

SECTION 12 – PRIVATE FUNDS

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1. INTRODUCTION

- 1.1 The County Council requires all private funds at its establishments to be maintained entirely separately from Authority funds. Private funds must be administered in accordance with certain basic minimum standards in order to safeguard the interests of those who have provided resources for private funds. County Council employees are involved in private fund administration and non-compliance with these standards may result in the withdrawal of permission to maintain such a fund and in certain circumstances could lead to disciplinary action being taken against an employee.
- 1.2 The Financial Regulations require that the Governing Body shall be informed of any private funds maintained in the school for the furtherance of school activities that are not part of the provision made by the County Council. It must receive annual statements of account audited by a person appointed by the Governing Body. The Governing Body is also required to satisfy itself that the accounts are managed in accordance with these Notes of Guidance on Private Funds.
- 1.3 The Headteacher is responsible for maintaining standards of financial administration at individual establishments in accordance with the requirements embodied in these Notes of Guidance. These requirements are designed to protect not only the assets of the individual funds but also the staff involved and advice/guidance may be obtained from the Schools Financial Adviser and Internal Audit staff.
- 1.4 The Headteacher must ensure that all persons who are involved in the operation of private funds are fully aware of the contents of these Notes of Guidance. Internal Audit shall have access to all private fund records in order to establish that adequate internal controls are in place.

2. BASIC REQUIREMENTS

2.1 Separation of Duties

Wherever possible, duties should be divided between members of staff so that, as far as practicable, each transaction involves more than one person. School Management should appoint one person to act as Treasurer to each Fund maintained at the school. Generally the Headteacher should not act as Treasurer. No one person should act as Treasurer, receiving and banking money (either directly or collected by others), paying into bank, making payments and maintaining the Fund's principal accounting records **and** be responsible for the organisation of particular activities (trips, visits, refreshment facilities, etc), the collection of income generated in connection with those activities and the certification of associated invoices as correct before payments.

2.2 Bank Account

A Bank Account should be opened for the Fund by the Treasurer appointed by the Governing Body. It should incorporate the name of the establishment and of the Fund **but not that of the County Council**.

All monies received by the Fund must be paid into the account. In addition to the bank account it is good practice to open a deposit account or Building Society account for the purpose of gaining interest on monies surplus to current requirements. Cheques and withdrawal forms should require the signature of two persons of suitable seniority one of which should include the Headteacher and may include a governor. A convenient arrangement is to have three or four authorised signatories.

2.3 Accounting Records

A suitable computerised accounting package or an analysed cash book should be maintained by the Treasurer to record all the financial transactions of the Fund. The computer record/cash book should be updated no less frequently than weekly and each entry should be supported by documentary evidence. (See also 6.1).

2.4 Financial Statement

At the end of the financial year, a summary statement of the Fund's income and expenditure should be prepared and be subjected to an independent audit. (See also 6.2).

2.5 Supervision

The Headteacher should examine the accounting records maintained by the Treasurer on a monthly basis, to ensure compliance with the standards set out in this guidance note. The Headteacher may delegate this supervisory responsibility to senior staff in the school, but this should be formally approved and minuted by the Governing Body. The initials of the supervising officer should be recorded in the accounting records as evidence of this check.

2.6 Charitable Status

Many schools have funds held to advance the education of pupils at the schools by assisting in the provision of educational, recreational and other charitable facilities in augmentation of the facilities financed by the local authority. If these funds have been established for charitable purposes they will need to be registered with the Charity Commission, provided that they meet the minimum requirements for registration. Typically, for school funds this will mean that they must have an annual income of over £5,000.

For information on how to register as a charity please see the Registering a Charity pages on the Charity Commission website. A standard governing document for these funds is available for members of the Association of School and College Leaders. This standard governing document contains both agreed objects and administrative provisions that are specific to school funds and its use will speed up the registration process.

Reports, accounts and Returns

All charities must prepare accounts and make them available on request. The duty to file accounts and the Trustees' Annual Report with the Charity Commission applies to all registered charities whose gross income exceeds £10,000.

Charities whose gross income exceeds £10,000 must also send a completed Annual Return to us which can be completed online.

These documents must be sent to us within 10 months of the end of the financial year.

