreed rationale for all elements;

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- uses agreed Planned Admission Numbers (PAN).

The formula is based on the needs of Key Stages, not years, and is designed to:

- fulfill future education needs, not past education practice;
- enable schools to deliver the KS1 “class size promise”.

The formula provides

- Funding for the coming year and two forward years based on:
 - funding rates established at the start of the multi-year budget; (However pupil and other data will change during the multi-year period.)
 - Pupil numbers as at the January preceding the start of the financial year;
 - Budget levels set in principle for 3 years;
 - Curriculum protection;
 - SEN factors;
 - Social inclusion factors;
 - School specific factors;
 - Site specific factors;
 - Reorganisation of schools;
 - The ability to adjust for variations in pupil numbers and other factors.

2.2.3 Other Funding

Other funding is provided by specific government grants. These are principally

- Schools Standards Grant
- Standards Funds (including School Development Grant). These are:
 - Formulaic
 - Targeted

The Learning & Skills Council (LSC) determine funding rates for post 16 education. The money is passported to schools and delivered through the formula.

2.2.4 Further Information

The Formula is dynamic and details of its operation are published on the County Council web pages.

2.3 Budget Preparation

The preparation of budgets is an ongoing process whereby the initial assumptions are refined over time as more up to date information becomes available. The financial effects of this refining are distributed to schools in accordance with the timetable outlined below.

A number of tools are available including a spreadsheet based school budget calculator that will help to calculate the financial consequences of changes in

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pupil numbers and a salary calculator that can be used to cost the staff group. Budget Planning tools are also available in the school accounting software. These include a salary calculator.

2.4 Budget Information

From adjacent to the January census¹, schools have access to a budget calculator to recalculate their budget. At the same time details of the basis of the allocations are made available to schools. These are based on forecast data and include:

- pay and price inflation - known as "Outturn prices"
- forecast funding for two subsequent years.
- notification of other known funding; Standards Funds, School Standards Grant etc.
- notification of budget rules

Schools may be asked to confirm certain data. In March the budget is confirmed.

2.5 Central Funds

The Dedicated Schools Grant (DSG) was introduced from April 2006. This grant is based on the actual number of pupils recognised for each council or authority at the January Pupil Census. The rate per pupil is published in advance to enable the County Council to forecast the value of the DSG. The DSG funds not only individual school budgets but also encompasses spending for the benefit of pupils not in mainstream education such as those in placements out of county in special schools, funding for providers of private, voluntary and independent early years places, pupil referral units, etc. There is a separate funding block for other education related activities of the County Council, for example youth service, home to school transport, administration costs associated with County Council responsibilities such as administration of admissions and special educational needs.

The full analysis of spending is shown in the annual statements produced under Section 52 of the SSAF Act 1998. Full details may be found in the Scheme for the Financing of Schools. These moneys may each year:

- Be spent directly at the centre;
- Be delegated to schools;
- Be devolved to schools.

2.5.1 Directly at Centre

Revenue moneys are held centrally to address situations that may be difficult for schools individually these include:

¹ Target date

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- ❑ Redundancy, premature retirement or dismissal - associated costs²
- ❑ Administration costs associated with discharging the County Council's responsibilities.
- ❑ Home to school transport.
- ❑ Staff on maternity leave
- ❑ Staff absence relating to Court Appearances, service in non-regular Armed forces and Trade Union duties.

Capital money used to finance major projects such as new schools, remodelling etc is derived from a different source.

2.5.2 Devolved to schools

Money within the overall amount devolved to schools includes

- ❑ Contingency - to cover misapplication of the formula, significant financial emergencies and in year adjustments such as for business rates payments.
- ❑ Support of Facilities Agreements³ that are controlled by various Trade Unions and then allocated to schools.
- ❑ Funding for Statemented Pupils⁴ where schools receive targeted money in respect of pupils requiring additional support funded from the exceptional arrangements⁵ budget.
- ❑ Standards Fund
 - Funds deployed through the Standards Fund are supported by government specific grant.
 - Funds are made available to meet specific objectives and may be distributed by formula or may be targeted according to circumstances
 - These objectives may change from year to year.
 - Funding levels may change from year to year.
 - The deployment of these moneys must meet government criteria.

² The County Council regards its employees as its most valuable asset. There is a presumption that redundancy is the last resort and it has procedures in place to ensure that redundancy is justified. The County Council is not obliged to meet the costs of terminating employment and has in place a policy of active redeployment. This policy is intended to minimize the loss of expertise through redundancy and seeks to provide a conduit for redirecting that expertise into other schools. Redundancy is also expensive and the policy seeks to minimize these costs which reduce funds available for distribution to schools.

³ Facilities agreements compensate schools for the absence of staff on representative duties on behalf of Trade Union members.

⁴ Pupils having a Statement of Educational Need which identifies resources required for support.

⁵ Exceptional arrangements are those where the level of funding required exceeds a threshold level of need. Funding for these specific circumstances is held centrally and allocated when a statement is issued.

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- Specific guidance is given each year on accounting for these funds.
- Standards Funds are allocated by the DCSF but may be matched by an LA contribution. The level of DCSF support may be up to 100% but the amount may vary according to the purpose of the grant.

Some funds may be moved from specific grants and instead provided to the County Council through the DSG. This transference is known as “mainstreaming”.

Section : 3 **Budget Planning**

3.1 Reasons for a Budget

The Governors of Community, Foundation and Voluntary Maintained schools receive from the County Council a delegated budget. The Governors need to determine how the budget is to be spent and approve a balanced budget for the school based on the allocation. School financial management is effective when governing bodies and Head Teachers plan to use their resources to maximum effect in accordance with their identified priorities. A budget is an annual plan expressed in financial terms for the use of resources. It must, however, be set in the context of a longer-term school development plan.

When schools receive an OFSTED inspection, the inspectors will look at the efficiency of the school, and will make judgements based on:

- The quality of financial management.
- The efficiency and effectiveness with which resources are deployed to attain the school's aims and objectives and to match the school's priorities.

It is good practice to utilise the budget process to demonstrate that all of the funds available to a school are being used to achieve the school's aims.

3.2 Standards Relating to Budget Planning

The general aim of every school is to deliver the highest standard of education possible within the limit of its resources. To ensure spending is directed into areas of greatest educational priority, a plan, spanning three financial years, should be carefully constructed, designed to gain maximum benefit from those resources.

It is a requirement of FMSiS¹ that there should be a clear and identifiable link between the School Improvement Plan² and the school budget. This will link to the outcomes of self evaluation processes and the judgements made about priorities. In effect the budget process can be used to demonstrate that funds available have been used to achieve the school's prioritized aims. Additionally, the plan can be used to assist school decisions over competing priorities for expenditure.

There should also be a written statement of the school's aims and objectives in sufficient detail to provide the basis for constructing budget plans.

It is good practice for the Governing Body to establish formal procedures and timetables for planning the budget to ensure that all relevant factors are considered.

It is recommended good practice to prepare estimates of expenditure and

¹ Financial Management Standard in Schools

² Sometimes referred to as the School Development Plan, the Strategic Plan or other similar names.

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income sufficiently in advance of each financial year to allow for consideration and approval by the Governing Body. Even if details of the school's funding have not been finalised it is important that the governing body can consider spending priorities in the light of an estimated or indicative budget. Any uncertainties and constraints should be clearly explained.

As the school development plan may lead to changes in priorities for expenditure in successive years, the emphasis should be on objectives. The governing body, in setting the budget, will need to assess whether requests for expenditure are warranted and in line with overall objectives and whether value for money is being obtained from the budget.

The planned budget must not exceed the available funds including the anticipated carry forward from the previous financial year. There may be exceptional circumstances in which the County Council may allow a planned overspend.

Governors have a strategic role and need to challenge effectively. Appendix 1 contains 10 questions to which Governors should seek answers. These questions draw out trends that may indicate that the school budget is coming under pressure and unless management action is taken may not be sustainable. Conversely where school balances are increasing this is an indicator that resources are remaining unapplied.

Schools that expect not to balance their budget must inform the Director of Children and Young People's Services as soon as possible.

The process of constructing the budget should challenge the necessity for the elements within it. There should be a robust review of what is done.

"There is nothing so useless as doing efficiently that which should not be done at all." Peter Druker

Process re-engineering saves time and staff time can be redirected towards things that will help deliver the school plan. As and when circumstances change then these tests need to be applied. A reality check needs to be done to ensure that any replacement on a like for like basis is genuinely required and affordable.

- Is the task still necessary?
- Does it need to be done differently?
- Is it truly financially sustainable beyond the immediate short term?
- Can an investment (perhaps in technology) make the process more efficient or effective?

