



Internal Control Systems

Introduction

These guidance notes have been written to assist schools in carrying out their responsibility to ensure that they have adequate internal control systems in place.

It is recommended that they be read in conjunction with the Financial Regulations and Standard Financial Procedures for Schools and Colleges.

Definition of Internal Control Systems

A **system** is a series of inter-related procedures composed of **processes** and **controls** that are designed to operate together to achieve a planned objective.

Processes are those procedures which aim to administer transactions or other information as they pass through a system.

Controls help to ensure that the objectives of the system are met; e.g. controls in a payroll system help to ensure that the right people are paid the right amount at the right item. Controls aim to ensure that procedures operate efficiently and are designed to prevent, detect or correct errors, irregularities or fraud.

Internal control is made up of the whole system of controls and processes, financial and otherwise, which are established by management.

Purpose of Internal Controls

The main purposes of controls are to

- help ensure that systems' objectives are achieved;
- ensure public monies are properly managed;
- provide clear evidence of propriety in the way public monies are administered;
- avoid 'unwanted' happenings;
- ensure a performance standard to meet the wishes of management; and;
- protect staff.

Sound internal controls are not just for the benefit of the school but are for the protection of all staff; they not only **detect** but also **prevent** errors, irregularities and fraud.

Weak controls or the lack of controls in systems may tempt staff to 'test the system', perpetrate fraud, or act corruptly.

Responsibility of Management

It is a responsibility of management to determine the internal control system that is appropriate to the school. However, this responsibility has to be carried out within the ESCC framework of policies, procedures and guidance. It is the effective implementation of controls within this framework that will prevent and detect errors and fraud.

The controls used by management will depend upon the nature, size and volume of the activities. Also, they will depend upon the degree of control which management is able to exercise personally.

Categories of Internal Control

Internal controls can be divided into either financial controls or management controls.

Financial Control

These controls are primarily concerned with the legitimacy of expenditure and the security of assets and income. The main areas of internal control can be more closely defined as follows:

1. Budgetary control: The school should plan and control its expenditure and income to meet its predetermined objectives as set out in its School Development Plan.
2. Legitimacy of income and expenditure: All income and expenditure should be in accordance with the policies of the County Council and the school, should be properly authorised, and should be within the law.
3. Security of assets: Assets of the school should be kept secure and correctly accounted for in the form of an asset register.
4. Accounting controls: All transactions should be correctly recorded and accurately processed.

Management Control

These controls are created and maintained by management to ensure that an activity is relevant to the needs of the school and is carried out in the most effective manner.

The nature of management controls will vary widely according to the type of activity that is under review. However, there are several basic control areas, which should be in evidence:

1. Objectives: The school (Governing Body and Headteacher) should regularly review its objectives relating to any operational activity and determine the methods needed to achieve them. Management has the responsibility for determining objectives, policies and plans.

2. Procedures: Staff at all levels need to be regularly informed, both of their overall objectives, and the procedures which are to be followed in order to ensure the achievement of those objectives.
3. Organisation: The school's organisational structure should be clearly defined and adequate to ensure that staff appreciate their roles, responsibilities and obligations.
4. Management information: Management needs to be continually informed with relevant, accurate and current data relating to the financial and operational performance of any activity under its control.
5. Supervision: Systems of supervision and internal checks, for example division of duties, independent checking of work, quality of control etc, should be maintained to ensure that breakdowns, including errors, irregularities and fraud, or weaknesses within the operation, are revealed at an early stage.
6. Reviews of operational effectiveness: Management should regularly review the effectiveness and efficiency of operations under its control, including the School Improvement Plan (SIP), and consider their continued relevance in the light of changing circumstances

Summary

Internal controls are designed to assist management in the operation of financial systems and also to provide safeguards for all staff involved in the processing of financial transactions.

It is acknowledged that schools may require independent assurances that their financial systems are sound and secure. This is one of many areas where Internal Audit is able to provide a service to Governors, Headteachers and the County Council. Should any advice be required, please contact Internal Audit.

Contact Details

Should you require any further information or wish to discuss accessing any of our services, please contact either:

Mark Winton – Audit Manager, Delivery

Business Services Department
County Hall
St Anne's Crescent, Lewes
Telephone: 01273 481953
E-mail: mark.winton@eastsussex.gov.uk

Or

Ben Constable – Senior Auditor

Business Services Department
County Hall
St Anne's Crescent, Lewes
Telephone: 01273 481906
E-mail: ben.constable@eastsussex.gov.uk