Types of accounts

Charity accounts may be prepared either on the receipts and payments basis or the accruals basis. Which of these is needed will depend on the income of the charity and whether or not it has been set up as a company:

- **Receipts and payments.** This is the simpler of the two methods of preparation and may be adopted where a non-company charity has a gross income of £100,000 or less during the year. It consists of an account summarising all money received and paid out by the charity in the financial year, and a statement giving details of its assets and liabilities at the end of the year. Charitable companies are not allowed by company law to adopt this method.
- **Accruals.** Non-company charities with gross income of over £100,000 during the financial year, and all charitable companies must prepare their accounts on the accruals basis in accordance with the SORP. They contain a balance sheet, a statement of financial activities and explanatory notes. These accounts are required in accountancy terms to show a 'true and fair view'.

The Trustees' Annual Report

All registered charities must prepare a Trustees' Annual Report and those with a gross income which exceeds £10,000 must file this with us.

The basic contents of the Annual Report are mandatory, though smaller charities which are not subject to statutory audit are not required to provide as much information as larger charities which are legally required to have an audit.

The Annual Return

All registered charities will be contacted by the Commission, shortly after the end of their financial year, and invited depending on their income, to complete either an Annual Update form or an Annual Return.

Charities with a total income exceeding £10,000 are invited to complete and submit their Annual Return. Paper copies of the Annual Return are available on request. Trustees are under a legal duty to complete and submit an Annual Return form to the Commission, so that we can ensure that the details on the Register of Charities are as complete and accurate as possible. The Annual Return gives us basic financial details, and details of contacts, trustees, activities and of the charity's classification.

Audit or independent examination?

Except for NHS charities, only those charities with gross income of more than £10,000 in their financial year are required to have their accounts independently examined or audited – below that threshold, an external scrutiny of accounts is only needed if it is required by the charity's governing document.

Precisely what type of scrutiny is needed depends on the income and assets of the charity. Broadly speaking, an independent examination is needed if gross income is between £10,000 and £500,000 and an audit is needed where the gross income exceeds £500,000. An audit will also be needed if total assets (before liabilities) exceed £2.8m, and the charity's gross income is more than £100,000.

School Management should review the operation of the School Private Fund and register as appropriate.

2.7 PTA Funds

PTA money is not the school's private funds but are private funds with a link to the school. They are therefore not covered by these regulations but the following advice is provided to assist schools.

The school should refer to the [PTA UK website](#) which states that every PTA should have a constitution (an example is on the website) which includes the requirement for an annual audit.

To reduce the risk and the extent of auditing required it is good practice for schools to provide, for example, an income and expenditure report for each fundraising and then the monies could be passed to the school as they are generated etc. Retaining only a small float i.e. to purchase resources for the next event would also reduce the risk of misappropriation of monies.

Where the school is a registered charity then they would need to comply with the charities accounting practices and best people to advise on this is the charities commission.

3. INCOME

3.1 Receipt of Income

The receipt of money must be recorded at the time of collection by the receiving member of staff. The appropriate record however, will depend on the nature of the income and maybe consist of any or all of the following:

- i) a day book (daily collection record)
- ii) a receipt book
- iii) a summary record
- iv) an instalment record.

The Fund's Treasurer should agree with the Headteacher the records to be used. Where the volume of transactions is small, recording of income will be by the issue of a receipt although, where several small sums are collected at the same time a summary record can be used (see 3.3). Separate registers would be appropriate for regular income collected at a sales point (e.g. a tuck shop) and payments by instalments (see 3.4 and 3.5).

Private Fund monies are to be kept separate from all personal and County Council monies. Personal cheques should not be cashed.

With the exception of summary income records, the record should show the sum collected and the purpose, date and mode of payment (cash/cheque). The most suitable form of receipt book has numbered receipts and a carbon copy that stays in the book.

3.2 Daily Collection Record

In those establishments where the Private Fund is substantial and income is collected from a number of different sources on a daily basis it may be necessary to maintain a Daily Collection Record summarising the day's transactions. This record may take the form of either a Daybook or individual daily Collection sheets. When banking takes place, the daily collection record should be totalled and the date of banking recorded. The introduction of an intermediary record of this nature not only assists internal control but also facilitates the entering of information into the Cash Book.