Governors may utilise techniques such as benchmarking to test strategies.

3.3 Budget Principles

The budget has a controlling influence over the whole cycle of school affairs and the process of setting the budget should be the means of achieving educational objectives which have been set out in the school development plan

It is not good practice for the process of allocating a budget to be merely an incremental progression from one year to the next. It should ideally reflect, in

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monetary terms, the school's aims and objectives within the available resources. Setting a budget that is merely a reflection of traditional expenditure patterns, or based on previous years' expenditure, is not likely to achieve evolving school aims and objectives.

Before commencing budget planning for the following year, if it is intended to use current information as a guide, it is good practice to compare the current financial printouts received from the Director of Finance with the school's own information. The purpose of this is to ensure the accuracy of the information before starting to use it. If this exercise is carried out regularly, as a matter of course, it should not be an arduous task.

Uncertainty over finances or indeed over any other factor is no reason for not having a plan. It is a truism but organisations without viable plans are unlikely to succeed. Undertaking the planning process should help identify options and will help management choose between options when the uncertainties are resolved. A good plan is dynamic and capable of being adjusted to meet developing circumstances.

3.4 Budget Timetable

The budget is a dynamic document. Events have knock on effects and these need to feed into the forward plans of the school. Thus this section describes a sequence of events that, for ease of description, commences at the start of an academic year although the reality is that it is an iterative process with a series of annual milestones.

3.4.1 Autumn Term

September

- ❑ Complete Pupil Census – use the budget forecasting tool to project the impact of changed pupil numbers.
- ❑ Compare previously forecast roll for next January with latest projection. Consider the impact on funding.
- ❑ Complete monthly budget monitoring tasks, e.g. check financial recording system (SIMS, FMS6 or Manual) is up to date. Reconcile local records with County Council FINEST records (it is a requirement of Financial Regulations that this task be carried out each month).
- ❑ Compare budget plan and revised resources with projected spend to year end. Consider implications.

October

- ❑ Start planning for following financial and academic year. Consider ramifications for future years.
- ❑ Consider School Improvement Plan targets.
- ❑ Consider curriculum needs for next academic year and beyond. In larger schools this process is very dynamic and will need ongoing review as timetable options crystallize.

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- ❑ Consider current year's expenditure and possible need to change planned expenditure.
- ❑ Take account of changes in projected pupil numbers and compare with the indicative forward years funding.
- ❑ Review other known changes (e.g. staff changes, statemented pupils).
- ❑ Consider any known changes to formula funding and possible budgetary implications.

November/December

- ❑ Complete draft budget for next financial year based on current information, the school development plan priorities known changes and Governors input.

3.4.2 Spring Term

January

- ❑ Complete annual census.
- ❑ Check actual numbers and assess the implications for this year's budget and beyond.
- ❑ Project likely year end position for the current year: consider need to change planned expenditure.
- ❑ Prepare/review draft budget on basis of allocation and planned over or under spend and carry forward prepared in the Autumn Term in October.
- ❑ **Is the School Improvement Plan still achievable?**
 - Review and revise accordingly
 - If the school is experiencing difficulty in balancing the budget the County Council must be advised.

February/March

- ❑ School budget share allocation based on January numbers confirmed at outturn price base. It will also show indicative figures for future years – update future years.
- ❑ Budget formally approved by Governors
- ❑ Budget notified to County Council by date in the LMS scheme

3.4.3 Summer Term

April

Approved budget loaded into FMS and budget fixed.

May

- ❑ Confirmation received of actual carry-forward amount.
- ❑ Examine planning for future years in light of current year budget and confirmed carry-forward.
- ❑ Complete Form S1 - early indication of possible changes in pupil numbers.

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- Compare previously forecast pupil numbers with actual numbers on roll and consider the implications for future years' funding.

3.5 Documentation of Budget Planning

It is essential that all assumptions made, when planning any budget, are fully documented. Ideally, this would mean that the budget set for each cost centre would be backed up by written assumptions or held in the computer. Spreadsheets and other computer tools provide a means of financial modelling. We advise using the planning tools made available by the County Council.

For staffing cost centres, this would involve a listing of staff linked to rates of pay and on costs. Non staffing cost centres such as Administration Costs would show the make up of the budget e.g. a breakdown between photocopying costs, telephone charges, lease costs and general office expenses. A Cost Centre for energy would show the breakdown between gas, electricity, water and refuse costs. Summaries of this information will be available to the Finance Committee, which is normally responsible for scrutiny of the proposed budget and can then recommend adoption of the budget by the full Governing Body by the date laid down in the LMS Scheme.

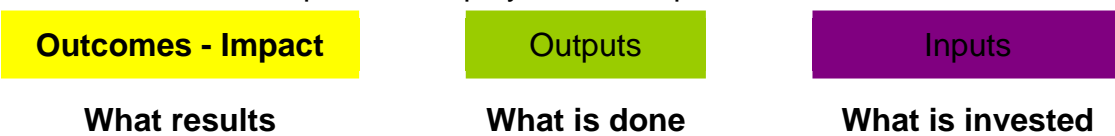
These assumptions need to be retained to demonstrate the reasons for setting the budget. If variations in expenditure become apparent later in the year, the documentation can be checked to confirm why the budget was set at the agreed level and determine what has changed and what action may be needed. It is important to understand why the costs of the school are changing.

3.6 Performance Budgets

Also called outcome or output budgets these are a way of focusing resources to achieve specific targets. They provide an alternative to historical budgets and offer managers a chance to challenge the way in which tasks are tackled.

3.6.1 The performance budget model

Outcomes are critical to the model and the desired outcomes need to be established before inputs are deployed and outputs delivered



It follows from this approach that resources should be allocated on the basis of a plan. There should be an overarching school plan but beneath this should be other plans focussing on how they contribute to the school objectives.

3.6.2 What does a performance budget do?

Performance budgeting is focused on the desired outcome. The human drive to measure and quantify has always been strong; and was perhaps best

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expressed by Galileo.³ Performance budgeting techniques are increasingly used by the Government to focus resources towards addressing outcomes using objective measures. The emergence of SSG personalisation which is calculated by reference to underachievement in primary phase is evidence of this.

The performance budget can be explained in terms of its outcomes and is perhaps best illustrated with finite and quantifiable tasks such as building a house or a road. Here the task can be easily defined – the inputs are easily counted and costs can be attributed. If funds are restricted further choices can be made about the size of the project and so on. The school environment is different in scope but not necessarily in its complexity. It will require careful prioritisation as resources are limited.

Simplistically this can be expressed as

If we could invest staff, money etc	(Inputs)
Then we would be able to provide....	(Outputs)
To the targeted group to achieved desired outcomes	

Since resources are constrained it may be necessary to approach this from the reverse direction and consider the priority output and the resources needed to deliver it. The aim must always be kept in mind or there is a possibility that the focus may be lost and the plan may fail. For example consider a situation where a pupil has mobility problems. How might this be approached to provide access to the full curriculum? What options are there and what resources (inputs) will be needed?

3.6.3 Performance budgets as tool to prompt challenge

Use of performance budgeting techniques provides the opportunity not only to focus new resources (or resources released) but also to challenge existing ways of operating. This because it is a methodology which might be used to compare existing tasks and practices and see if relative to other priorities they provide value for money.

3.7 Returns to the County Council

The scheme of delegation requires that each school send a copy of the budget to the County Council that has either been approved by the Governing Body, or is proposed, by the laid down date. This financial statement will make clear that each school is planning to set a budget that is at least equal to or exceeded by the available funds (a balanced budget).

³ Count what is countable, measure what is measurable. What is not measurable, make measurable.

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3.8 Emerging Budgetary Difficulty

Where schools believe that they have or are likely to be unable to balance their forward year budget without recourse to staff reductions they must advise the County Council as soon as that becomes apparent.

3.9 Budgetary Risk Management

The Governors are constrained by the LMS scheme not to enter into commitments that are unsustainable. In entering into commitments or extending arrangements that ought to be terminated, Governors must be risk averse and not unnecessarily expose the school to the possibility of being unable to live within budget. Taking short-term risks potentially mortgages the resources available for future pupils and may bring into question the stewardship of the school's resources with the County Council considering the sanctions open to it.

Risk may be mitigated by insisting upon seeing clear evidence supporting a course of action. As pupil numbers are the main driver of budget allocations it is important to be satisfied that pupil projections are rooted in fact and can be supported by evidence that the forecast pupils are likely to be forthcoming. To reduce the risk arising for poor forecasts previous forecasts should be reviewed and used to ensure projected numbers are appropriately scaled. Governors ought to consider other factors that impinge on demand for places. These might include critical or lukewarm OfSTED reports or better OfSTED outcomes in nearby schools, concerns about results within the school and parental perceptions about the school.

