

Unit 5: Financial Management

INTRODUCTION

Schools command financial resources that they receive from a variety of sources. It is imperative that these resources are managed effectively and efficiently.

As an inspector you are expected to assist schools with advice on how to manage the resources at their disposal. For you to be able to do this, you need to understand what a budget is, the nature and purpose of budgeting, the role of the head in financial management, strategies for fund-raising and how funds are accounted for.

The aim of this unit is to equip you with the relevant knowledge and skills to enable you to advise headteachers on issues relating to financial management.

LEARNING OUTCOMES

By the end of this unit you will be able to:

- define a budget
- explain the nature and purpose of budgeting in a school
- outline the role of the headteacher in financial management
- identify strategies for fund-raising
- explain how funds are accounted for.

DEFINITION OF A BUDGET

According to COMSEC, Module 5 (1993), budgeting is defined as “a process of preparing a statement of anticipated income and the proposed expenditure. In other words, it is a process of preparing a summary of programmes of the school reflecting the expected revenue and expenditures.” (p10).

The manual for heads of secondary and high schools in Lesotho (1995) defines a budget, as a financial management planning tool which summarises the estimated income and expenditure for a specific period of time.

“A budget is a carefully thought out plan for financing the desired purpose and objectives of a school.” (DFID INSSTEP Secondary School Training Materials, 1997, UGANDA).

Activity 5a

Using the definitions given above, what would you say are the key elements of a school budget?

COMMENT

The key elements of a school budget may include, planning, the expected revenue and expenditure, and a definite time-frame.

NATURE AND PURPOSE OF BUDGETING IN A SCHOOL

Drawing up a budget facilitates the effective implementation of school programmes.

Activity 5b

Why do you think it is necessary for a school to have a budget?

COMMENT

The following are some of the reasons why a school should have a budget:

- to assist the headteacher in allocating funds to various school programmes in accordance with the school development plan
- to ensure budget control and to avoid over-expenditure
- to ensure accountability.

THE ROLE OF THE HEADTEACHER IN FINANCIAL MANAGEMENT**Activity 5c**

As an inspector what do you think is the role of the headteacher in financial management?

COMMENT

The headteacher is ultimately accountable for the effective management of school finances. It is therefore important that the role of the headteacher in managing school finances is fully understood.

The headteacher's role includes:

- drawing up a school budget in consultation with teachers and other stakeholders
- allocating the funds
- ensuring effective maintenance of financial records
- mobilising financial resources.

STRATEGIES FOR FUND-RAISING

Usually schools do not have enough funds to finance their needs. They therefore have to raise funds to meet these requirements. As an inspector you may be called upon to advise schools on how to raise funds.

Activity 5d

List ways in which schools can raise funds.

COMMENT

Fund-raising can be a complex activity. It requires the ability to communicate with various stakeholders and an assurance that the funds will be used for the purposes for which they were sought.

As an inspector, it is important to appreciate that the following can be major sources of funds which schools can exploit:

- parents/PTA
- supporting agencies
- community
- sponsors
- government
- income-generating activities

ACCOUNTING FOR THE MONEY

Schools should keep proper records for all financial transactions. As an inspector, you need to be able to offer sound advice on effective financial management; it is important that you familiarise yourself with, and understand, the accounting system that schools should put in place.

Activity 5e

List the financial records that a headteacher must keep to facilitate the effective management of school finances.

COMMENT

The school should keep the following financial records:

Cash Analysis Book

The cash analysis book reflects the details of all transactions relating to income and expenditure on a daily basis.

The income side shows:

- the date
- the receipt numbers
- the amount paid into either the cash or bank account or income account
- a corresponding reference number.

The expenditure side should reflect:

- the date
- payment voucher number
- cheque number (if paid by cheque)
- the total amount paid out.

All entries into the cash analysis book must be done on a regular basis, preferably daily. Entries must be made in a chronological order in ink. Errors must be crossed through neatly and initialled by the person making the corrections. Rubbing out or the use of Tippex/correction fluid is not allowed under any circumstances.

The cash analysis book must be balanced at the end of each business day.

Bank reconciliation must be done as soon as a bank statement has been received.

Receipt Book

A receipt book is a book of accounts providing evidence of cash received or spent.

A receipt should indicate the following details:

- the payer of the money
- the purpose or account to which it was paid
- the amount of the payment in figures and words
- the date on which the money was received
- the signature of the person receiving the money
- the receipts should be numbered consecutively
- the reference number (student's admission number)

Bank Statement

A bank statement is a record produced by the bank indicating deposits and withdrawals including bank charges and interest earned. Each account will have its own bank statement. It is used to reconcile the cash book, which means bringing about an agreement between the cash book and the bank account.

Cheque Book

- wherever possible schools are encouraged to use a cheque book as against liquid cash
- it is important to establish that cheques are signed by authorised signatories
- the counterfoils of the cheque book should be completed in detail in the cheque book
- it is important that funds and surplus to immediate requirements be kept in interest earning accounts.

Order Request and Payment Voucher

A payment voucher is used to record details of every school expenditure and includes:

- the date
- unique reference number
- name of the supplier
- description of the goods or services
- number (quantity) required
- unit cost
- total cost
- budget/vote heading

All purchases must be approved by the headteacher or any authorised authority.

An order request/purchase order/requisition/indent is used to identify and authorise purchases for the school.

If not kept in a book, order requests should be properly filed. Only one order book should be opened at a time. Items purchased should only be for school rather than private use.

Petty Cash (imprest)

- Petty cash or imprest is an amount of money kept for the small daily purchases which may not need authorisation. However, such funds should be accounted for and there should be rules regulating their use.

- Inspectors should check if the size of the imprest is relevant to the location and needs of the school.
- Proper records of petty cash purchases should be maintained and finally recorded in the Cash Analysis Book.

Pupils' Accounts Ledger

Schools must maintain a ledger book, card or some such suitable system, on which every child in the school is noted, together with the details of that child's account, namely:

- child's name
- child's reference number
- fees outstanding from previous period
- fees required for the current period
- amount of fees paid, together with date and receipt number

The total outstanding could also be shown for each child.

Budget Control

The headteacher should ensure that at an agreed period a statement of actual income and expenditure (financial statement) is drawn up, compared to the budget estimate and discussed with stakeholders in the interest of accountability. The attached financial information flow chart summarises how information flows from primary documents to the financial control report.

Financial Probity

In the interest of financial probity, there should always be a balance between income and expenditure. Where there is a disparity, the causes may lie in poor recording, fraud or robbery.

SUMMARY

In this unit you have learnt about:

- what budget is
- the nature and purpose of budgeting
- the role of the headteacher in financial management
- some strategies for fund-raising
- the books and methods used in financial control.

It is hoped that you are now in a position to offer schools some advice on sound financial management. However, in addition to this unit you need to familiarise yourself with the rules and regulations governing financial accounting for schools in your country.

REFERENCES

DFID INSSTEP (1997) Secondary Training Materials, Ministry of Education, Uganda.

Commonwealth Secretariat (1993) *Better Schools Resources Materials for School Heads. Module 5 Financial Management*, Commonwealth Secretariat, London

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Wray, B.F. (1997) Secondary Education Support Project, Ministry of Education and DFID, Lesotho