3.3 Summary Record of Collections

Where small amounts are collected and the issue of receipts would be impractical, the Fund Treasurer may agree with the Headteacher that a summary record of collections will be used. The member of staff collecting the

cash should record cash received on the record as it is received, showing the date of collection. All cash received should be paid frequently to the Treasurer who should agree the cash to the entries on the record, and sign and date the record maintained by the member of staff to acknowledge receipt. On a periodic basis the record should be reviewed by a member of School management to ensure monies collected have been fully accounted for.

3.4 Refreshment Facilities

Income generated by refreshment facilities provided through the Private Fund, e.g. school tuck shop, should be accounted for using the form of register shown in Appendix 1, any hard-covered notebook being suitable for this purpose. At the end of each session that the facility has been provided the persons collecting the income should complete and sign the register, thereby verifying the accuracy of the record.

Where these persons are pupils of the school, the register should be countersigned by the member of staff responsible for the activity. Any transfer of monies to the Fund Treasurer should be signed for, either on the collection register or by receipt.

The form of register described above is suitable for any other activity in which cash sales are made.

3.5 Instalment Income

When income is collected periodically, by instalments, a simple form of register, shown as Appendix 2, should be maintained showing the amount and date of each payment by each individual and the amounts and dates that cash is handed over to the Fund's Treasurer. This register enables the member of staff responsible to ensure that all sums due have been collected. All cash received should be paid frequently to the Fund Treasurer who should agree the cash to the entries on the register, and sign and date the record to acknowledge receipt.

4. BANKING

All money collected should be banked promptly and without deduction, i.e. payments should not be made out of income. Banking should be carried out weekly unless less than £50 has been collected. Where cheques are paid in, they should be separately listed on all copies of the paying-in slip to show the amount of the cheque and the name of the drawer. Pending banking, the money is to be held in a safe or, if no safe is available, in some other secure place.

5. EXPENDITURE

5.1 Authorisation

The Headteacher and the Fund's Treasurer should determine those persons authorised to incur expenditure and the limits within which they may operate. Payments should be made by cheque wherever possible.

5.2 Payments to Suppliers

When a payment needs to be made, the member of staff incurring the expenditure should pass documentary evidence of the transaction, e.g. supplier's invoice, with a request for payment, to the Fund's Treasurer. Before making out the cheque for payment, the Fund's Treasurer should check that the request has been fully completed and that authority has been delegated to the member of staff incurring the expenditure.

Where no documentary evidence exists at the time the request is made, eg where a supplier requires payment when the goods are collected, this should be suitably stated. The receipt issued by the supplier at the time the transaction takes place should be passed to the Fund's Treasurer.

The Treasurer should ensure that suppliers' invoices are retained as documentary evidence of each transaction. Where the supplier requires the invoice to be returned with the payment a photocopy should be sent. Once payment has been made, the suppliers' invoice/receipt should be filed in cheque number order.

5.3 VAT on Educational Items Purchased

The Fund's Treasurer, to avoid the payment of VAT in accordance with the procedures outlined at paragraph 9, may use Fund monies to make a purchase on behalf of the school by paying the net cost of the purchase in to, and then processing the suppliers invoice, from the Local Bank Account, which is an official NCC account.

An organisation raising the funds for the school may avoid the payment of VAT where they have raised funds for a SPECIFIED PURPOSE (e.g. the purchase of a computer).

The VAT can be avoided if those funds are donated to the school/Local Authority so that the Local Authority can make the purchase and reclaim VAT.

The school/authority must:

- (i) - place the order for the goods on official NCC stationery (official orders)
- receive the supply
- receive a VAT invoice addressed to it i.e. not in the name of the school

- fund
- (ii) - it should be noted that items purchased in this way become the property of the County Council/School and not the Private Fund as the School has no legal identity separate from the County Council.
 - the school/Local Authority must keep sufficient records for the items purchased to be easily identified and they must be used for its own non- business activities.

5.4 Payments to Individuals

Private Funds should not be used to make payments to staff at the school, or to any individual, for work done at the school unless an appropriate supplier's invoice is submitted to the fund for the work done. The requirements for a VAT invoice are set out in the VAT Guidance Note.

Where a suppliers invoice is not received, payment for work done at the school should be made through the County Council's payroll to ensure that the appropriate income tax and national insurance is paid by the person who has carried out the work. The payment will be initially charged to the school's budget, so the Fund's Treasurer should draw a cheque to be paid to the County Council to reimburse the school's budget for the total cost of the work including any employer's national insurance contribution due.