Appendix 1 sets out some tests that Governors can apply. They are not exhaustive but do provide indicators that the school may not be in the best health financially. It is better to anticipate change and reduce risk by taking opportunities to reduce the cost base as they arise rather than wait until change is unavoidable. The converse is also true, as increases to the cost base should be avoided until the need is proven. By actively managing and introducing change in a structured way the risks associated with achieving the change successfully are less than if it is forced upon the school. There are risks in choosing not to act and some of the biggest risks can stem from a misplaced belief that something will turn up.

□ Governors will appreciate that dealing with budgetary pressures through recourse to redundancy has a non-financial cost to the school. This is manifested in terms of the impact on staff morale, in parental confidence, in diversion of management resources away from the core business of the school (which is raising standards of pupil achievement) and potentially in other ways. This carries the risk of failing to deliver a good education and there are downstream consequences if this happens. Redundancy is usually a last resort and as such significant damage may already have been done to the school before active management to change the structure is implemented.

Possible Indications of Budgetary Difficulties

In Devon, three year indicative funding has been in place since the inception of LMS and the importance of 3 year budget planning continues to be emphasized.

The LMS scheme obliges Governors to enter into commitments only where they are sustainable. The 3 year forward plan provides a tool that helps to identify emerging pressures on the school budget and to inform decision making. Intelligent anticipation can often make the difference between a manageable situation and a crisis.

Apart from the current year budget monitoring reports, governors must be kept apprised of the longer term situation. Here are 10 questions for Governors and Head Teachers to apply to the school budget.

1. Is the school roll falling?

If the fall is significant, either immediately or over time, it will have implications for the sustainability of the present school organisation.

Pupil numbers drive the resources in school, so getting the forecast right is vital. In some areas, numbers are set to decline significantly in the next few years. Schools need to consider the demographics carefully. The County Council produces data packs about each of the Local Learning Communities. This explores forecast numbers, surplus places and provides other information.

The track record of the school in forecasting needs to be considered. Compare pupil forecasts over recent years with what actually happened. The modelling software can be used to generate indicative future funding. This can be used to prepare best, middle and worst cases scenarios. It is available to all schools http://www.devon.gov.uk/schoolfinance/school_budget_share.htm and is set up so that Governors can access it too.

Changes to school class structures are often emotive and help is available (from Devon Education Services) on school organisational issues. It is often better to effect changes to structures when staff changes are happening anyway. Workforce remodelling needs to be a factor in decisions.

It may be better to change staffing structures at an early stage rather than hang on in the hope that “something will turn up”. Some considerations are:

- ❑ Hanging on to staffing structures that are financially unsustainable may result in other budgets being restricted with an impact on the school’s ability to deliver the curriculum.
- ❑ Run-down looking, shabby premises may dissuade the parents of potential pupils from choosing your school.
- ❑ A very tight budget requires extra effort to operate .
- ❑ A lack of consumable resources will affect staff morale and may affect curriculum delivery.
- ❑ A lack of financial flexibility reduces the ability to be innovative.

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2. Is the carry-forward falling?

If the carry forward is being eroded then the school is spending more than it is “earning” and if this continues there will be financial problems. Governors should compare the in year income from budget share and standards funds with in year costs. If the in year cost is greater than the expenditure the carry forward will reduce.

3. Are the year-on-year staffing costs, as a percentage of spending, rising?

If they are rising in percentage terms it implies less money for other things and an increasing squeeze on other budget lines.

4. Is the curriculum spending less than 3% of budgeted spending?

It is often worth seeing what the average spend per pupil works out at. (Divide January numbers into the curriculum budget). As a rough guide a figure of £100 per pupil is a reasonable yardstick. There is no correct answer here as schools treat some costs such as copying as admin rather than curriculum costs. Comparative statistics may help as these provide benchmark information.

Physical resources to support the curriculum need to be maintained and replenished. Whilst it may be possible in the short term to absorb budgetary pressures through very low levels of curriculum resources this is not sustainable for long. Low levels of curriculum resources tend to result in parents expressing concerns about the school’s ability to deliver the curriculum, and criticism from OfSTED.

5. Does staffing cost more than 90% of school spending?

This is a very strong indication that the budget is already or will be under significant pressure. Any percentage over 85% should be reviewed.

A larger number of people being involved in delivering the curriculum does not necessarily mean that the quality of delivery will be improved. Quantity cannot be substituted for quality.

6. Is the percentage of needs led funding greater than the average for your type of school?

The amount of funding relative to the Needs Led Formula appears on the budget notification. Where schools are protected at above the average level it is less likely that extra resources will be forthcoming.

7. Is the premises, repairs and maintenance budget constantly overspent?

Premises budgets are a traditional “soft” target for cuts. Often there is no choice but to spend money on premises up-keep and even if the budget has been cut the need to spend remains. Health & Safety cannot be neglected. Overspends in this area are often a symptom of a greater problem. This is particularly true where the repairs, maintenance and improvements spending has declined relative to the total spending. Similarly budgets set at well below previous levels should be investigated.

Budget Planning

8. Is there pressure on the supply budget?

It is tempting to trim supply budgets to help balance budgets overall, but if staff sickness is greater than expected it can result in budgetary pressures that are difficult to handle. Be wary of supply budgets set much lower levels than recent years' spending. The reasons for this reduction should be tested against objective criteria and supported by clear plans to achieve the reduction.

9. Is an increasing proportion of standards money used to support the budget rather than developmental objectives?

This indicator probably will not be found in isolation from the others.

10. Is the Pupil Teacher Ratio (PTR) unusually low?

A small PTR, below 24 in primary phase, may be a strong indication that there are insufficient pupils to support the current class structure.

Is the answer Yes to any of these questions?

If the answer to even some of these questions is yes, then it could be that the school budget is coming under pressure.

The start of the new academic year is a good time to review pupil numbers for the forward year. The reality of actual numbers enrolled in September will either confirm the accuracy of the forecast or act as a trigger for management action.

A further cold hard look at numbers in the early summer, before staffing decisions for the following year are made, is likewise essential. The role of Governors is to look objectively at the forecasts and challenge their validity.

Statements of Internal Control

Section : 5 STATEMENTS OF INTERNAL CONTROL

5.1 INTRODUCTION – WHAT IS A STATEMENT OF INTERNAL CONTROL?

A Statement of Internal Control (SIC) is primarily a factual statement in narrative form confirming that proper processes are in place to ensure effective financial management of the school and its resources. It is a requirement of the FMSiS standard and by linking with other key documents helps the school to demonstrate effective corporate governance arrangements.

The SIC forms part of the chain of accountability for schools public funds and feeds into other SICs at County Council and Government level. It links to the financial performance set out in the school's Consistent Financial Reporting (CFR) return and the Financial Summary derived from it. The school's SIC is a simplified version to reflect the comparatively smaller scale of financial activity and consequently the financial expertise available in schools.

The SIC acknowledges the school's responsibilities for the system of internal control from which its operational and financial outcomes are derived. It is also used to highlight any known problems with that system so that the reader can take these into account when considering the outcomes.

5.2 WHY HAVE A SIC?

Governors are responsible for the effective operation of the school and, whilst not being enmeshed in the detail, need to be satisfied and to have evidence that internal processes are running properly. The approval process of the SIC by the governing body, and its being signed by the Head Teacher and key Governors, demonstrates that they are acknowledging responsibility for the financial management of the school as required by the LMS scheme and take that responsibility seriously.

The statement is available to parents (and others) thus showing that the school's financial management is open and transparent. The SIC also provides the County Council with assurance that the funds managed by a school have been properly controlled and accounted for.

5.3 HOW DO GOVERNORS KNOW THEY CAN SAFELY SIGN A SIC?

Signing the SIC is based on judgements supported by evidence. The test is one of reasonableness rather than absolute certainty. This is because it is possible to defeat control processes through collusion, however the risk of collusion can be mitigated.

Provided school staff are following the rules set out in financial regulations, in the LMS scheme and the supporting minimum standards as set out in this

Statements of Internal Control

manual they should be a long way towards being able to comply with the requirements of FMSiS. The County Council provides significant model documentation that can form the evidence base on which to form those judgements. The SIC is structured so that lay users without great financial knowledge can apply the tests.

Devon County Council provides a self certification checklist that can assist in reaching the decision.

The FMSiS standard has a pre-certification checklist.

5.4 THE CERTIFICATION

The SIC requires that the signatories “are satisfied that the internal control systems in operation at the school during the year were adequate and effective”. The specimen SIC contains appropriate paragraphs which should not be altered except to insert school specific information or to qualify the statement.

If the Governors believe that they cannot sign unconditionally then they must qualify the statement by identifying areas of material weakness. A material weakness is one which is serious enough to require urgent rectification.

5.5 FORMAT OF THE STATEMENT

The various paragraphs explain or state:

- the Governing body’s responsibilities;
- the limitations of control systems;
- how the Governing body has satisfied itself that controls are adequate before its representative agrees to sign the statement. The Governing body may have taken additional steps beyond those in the specimen and may wish to add those to this paragraph of the SIC;
- that the Governing body is satisfied that internal controls at the school were adequate during the year, assuming this to be the case. If the Governors are not satisfied about the adequacy of key internal controls, they should list them briefly;
- where weaknesses are disclosed, the planned action(s) to improve the control system is described.

5.6 DECIDING WHETHER TO DISCLOSE A WEAKNESS

When deciding whether or not to disclose that a particular control is inadequate, Governors should take into account all the relevant information available to them, and also consider:

- how likely is the risk, i.e. to what extent the inadequacy of the control(s) puts the school at risk;
- the likely impact of the risk on the school if it occurred, for example on the school’s financial position, ability to function, reputation etc.;

Statements of Internal Control

- the cost of any action needed to reduce the level of risk posed;
- whether this cost is justified and proportionate given the risk perceived.

As a guide, unlikely or theoretical risks would not be disclosed whereas likely risks with medium or significant impact would be.

5.7 RISK MANAGEMENT

This is a complex area in which the relationship between the likelihood of a risk occurring and its potential impact is dynamic. There is a relationship between probability and impact of a systems failure. Where there is a higher probability of failure and a significant impact it is important to address the weakness quickly. Use of a suitable matrix may help to rank these priorities.

There is no substitute for the use of informed judgement, by experienced finance professionals, about the importance of a particular control weakness. Therefore, if the school is unable to resolve internally issues around any particular weakness in the control system, it should contact its Finance Officer for advice.

5.8 DECIDING WHETHER TO SIGN THE SIC

The Governing body should only authorise signing the SIC when it has studied all the evidence and feels it can do so with confidence. Governors should be able to derive much of the evidence they need from their knowledge of the school and their transaction of business. This will include

- meeting, or working towards, the Financial Management Standard in Schools (FMSiS);
- their own monitoring of financial management and regular scrutiny of financial reports;
- their regular meetings with the Head Teacher and other staff;
- the most recent report on the school's finances by their internal auditor; and
- the annual self-evaluation of the internal control system (for the significant systems not commented on recently by internal audit).

There is a pre-certification checklist which Governors should review. If they are able to answer "Yes" to all questions they should be able to sign the statement without the need to tailor it to disclose any weaknesses or include a statement about remedial action.

If they answer "No" at any point they will need to consider the implications of such a response. There are guidance notes within the checklist and the Governors will either need to include a disclosure or defer signing until the issue is resolved.

5.9 FURTHER INFORMATION

Local advice tailored to Devon schools is contained in other chapters in this

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Manual. It is maintained online at <http://www.devon.gov.uk/schoolfinance.htm> and provides detail on compliant processes.

Devon Audit Services provide information about the FMSiS assessment process: <http://staff.devon.gov.uk/dfsauditfmsis.htm>

Your Local Authority finance officer who will be able assist with guidance tailored to your local context.

General advice

Keeping Your Balance by the Audit Commission – Revised October 2000, which contains a checklist of internal controls for well-controlled schools

<http://www.audit-commission.gov.uk/reports/national-report.asp?categoryid=&prodid=db5b6379-a1c8-46cd-ab59-0e114ce9d211>

Controlling School Finances – a self-evaluation tool, available on the Audit Commission's web site at www.schoolsbudget.audit-commission.gov.uk

This is closely related to the checklist in Keeping Your Balance referred to above but is interactive and offers some examples of good practice

FMSiS index, including many sources of general financial advice, including both information on the SIC (R20) and Keeping Your Balance (R1): <http://www.fmsis.info/index.asp>

FMSiS information on the SIC: <http://www.fmsis.info/uploads/R15.doc>

Accounting Practice

SECTION 7: ACCOUNTING PRACTICE

7.1 INTRODUCTION

Section 151 of the Local Government Act 1972 requires that an officer is appointed to safeguard the County Council's assets and secure the proper administration of its financial affairs. This includes:

- specific responsibility for the accounting, financial administration and financial control systems of the County Council;
- ensuring that the accounts presented to the County Council and external auditors comply with the requirements of all regulations, enactments and instruments applicable to the accounts;
- maintaining an effective internal audit service for the County Council.

This responsibility is placed upon the Director of Finance. This section explores the way in which this is achieved.

7.2 STATUTORY FRAMEWORK

The County Council is required to prepare a Statement of Accounts in accordance with:

- The Audit and Accounts Regulations 2003;
- Local Government Act 2003.

The format of the statutory statements is specified by a Code of Practice on Local Authority Accounting for Great Britain.

7.3 ACCOUNTING PRINCIPLES

7.3.1 General

The Local Government Finance Act 1982 introduced the concept of proper (accounting) practices. Section 15 of the Act requires the auditor to be satisfied that the accounts are prepared in accordance with the Accounts and Audit Regulations and comply with the requirements of all other applicable statutory provisions and that "proper accounting practices have been observed in the compilation of the accounts". Proper practices are defined by:

- Statute, or
- within Statements of Recommended Practice [SORP],
- Statements of Standard Accounting Practice [SSAP], or
- Financial Reporting Standards [IFRS].

The relevant SORP places responsibility upon those producing statutory

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accounts to ensure that the accounts "present fairly"¹ the financial position of the Authority. Individual establishment accounts, of course, form only a part of the whole and responsibility for the accounts rests with the Director of Finance rather than individual Governors.

For this reason the Director of Finance issues comprehensive instructions on the handling of year end and other financial processes. This practice removes the need for busy staff to have a detailed understanding of the requirements of SORP, or the need to exercise extensive judgement over what is or is not appropriate in the circumstances. For those requiring a deeper understanding of the principles involved, these are explored in the remainder of this section.

7.3.2 Minimum Standards

These are encapsulated in the County Council Financial Standards Manual. This document seeks to define how the various technical requirements may be complied with. It sets out the detailed accounting treatment appropriate to particular sets of circumstances and how fundamental accounting concepts are to be applied.

The external auditors routinely test the extent to which the accounting treatment of various items within the accounts actually accord with the notes given and adhere to the fundamental concepts. Clearly, if as a result of such testing, the auditors find substantial variations from proper practice they will be obliged to report thereon.

7.3.3 Statement of Accounting Policies

The principles and practices of accounting require a Statement of Accounts to be prepared which "present fairly" the financial position and transactions of the County Council, and of group financial statements where the County Council has material interests in other organisations. These statements are prepared with due regard to the following:

- Quality of Information.
- Relevance – providing financial information that is useful for assessing the stewardship of public funds.
- Reliability – providing financial information that properly represents what it purports to represent, is neutral, free from material error, is complete within the bounds of materiality and which has been prudently prepared.
- Comparability – is consistent and can be compared with the previous year's activity.
- Comprehensibility – allowing the reader to interpret the financial position of the County Council.
- Materiality - an item of information is material to the Financial Statements if its misstatement or omission might reasonably be expected to influence an

¹ Accountancy & Auditing Regulations, currently under consultation, may change this wording to: "present a true and fair view".

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assessment of the County Council's stewardship, economic decisions, or comparison with other organisations, based on those financial statements.

7.3.4 Overriding Accounting Concepts

- **Accruals** – Financial Statements other than the Cash Flow Statement are prepared on an accruals basis.
- **Going Concern** – the accounts are prepared on the assumption that the County Council will continue in operational existence into the foreseeable future i.e. there is no intention to significantly curtail the scale of the operation.
- **Legislative Requirements** – It is a fundamental principle that where specific legislative requirements and accounting principles conflict, legislative requirements take precedence.

7.3.5 General Principles

The general principles in compiling these accounts are those recommended by CIPFA. The County Council's accounts have been prepared in accordance with the Best Value Accounting Code of Practice and Code of Practice on Local Authority Accounting – A Statement of Recommended Practice 2008 (the SORP).

The County Council's accounts use the 'historic cost' convention. This means that tangible fixed assets are initially valued at their original cost, then periodically revalued to reflect any change in their value. The basis of revaluation is governed by Financial Reporting Standards 15.