6. ACCOUNTING RECORDS AND STATEMENTS

6.1 Cash Book

The principal accounting record is the cash book which may be a manual or computerised record. The Treasurer should record all financial transactions relating to the fund in the cashbook on a weekly basis (at least). Receipts and payments should be analysed according to the activities to which they relate and all entries are to be supported by vouchers or documents in the form of receipts, invoices, daily collection records, etc.

At the end of each month the computer/cash book balance should be reconciled with the Fund's bank and cash balances. This reconciliation should be formally reported to School management and details of the reconciliation retained.

6.2 Annual Financial Statement

At the end of each financial year, a summary statement of income and expenditure should be prepared. This should show the main categories of income and expenditure. Miscellaneous income and expenditure shown in the statement of accounts should be restricted to £100 or less. The fund records should be independently audited and a copy of the audited accounts should be presented to the Governing Body. Appendix 3 illustrates the suggested format of the annual financial statement.

6.3 Retention of Records

The accounting records of the Fund should be kept in a safe place, e.g. locked steel filing cabinet or cupboard, and, in addition to the current year's records, those for the previous three years should be retained for audit purposes.

7. SCHOOL TRIPS/ACTIVITIES

7.1 Financial Statements for Trips and other Activities

In those instances where trips, visits, holidays, etc, are organised through a Private Fund, a financial statement (Appendix 4) should be prepared by the member of staff responsible for the particular activity. Initially, in order to obtain approval for the activity from the local manager, a statement of the estimated receipts and payments should be prepared. After the activity has taken place, the actual receipts and payments should be entered on the statement which should then be checked to the financial records and certified as a correct record by the Headteacher or other independent member of staff. The statement and all supporting documentation should be reviewed as part of the annual audit process.

7.2 Cash or Currency for Trips

Members of staff organising holidays abroad or trips where large cash payments will need to be made during the holiday, may sometimes express a preference to retain much of the cash collected to have it readily available. Such an arrangement should never be permitted as they are readily open to abuse and do not allow an adequate audit trail to be maintained. All collections should be banked by the Fund's Treasurer, or a person nominated by the Treasurer in his absence, who will arrange to draw suitable amounts for foreign currency and travellers' cheques, etc, and to have cash available as required. The organising member of staff must provide receipts/invoices as evidence of monies spent during the trip.

8. AUDIT

8.1 The Governing Body must appoint a person to audit the annual accounts of the fund. The person appointed must be independent of all aspects of the running of the fund, including making decisions as to how fund monies are to be spent. Where the turnover from the fund exceeds £100,000 per annum, the person appointed should be a member of one of the six recognised accountancy bodies (the Institutes of Chartered Accountants of England and Wales, Scotland and Ireland, the Chartered Association of Certified Accountants, the Chartered Institute of Management Accountants and the Chartered Institute of Public Finance and Accountancy).

8.2 All appointments are to be recorded in writing and should clearly state the terms of the appointment. Any audit fee should be met from the Fund.

8.3 The Fund auditor should be provided with a copy of this guidance when appointed.

8.4 **Guidance on the Annual Audit of a School Fund:**

The following notes are intended to give step by step guidance to a Fund auditor.

The auditor will require access to the following records, as appropriate:-

- (a) annual statement of accounts
- (b) cash book
- (c) financial statements for activities/trips
- (d) cheque books
- (e) bank paying in books
- (f) building society pass books
- (g) daily collection record/receipt books
- (h) class income lists
- (i) invoices, suppliers receipts etc
- (j) bank statements

Audit Steps

- (1) Check all income and expenditure items in the cash book to supporting documentation e.g.

Expenditure - suppliers invoices/receipts and internal vouchers.

Income – daily collection records, class listings, receipt books etc. Ensure all income banked without deduction. Where deduction has occurred ensure all monies can be accounted for.

- (2) For school trips and activities the auditor should obtain the Financial Statement for each activity and check:
- (a) Expenditure is supported by prime documentation i.e. invoices, receipts etc.
 - (b) Income can be verified to records of income collected e.g. daily collection record, receipts, class listings, and to number of pupils attending multiplied by the activity fee.
- (3) Review the profit levels on activities such as tuck shop, uniform sales etc to ensure in accordance with turnover and price levels.
- (4) Trace all cash book entries to bank statements (for larger funds this could be on a sample basis).