7.3.6 The Year End process

This is designed to ensure that the accounts are correctly closed in accordance with all of the requirements placed on the County Council. In some respects "Closing Down" is largely a tidying up exercise at the end of the financial year. It finalises the Revenue Accounts and this leads into the production of the statutory statements and key financial measures. An important part of this, to ensure accuracy, is making sure that all transactions are recorded in the correct financial year against the right budget at the correct level of detail. The SORP requires that revenue, income and expenditure are to be matched with services provided in the same accounting period. This practice requires accrual accounting to be done.

7.3.7 Year End Adjustments – accruals

An accrual is a sum included in the final accounts to cover income or expenditure relevant to an accounting period for work done or goods received but for which payment has not been received or made by the end of the accounting period. These entries are referred to as:

- Debtors where money is owed **to** the County Council,
- Creditors where money is owed **by** the County Council.

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These entries are needed to complete the financial picture: they enable the accounts to be compiled consistently and for transactions to be matched to the period to which they relate.

This is particularly important to budgets where carry forward arrangements do not apply, such as some grants. Omission of creditors will mean that the costs involved will ultimately come from the budget share and therefore spending priorities will have to be adjusted.

Similarly prudence dictates that it may be unwise to rely on all debtors paying their bills and provision may need to be made in the accounts for this. The extent of such provision will depend on the age and nature of the debt. Advice on the likelihood of a particular debtor defaulting should be sought from the Revenue Section.

7.3.8 Financial Comparisons

The comparison of actual income and expenditure against spending targets and proposals is of key importance to managers at all levels in any organisation, and schools are no exception with Governors, Head teachers, deputy heads and heads of department and administrators being involved in this process.

One of the underpinning principles is that of consistency, which in the context of the SORP means that accounting policies should be consistently applied both between financial years and within the accounts for each year. In other words one should not chop and change between accounting policies merely because it is convenient to do so at the time. Where there are changes in accounting policy then the SORP requires that they be identified through the notes to the accounts. Were not this to be the case then there would be a significant risk that the accounts would cease to “present fairly” the position of the County Council. It is imperative, therefore, that schools correctly and consistently apply the rules laid down by the Director of Finance.

There are dangers in failing to comply with the statutory requirements as the accounts of the school could be materially distorted. Considerable difficulty could ensue if every school were to vary their accounting practices to suit their current mood. Whilst individual Governors might appreciate that the accounts were not being produced on a consistent basis between years there would be a failure to present the school’s position fairly. It would hinder or prevent a ready understanding of the school’s financial position. The lack of consistency could well result in the budget monitoring process being severely flawed.

In more extreme cases the mishandling of year-end entries may lead to the budgetary position being significantly mis-stated; as a result appropriate management action cannot be taken in a timely way. Such difficulties represent a problem for future accounting periods and the action needed for their resolution generally requires far greater disruption to plans, or indeed affects actual levels of service provision, more significantly than may otherwise have been the case. In more extreme cases disciplinary action may be appropriate.

Where inconsistent practices are followed, then one of the results is that the value of any trends as management tools is significantly reduced, if not

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destroyed. The value of comparative statistics and benching marking through mechanisms such as CFR is called into question and impairs the Governors ability to make informed judgement.

It is therefore important as explained in the section on budget monitoring that the local accounting record, in most schools SIMS FMS, is accurate and consistent with the records that are held on the County Council's Financial System (FINEST).

The carry forward notified to schools and used for external reporting is based on the information held in FINEST – it is therefore vital that the two systems are in agreement. If this is so, schools can undertake forward planning in the certainty that there will be no significant variation between their records and FINEST, and thus in the carry forward notified by the authority.

7.4 ACCOUNTING SYSTEMS

7.4.1 FINEST

The County Council is required by law to properly maintain its accounts and to achieve this it uses a computer based system called FINEST. FINEST is the “book of account” and other systems are required to reconcile to it. FINEST is a database system which links the accounting function with a number of functional modules. These include:

- Payroll,
- Creditors,
- Debtors,
- Internal Billing,
- Data Transfer Control System (DTCS).

The Director of Finance controls entry of data to the feeder systems and to FINEST. The system produces regular reports on the financial position of the County Council. The reporting is appropriate to the purpose and in the case of schools is at both summary level and, for central payment schools, at transaction level. Reports are available using three principle media:

- Paper/electronic document,
- Online access to the database,
- Download of data in electronic form via modems.

Schools are required to undertake appropriate commitment accounting and may do this by using either manual recording or the SIMS FMS module.

7.4.2 SIMS Financial Management System (FMS)

The SIMS FMS module is one of a number of inter-linking modules designed to enable administration in schools. It is used in conjunction with a Personnel module to provide comprehensive local records with which to manage school budgets. FMS is the only supported computer accounting system approved by

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- ❑ not be used to set off Income against Expenditure;
- ❑ always be complete;
- ❑ always use authorised combinations taken from official lists.

7.5.1 Code Lists

Code lists are issued periodically. These are a formal authority for certain codes to be used. They reflect where appropriate general changes to accounting and information requirements. They are generally intended to be minimalist, requiring the minimum level of detail consistent with management reporting both for schools and for the County Council. It is important therefore that the changes to the authorised list are reflected within the computer local system. It is unhelpful for both school and County Council if data from a school continues to make use of inappropriate and discontinued codes thereby creating a requirement for corrections. Similarly unauthorised codes may not be used.

Changes to code lists are centrally controlled and therefore schools may **not** create their own fund or ledger codes. Requests for additional codes should be made to the Service Accountant concerned. Generally new codes will only be agreed where:

- ❑ existing codes are inappropriate,
- ❑ there is a material level of income or expenditure to be recorded,
- ❑ there is a general need for the code across the service, or
- ❑ it is not possible to use cost codes in SIMS to identify the transactions concerned.

7.5.2 Structure: what makes up a code & what does it signify?

Basic FINEST codes are eleven digits in length and consist of the components shown.

The table below shows how these link:

FINEST	FMS	Length & Type	Purpose	Example
Manage	Fund	1 Alpha 2 Numeric	Identifies the part of the County Councils service, Identifies the division of that service,	E= Education schools 15 = Secondary
Activity		4 Numeric	Identifies the School	
Item	Ledger	2 Numeric 2 Numeric	General category of spending Specific category of spending	34 = Energy 51 = Gas

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In the County Council's accounts an activity code is a cost centre. This usually is an individual service delivery point and this will generally be the lowest level of detail held centrally.

Additional detail may be needed at the local level but this is generally specific to individual establishments and as such is almost infinite in its variety. FMS provides the ability to provide this detail, through a system of flexible cost centres that may be named rather than numbered. The length of the name is variable and can be wholly descriptive. The use of other mechanisms such as financial sub-groups in FMS may assist in producing information. The use of FMS enables customisation at the local level without making central systems unwieldy.

7.5.3 Consistent Financial Reporting

Consistent Financial Reporting (CFR) is a process by which school spending is analysed into a number of nationally defined categories. Each County Council code is mapped to an appropriate heading in the national chart of accounts. CFR will be used by OfSTED to bench mark school financial performance; the aim being to compare equivalent schools and promote challenge. Data will be available for schools to undertake this process themselves. OfSTED also propose to use the CFR data to track trends within individual schools.

7.6 ADDITIONAL INFORMATION

Year-end notes are published annually. Establishments will be notified of the hyperlinks in the year end instructions.

Policy advice on accounting practice and principles is available from the Senior Manager (Financial Standards) in the Financial Services Education Team: fineduc@devon.gov.uk

7.7 WHOLE GOVERNMENT ACCOUNTS (WGA)

This is a government requirement which establishes the value of public sector spending. As part of the regime it is necessary to eliminate double counting. To achieve this all internal transactions have to be eliminated. This is achieved by having separate ledger codes that are exclusive to internal trading within the County Council.

Procurement

APPENDIX 2

SCRAPS GUIDE

INTRODUCTION

SCRAPS is an acronym for System for Certification & Remote Authorisation of Payments from SIMS. The system provides a service to pay school bills via the County Council Payments Team at County Hall. It enables timely payments to suppliers, reduces the potential for errors, improves the accuracy of coding, minimises the work involved in SIMS reconciliation and has enabled year end processes to be streamlined.

The system in outline

Supplier invoice data is input to SIMS - a process commonly called "invoicing" which updates local commitment records and is then extracted and transmitted electronically directly to the FINEST system at County Hall, where it is used to produce payments to creditors, to recover VAT and update the book of account.

Confirmation of the transaction is then returned electronically to the school for reconciliation. The source documents remain in school for reference.

Availability and limitations

SCRAPS can be used to process all routine payments including Petty Cash on any valid code set up in SIMS therefore it can be used for any funds delegated or devolved to the school but it is limited to one FINEST cost centre. SCRAPS cannot be used to process payments for:

- Other budget holders e.g. centrally funded capital projects.
- Salaries, wages and other emoluments and allowances potentially subject to the PAYE and National insurance regime.
- Travel Claims and Interview Expenses
- Special Payments Foreign Currency
- Temporary Petty Cash advances

Control of the process

Head Teachers already have the responsibility for ensuring that there are proper controls over financial processes in schools and that the Director of Finance recommendations on procedures are followed. Continuing adherence to these rules (and the spirit of the rules) will be vital to ensure the protection of school assets from loss due to error, omission or commission. Effective separation of duties plays an important part in this.

Schools must make sure that all payments are properly authorised and supported by proper documentation. School budgets will ultimately meet the costs if this is not done conscientiously.

Documentation

Schools will also need to make arrangements for the secure storage of paid vouchers and supporting documents etc. Any costs involved will be a charge on the school budget. Guidance will be found in Section 17 of this Manual.

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Production of documentation

It is not possible for schools to be individually registered for VAT. HMRC holds the County Council responsible for properly accounting for VAT. Access to school records and electronic data must be given to inspectors from the HMRC and officers of the County Council. Where it is a requirement that records are inspected at County Hall, the Head Teacher will be responsible for producing the records in the time scales laid down. Any costs resulting from this will be a charge on the school budget share.

Separation of Duties

The following points on separation of duties should be observed:

Orders

Orders should only be input to SIMS on the basis of an appropriate authorisation. In the absence of an authorised requisition form, all SIMS orders should be signed by an authorised signatory. This may be an electronic authorisation or a suitable requisition.

Payments

Wherever possible different people should undertake tasks such as input orders, authorise orders, input invoice details, authorise payments in SIMS and transmit the data. In schools where there are three or more members of staff involved in financial matters, the aim should be to achieve as much separation of duties as possible.

Staff with access to authorise orders in SIMS should ideally not have access rights in SIMS to authorise payments and hence generate payments. In those cases where circumstances dictate, then the person producing the order may also authorise the payments. This may be because the person may also be the budget holder but where possible a different person should requisition the goods.

It is recognised that in smaller schools the ideal will not always be achievable. Head Teachers are responsible for ensuring that their financial systems provide adequate internal check. The Director of Finance will be pleased to assist with guidance on good practice.

The management controls section of this manual provides general guidance. The CYPs Finance team will provide school specific advice upon request.

Responsibility

It is recommended that all authorisations to undertake financial processes and related tasks are recorded. This may be done through the mechanism of the Finance Policy

This will assist in ensuring that all staff clearly understand who is responsible for each process. This clear understanding will provide a greater degree of protection against mistakes and inadvertent omissions.

Certification

The checks set out in Appendix 1 to Section 11 of this manual must be applied.

Procurement

Payment of Accounts

General rules

The points which follow set out the general principles which apply to ensuring payments are processed correctly.

Timing of payments

Payments should be timed to take advantage of the supplier's terms. Unless otherwise shown, payment is due 28 days after the invoice date. If payment is not in the supplier's hands by the due date the school may be liable to pay statutory interest. The majority of payments are made directly to the supplier's bank account using BACS.¹ Otherwise cheques are sent first class daily and time must be allowed for delivery.

As a guide schools should chose a date based on these timescales

Payments with a due date falling on	Must be uploaded by the previous	To be transmitted by payments
Monday	Wednesday	Thursday
Tuesday	Thursday	Friday
Wednesday	Friday	Monday
Thursday	Monday	Tuesday
Friday	Tuesday	Wednesday

At times when the due date falls within a bank holiday period it is normal for payments to be made in advance. The last working day prior to the bank holiday should be chosen as the due date.

Payments uploaded with a due date of the same day or the following day will be paid on the next available run following receipt by the Payments team.

If an urgent payment is needed today's date should be entered and the payment details transmitted. The system will generate a payment on the next available run.

The system described

Payments may be uploaded anytime. The daily cut-off is at 17.00. At this time each evening the "sweep program" looks for new batches on the system and transfers them to the accounts payable system. Any payments which are "clean" will be passed into accounts payable and posted to FINEST pending payment on the due date. Batches that miss the daily cut off time are held until the next working day. Payments that fail will be investigated by the SCRAPS team.

Details of the upload process are contained in the training materials at:

<http://www4.devon.gov.uk/eal/scomis/publications/datatransferforsecurenetplu s.pdf>

¹ Bankers Automated Clearing System

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Correct Payee

Sending payment to the correct payee and address is important. Suppliers' debt recovery processes will result in the school being hassled for payment. This takes the form of statements letters and phone calls of various degrees of aggression! These all waste time. They can only be stopped by the payment being received and recognised.

County Council Creditor Numbers or 'LEA Reference Numbers'

These are unique to each of the creditors on the Accounts Payable System. They are used to link the information needed to pay suppliers. The information held includes the full name and address including postcode. The use of the correct creditor number in the SIMS 'LEA reference' field is required so that payments can be made.

If a Supplier is being used for the first time either contact the SCRAPS Helpdesk for an LEA reference or refer to the top 500 suppliers list - this is shown on the web <http://staff.devon.gov.uk/finestschoolstop500creditors-2.htm>

SIMS provides a facility to set up an alternative payee and address. This must be used whenever the payee and, or, the payment address are different. Some firms have central accounts offices and this may be different from the order address. If this is the case this option should be used to ensure that the payment goes to the correct address.

Carefully check the suppliers invoice to see where the payment should be sent.

If the payee address and/or the payee is different, the supplier and 'LEA details' in SIMS FMS will need to be amended. Use Focus>Accounts Payable>Supplier

Double click on the required supplier, go to tab 2 Additional, use the browser beside the Payment To field this will cause a "pop-up" box to appear. The payee details can then be entered or amended as required abbreviate as necessary and enter the creditor number (in the 'LEA reference' box) of the correct payee. For many payments this will only need to be done once.

If there is any doubt about the payee details ask the Scraps Help Desk for assistance.

Factored Invoices

Some suppliers sell their debts to companies who specialise in collecting accounts receivable.

These firms are called "Factors". Legally, to discharge the debt, the factor, not the supplier, has to be paid. Factored invoices are recognised by the presence of a statement called a notice of assignment. This may be part of the printed document or simply a stuck on label.

If payment is made to the supplier the factor is legally entitled to receive payment and may insist upon it. If this is the case recovery from the original supplier may be a problem.

Procurement

Internal billing

Other parts of the County Council can be set up as suppliers exactly as if they were any other firm with whom business is done. The difference is that internal bills have an alphabetic code as the 'LEA reference'. This must be present to stop the invoice being output to SCRAPS. This reference is printed on the Internal Bill as the originators reference. Apart from the different format of reference processing Internal Bills is the same as any other bill.

Any school other than those with LPS can receive charges through the Internal billing system. An electronic copy of the bill is sent to the school via SecureNet. The bill shows the same information as any other bill but additionally includes the financial codes that will be debited and the date that the money will be deducted from the budget.

The internal bill will if an original order was raised also quote that number. It is helpful to state on the order the code which is to be charged. Sims can be set up to print the code on the order. Details of how to achieve this set up can be found at:

<http://www4.devon.gov.uk/eal/scomis/publications/amendingorderprinting.pdf>

If the code quoted by the person raising the bill is wrong they should be contacted before the date when the charge is to be processed. Similarly any queries about the charge should be raised with the originator using the phone number shown on the invoice.

Invoice details

Avoiding debt recovery action not only relies upon the creditor receiving money but also upon it being recognised as relating to a particular invoice and being "posted" to clear the outstanding account. For this reason it is very important that payment details are correct. Payments section will not have the invoices to hand so any queries from suppliers will be referred back to the school.

There are 16 characters available in SIMS to identify the payment. This is normally the invoice number but there are a few exceptions.

British Gas, SWEB, District Council rates bills and South West Water all require the consumer reference to be entered.

TV Licensing can be paid by putting the licence number in the invoice number field.

Cash with order

Where funds permit smaller amounts should be dealt with by cheque drawn from imprest. It is not normal for large sums to be paid with order. If it is felt there is a need to do this please phone the payments section for advice.