- (5) Review bank reconciliation and check each item on the reconciliation. Review any long standing reconciliation items (as cheques are out of date after 6 months). Check the arithmetic and accuracy of the reconciliation.
- (6) Check arithmetical accuracy of the cash book.
- (7) Ensure the opening balance shown in the Fund accounts agrees with the closing balance shown in the previous year's audited accounts.
- (8) Ensure the closing Fund balance agrees with the reconciled bank balances.
- (9) Check the arithmetical accuracy of the final accounts.
- (10) Ensure the Fund is being maintained in accordance with VAT regulations i.e. if turnover of taxable supplies exceeds the VAT threshold, the Fund must be VAT registered.
- (11) Ensure that the Fund is being administered in accordance with the Private Funds Section of this Handbook.
- (12) Upon successful completion of the audit, the auditor should certify the accounts using the certification recommended at Appendix 3. If the auditor has any significant concerns over the accounts which cannot be satisfactorily resolved with school management, the auditor should highlight these concerns to the Governing Body in the form of a qualification to the accounts. A copy of the qualified accounts should be sent to the NCC Head of Finance.

9. VALUE ADDED TAX

VAT is a tax on expenditure collected at each state of the production and distribution process. HM Customs and Excise requires that a private fund which makes total "taxable supplies" over a prescribed limit, must be registered for VAT. You should register if AT THE END OF ANY MONTH the total value of the taxable supplies made in the PAST 12 MONTHS exceeds the registration threshold, (in other words during ANY 12 month period) or AT ANY TIME if you believe the taxable supplies you MAKE IN THE NEXT 30 DAYS will exceed the registration threshold.

"Taxable Supplies" are sales which are liable to VAT, e.g. Tuck Shop sales, vending machine sales, some school uniform items and trips of a recreational nature. Transactions relating to purely educational activities, e.g. field trips, are generally exempt from VAT and do not constitute "taxable supplies". See the Guidance Note on VAT.

A registered private fund is required to pay to HM Customs and Excise the VAT element of all sales income arising from "taxable supplies" it makes although it

may offset against this the amount of VAT it bears on its purchases. A fund which has not been registered cannot charge output tax on sales and cannot reclaim input tax on purchases.

HM Customs and Excise have, however, made a concession regarding certain purchases made by the County Council on behalf of the private fund whereby VAT can be avoided. Details are given in 5.3.

Appendix 1

TUCK SHOP REGISTER

DATE	AMOUNT		COLLECTED BY	AGREED BY
	£	p		

Appendix 2

INSTALMENT REGISTER

NAME		AMOUNTS PAID									
		DATE		DATE		DATE		DATE		DATE	
		£	p	£	P	£	p	£	p	£	p
Handed to Fund Treasurer Treasurer's Initials		Amount									
		Date									

Appendix 3

ANNUAL FINANCIAL STATEMENT OF SCHOOL FUND**RECEIPTS AND PAYMENTS ACCOUNT FOR THE YEAR ENDED --/--**

		£			£
INCOME			EXPENDITURE		
Opening bank/cash balance			Individual expenditure types		
Individual income types			Individual expenditure types		
e.g.	School trips		e.g.	School trips	
	Sale of uniforms			Uniform purchases	
	Fundraising			Equipment	
	Miscellaneous			Miscellaneous	
	Etc			Etc	
				Closing bank/cash balance	
		----			----
		----			----

Reconciled bank/cash balances as at end of financial year:-

	£
Current a/c	
Deposit a/c	
Other a/c	
Cash	

(Note: analysis of income and expenditure should be sufficiently detailed that only minor amounts shown remain as miscellaneous).

Auditors Certification

I/We certify that the above accounts are in accordance with the books, vouchers, other records and with explanations provided. There are no matters to which I/We wish to draw attention.

Appendix 4

FIINANCIAL STATEMENT FOR ACTIVITIES/TRIPS

ACTIVITY/TRIP
 DATE VENUE
 NO. OF PERSONS IN ATTENDANCE
 DETAILS OF CHARGES

RECEIPTS	ESTIMATE	ACTUALS		PAYMENTS	ESTIMATE	ACTUALS	
	£	£	p		£	£	p
LOSS				PROFIT			
TOTAL				TOTAL			