Problems

Any supplier who was last paid through the creditors system more than 18 months ago may have been deleted. Therefore if a creditor is being paid after a long break it is possible that the LEA reference may no longer be correct. Please check with the SCRAPS Helpline

Adequate documentation must be kept to support any payment. Normally this will be a valid tax invoice.

Procurement

Some small local businesses may have difficulty producing proper VAT paper work. Great care should be taken to ensure that the VAT rules are followed. Invoices must not be written out for suppliers. There will be cases when no invoice is available e.g. cash with order. It is strongly recommended that a form CT 42 or locally produced equivalent is completed. This will provide a clear record of the transaction. A CT 42 must not be used merely because the original invoice has been mislaid. A copy invoice must be obtained from the supplier. This is needed to support VAT recovery. The request for payment voucher must be retained with the schools paid vouchers. (It is not to be sent to the payments section.)

There are a few special cases where only one invoice is issued but more than one payment is due. This normally applies to the rates charges. The rates must not be certified until after 1st April in any year. They are then treated as two non order invoices one payable almost immediately and the other half about 1st October. Create and authorise 2 non order invoices with April and October payment dates. Some councils also bill for trade refuse on this basis and the same procedure can readily be followed.

Authorisation and Data Transfer Process

Processing at County Hall

When school payment details are received, they are processed to produce a "Payments Listing", split into 2 parts. The first part is for payments where the 'LEA reference' has matched the creditor number in the Payments system and successfully validated. These payments will be made without any intervention. The second part of the list is where the validation has failed usually because the 'LEA Reference' does not match a payments creditor number, or the payee's address details are different. In some cases Payments Section may make contact to check the information so that payments are not made incorrectly.

Occasionally, the Creditor Name and Address that is being enquired about will be new to the Payments Team. When that happens, a copy of the original invoice will be requested for checking purposes. The reference cannot be released until the copy has been received, and a new Name and Address record created in the Accounts Payable System. During normal working hours this process is normally completed in about an hour.

For help or advice, please phone the SCRAPS Helpdesk

Dealing with errors

Unfortunately errors do occur and they will need to be rectified. The basic principle is that all errors affecting the amount of money to be paid to a supplier (but not the coding) should be dealt with in SIMS. It will be important that the procedures are all completed if SIMS and the Director of Finance records are to remain in balance.

There are several possible scenarios. The recovery procedure will depend on the timing of the discovery of a mistake. Errors fall into several areas

- those affecting coding
- those affecting timing of a payment

Procurement

- those affecting the payee
- those relating to the value or composition of a payment

Errors affecting coding

CYPS Finance should be requested to make a journal transfer by e-mail to fineduc@devon.gov.uk or by submitting a journal transfer using the online journal transfer routine on the County Council web-pages. If VAT has been dealt with incorrectly (but the supplier has been paid the correct total) this is a coding error and please send a copy of the invoice to CYPS Finance who will correct the mistake to by journal entry.

Errors affecting timing

These will be most significant where a payment to a supplier will be delayed. Please contact the Payments Section to get the payment date amended.

Errors affecting the amount payable

Mistake found before SIMS authorisation of invoice. Cancel the invoice using the cancel button - red cross in right hand corner of screen.

Reprocess the item using the correct information.

Otherwise there are several scenarios. Please contact the SCRAPS helpdesk who will take users through the process.

The key to preventing costly errors is close co-operation with the Payments team.

The correction of any errors must be carefully controlled to ensure that records held in SIMS and those held in the statutory accounts remain in step and that the correct payment is generated to the supplier with erroneous elements being suppressed.

Errors affecting the payee.

These should hopefully be rare but for those errors detected after transmission contact the Payments Section for guidance.

If there is any doubt about what should be done in any part of the process then please ask the SCRAPS desk for help.

SCRAPS Control on Exeter (01392) – 382417 383317 383413

The Help desk is available:

Monday - Thursday 09.00 - 17.00

Friday 09.00 - 16.30

Insurance Cover

Section : 17 Insurance Cover

17.1 Introduction

Insurance is the transference of financial liability to another party for a consideration. The greater risk of an event occurring, the larger the premium payable, and, of course, some risks are totally excluded by insurers.

Budgetary provision for mandatory insurance has been delegated to schools and is contained within the formula funding. The main insurance policies affected are County Council property, public and employer's liability, professional indemnity, motor and fidelity. Schools have opportunity to buy back into the County Council policy but subject to the requirements of these standards may make their own arrangements.

17.2 Devon County Council policy and general principles

The County Council maintains substantial levels of cover under all of its insurance policies. These levels are set out in Appendix 1.

The limit of indemnity under each policy has to be adequate to meet not only existing claims but also those, which may be notified at any time in the future. It is not unusual for claims to be initiated ten or even twenty years after the event. For this reason, it is essential that schools opting to arrange their own insurance policies maintain levels of cover at least equal to those of the County Council.

Failure to maintain adequate levels of cover would necessitate any shortfall being met by the establishment itself from its own funds. With the Courts already making awards of several millions of pounds for individual personal injury claims, shortfalls in the future could be substantial, should existing cover prove inadequate.

17.3 Alternative arrangements

Insurance is a complicated area and schools considering alternatives are recommended to consult the County Council's Insurance Officer in the first instance for advice on the County Council's cover.

Any cover arranged directly by Governors **must** be of at **least the same level and standard** as that arranged by the County Council. Cover must be obtained from a reputable insurer either a member of the ABI or Lloyds of London. Even this does not guarantee that an insurer will be able to meet all obligations.

Schools making their own arrangements for insurance of premises and employers liability must provide copies of their insurance certificates to the County Council Insurance Officer.

17.4 Additional arrangements – balance of risks

Insurance arrangements made outside of those already made by the County Council have to be met from the school's budget share. In a number of areas the County Council has decided that overall the cost of premiums payable

Insurance Cover

outweigh the value of possible claims and have, therefore, not taken out any cover.

Some insurers offer a balance of risks policy which covers risks not insured by the County Council. This gives the governors an opportunity to top up the County Council insurance where they consider it necessary. Typically, this type of policy will deal with damage to contents from other causes such as storm, flood, escape of water and so on. Risks such as theft of equipment can also be covered. The terms of such policies need to be examined carefully before a purchase takes place.

To ensure value for money it is prudent, to seek quotations for additional insurance before taking out insurance cover. The procurement rules must be followed. Available policies should be closely examined to ensure that they are comparable and that the policy provides the required cover. Any risks excluded by the insurer should be carefully considered before taking any decision.

Details of rules relating to insurance are contained within Financial Regulations. The following paragraphs amplify the financial treatment but are not intended to be a definitive statement of the Authority's policy in respect of insurance. This is the province of the County Council's Insurance Officer.

17.5 Description of County Council cover

17.5.1 Insurance of Buildings and Contents:

The County Council maintains cover against the perils of fire, explosion, lightning, aircraft, riot (fire only) storm, flood burst water pipes, impact, sprinkler leakage, subsidence, accidental damage and theft. This latter peril would include items such as piping or a similar part of the building's fabric removed where there is a forced entry. Damage from vandalism is not covered nor are circumstances where the theft is not accompanied by forced entry e.g. external piping or roofing materials accessed from outside the premises.

The insured value of the premises is subject to a quinquennial valuation and in the intervening years is adjusted for changes in the retail price index for construction costs.

As a matter of course, contents are valued at 10% of the building costs. It should be noted that the current sums insured for individual schools are acceptable to the County Council's insurers, under its blanket policy, as representing full reinstatement value in the event of a claim. The contents cover is only related to loss caused by the insured perils of Fire, Explosion, Lightning, Aircraft and Riot (fire only). The other perils are not covered and schools may wish to consider balance of risks insurance. Simplistically if the school burns down the contents are covered, but if it floods they aren't.

Schools choosing to arrange their own cover should obtain an up-to-date professional valuation, in order to satisfy the more stringent requirements that

Insurance Cover

will apply to individual policies, which are likely to be subject to average¹. Failure to insure for the full reinstatement value of the buildings and/or contents could result in the school having to make up the shortfall in the event of a claim.

Generally speaking, in Voluntary Aided (VA) Schools, insurance of the premises is the responsibility of the Governors. The County Council provides funding through the formula based on contents liability only. VA schools should seek clarification from their Diocesan authorities.

It is recommended that schools take reasonable and sensible precautions to avoid risks. Switching off unattended electrical appliances and the proper storage of dangerous (particularly combustible) materials are examples of simple precautionary measures. Governors should ensure that all necessary inspections are carried out. Adequate budget provision must be made for annual gas safety checks, periodic electrical checks, fire extinguisher and fire alarm checks. Without which cover may be jeopardised.

17.5.2 Employers and Public Liability Insurance

Employer's liability insurance is required by law. It exists to meet claims from employees against their employers in a wide variety of circumstances. This could include accidents at work where the employer was alleged to have been negligent by allowing dangerous working conditions to exist or perhaps where another employee has been alleged to be at fault.

Public liability insurance exists to meet claims from members of the public where negligence or some fault is alleged against the Council and/or its employees. Governors acting collectively in good faith have the legal protection of their incorporated status and if participating in the County Council policy their actions will fall within the County Council's insurance umbrella. Non participating schools must ensure they have minimum cover as set out in Appendix 1.

This insurance does not extend to personal accident cover of either staff or pupils. Sporting activities are part of the curriculum and not covered by this insurance. This policy only provides cover for any County Council liability resulting from its negligence.

The County Council insurance, where purchased by schools, embraces wider school activities such as extended school provision, but only where this is run by the school.

17.5.3 School Trips and Activities

Sometimes referred to as School Journey Insurance this is a separate policy, which provides personal accident cover for pupils whilst on specific trips, or activities both in the UK and elsewhere, but there are exclusions to the policy. Normal sporting and regular offsite activity are not covered by the policy.

¹ Average is a mechanism used by insurers to moderate claims where there is evidence of under insuring.

Insurance Cover

Cover is only effective for activities supervised by competent leaders. Additional insurance cover may be arranged if required.

17.5.4 Motor Vehicles

The County Council insures its vehicles for statutory risks and bears its own costs for the other risks. In effect, this means that vehicles are comprehensively insured but any costs above those covered by insurance are borne by locally held budgets.

It is a requirement that drivers of minibuses are competent to drive such vehicles. The details of County Council minibus rules are at: <http://staff.devon.gov.uk/driversafety.htm> Costs associated with driver validation are to be met by schools. The vehicles can only be used on the business of the County Council. Use for staff social events is excluded and therefore not insured.

17.5.5 Private Vehicles

Any employee using his vehicle on behalf of the County Council has to be insured in such a way that both the employee and the County Council are insured against third party claims. There is an arrangement between the Association of County Councils and various insurers that provides for the endorsement of private motor vehicle insurance policies "on the business of Devon County Council". Alternatively some insurers will include cover "in connection with work or business including carrying passengers". These endorsements are regarded as sufficient and do not involve the employee in taking out full business policy insurance.

Head Teachers are responsible for acquainting their staff of this requirement. Head Teachers should also verify the licences and insurance documents of staff before first allowing them to drive their own vehicle on school business and at regular intervals thereafter. Further information on policies relating to driving vehicles on business is published at: <http://staff.devon.gov.uk/driversafety.htm>

17.5.6 Insurance of Money

It cannot be emphasised enough that the control and custody of money within schools is of the utmost importance. A regular system of banking cash should be maintained in all establishments. Nonetheless, from time to time, losses do occur and a policy of insurance exists to cover these occurrences. Financial records must be sufficient to quantify the loss accurately.

The County Council's Insurance Officer is responsible for all such insurance. Each event, which gives rise to a claim under the council's insurance policy, must be notified immediately by the Headteacher/Principal to the County Council's Insurance Officer.

Schools should note that the theft or attempted theft of small sums often results in damage to school property far in excess of the cash loss. Such damage is not covered by the County Council insurance policy.

Insurance Cover

The monetary levels of cover are different for categories of money. These are defined and set out in Appendix 2.

The County Council's insurers reserve the right to decline to meet claims where a school has not taken reasonable and sensible precautions to prevent loss. In the event that this occurs, the whole loss will be borne by the school.

17.6 Personal Possessions

The County Council expects all employees and pupils to accept full responsibility for their personal possessions, including money and to take out the necessary insurance themselves to cover the risks involved. It is prudent to draw this to the attention of parents and staff through mechanisms such as the school prospectus and staff handbooks.

In exceptional cases even though there is no legal liability but where perhaps some moral obligation may be felt to exist, the school may consider the making of an ex-gratia payment from budget share in respect of personal property, which is damaged or lost. Any payment made must be met from the school's budget share. The school should complete form BR39 and pass this to the County Solicitor. Where a payment is agreed, the County Solicitor will arrange a payment.

17.7 Claims

Any event giving rise to a claim or the possibility of a claim against the Authority must be notified to the County Councils Insurance Officer as soon as possible.

17.8 Other Insurance

In deciding to insure for specific risks school governors should be mindful that insurance companies exist to make money. Therefore, premiums charged will reflect claims experience. In the long term, it is probable that premiums paid will exceed the amounts recovered.

Schools may choose to seek insurance for staff absences. They have the choice of the internal Mutual Fund or external policies. Some these external policies will not cover stress or depressive illnesses.

17.9 Contractors Insurance

Before entering into any contract the person responsible for drawing up the contract should ensure that the contractor has adequate Public Liability insurance cover. The minimum cover that any prudent contractor should have, in order to cope with the level of awards being made by the Courts in serious personal injury cases is £5 million.

17.10 Hirers Insurances

Anyone hiring County Council premises must certify that they have at least £5m of insurance cover for public liability and where appropriate £5m of employer's liability insurance.

Insurance Cover

APPENDIX 1

Key Criteria

- Cover must be obtained from a reputable insurer either a member of the Association of British Insurers or Lloyds of London.
- Policy excesses should be minimal and not exceed £1,000.
- Exclusions should only be those recognised as standard in the insurance industry

Minimum Levels of Cover

PROPERTY INSURANCE

- Full re-instatement value for all buildings and contents.
- Business Interruption cover: Limit of indemnity £5 million.

ENGINEERING

- Cover for Explosion and Fragmentation, plus periodic Statutory Inspection
- Limits of indemnity: £150,000 explosion and £5,000 impact damage due to fragmentation

EMPLOYERS LIABILITY

- Limit of indemnity: £50 million

PUBLIC & PRODUCTS LIABILITY

- Limit of indemnity: £50 million

LIBEL & SLANDER

- Limit of indemnity: £1 million

OFFICIALS INDEMNITY

- Limit of indemnity: £1 million

PROFESSIONAL INDEMNITY

- Limit of indemnity: £ 5 million

MOTOR VEHICLES

- Cover on fully Comprehensive basis

FIDELITY GUARANTEE

- Limit of indemnity: £15 million all staff
- £1 million third party computer fraud.

PERSONAL ACCIDENT (Assault)

- Capital benefits: £50,000

PERSONAL ACCIDENT (Teachers Out of School Activities)

Capital benefits: £50,000

Insurance Cover

National Savings Certificates Credit Company Sales Vouchers and V.A.T. Purchase Invoices.

Money in Safe means Money (excluding Non-Negotiable Money) contained in locked safe or strongroom in the Insured's premises when closed for business.

Any Other Money means Money (excluding Non-Negotiable Money and Money in Safe).

- a. in the Insured's premises when open for business,
- b. in transit,
- c. in a bank night safe until removed by an authorised bank official.

Insurance Cover

APPENDIX 2

Money insurance

Details of existing insurance cover and of any limitations are detailed below:

Money in the private residence of any employee	£ 500 (£5,000 in the case of Adult Education collectors)
Money in transit in the custody of an employee of the Authority, or by registered post or in a bank night safe	£8,000 cash or £1 million in non negotiable money
Money at any Council Establishment a) In the custody and under the actual supervision of a council employee b) In locked safe or strong room	£8,000 cash or £1 million in non negotiable money
c) In other locked receptacles (locked box or filing cabinet)	£ 500
d) Loose money (locked or unlocked room)	NIL
Un-crossed cheques in transit by post.	Limit of £ 5,000 in any one cheque
Unofficial funds (i.e. charities or funds for which the Council is responsible), being part of a larger claim	£250

Priority for Claims

The County Council's insurers apply a compulsory excess of £50 on all losses. All establishments will therefore, bear losses under £50 and the first £50 of every claim. This falls to be met from the school's budget share. This means that there will be no payment for claims under £50 and other claims will be reduced by £50. Claims which exceed any limits, will be scaled down.

Allocation of refunds will be on a priority basis as follows:-

- Petty cash imprest fund.
- Official County Council funds e.g. school meals, school budget share.
- Private school funds.

Definitions

Money includes Cash, Bank Notes, Cheques, Giro cheques, Bankers Drafts, Money Orders, Postal Orders, unused Postage Stamps, Credit Company Sales Vouchers all the Insured's own or for which he is responsible.

Non-Negotiable Money includes Crossed Cheques, Crossed Girocheques, Crossed Bankers Drafts, Crossed Money Orders, Crossed Postal Orders,