

# **FOCUS ON FINANACIAL MANAGEMENT IN SCHOOLS**

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# Rationale for financial Management

## **Part 4 of Education Act 2013 emphasizes on the responsibility of school administrators to ensure;**

- Right to every child to Free and Compulsory Education
- Equitable access for all youth to basic education institutions
- Promotion of quality relevant education;
- Accountability and democratic decision making within institutions of basic education
- Protection of every child against discrimination by any grounds
- Transparency and effective use of educational resources
- **NB. Schools are public institutions funded by public**

# Focus

- Rationale for financial management
- Introduction
- Sources of funds
- School budget
- Financial Accounting & its Significance
- Auditing School Finances & Reporting

# INTRODUCTION TO FINANCIAL MANAGEMENT

## **Concept of financial Management**

- **Financial management** is the process of planning, mobilizing and utilising of funds in the education sector in accordance with regulations and procedures to ensure efficient and effective use of resources to achieve inclusive quality education

# Responsibilities of financial managers

- i. **Planning**- setting financial goals and determining how they will be attained, anticipating likely areas of expenditure
- ii. **Determining possible** sources of funds ( grants & fees & donations)
- iii. **Formulating budget;** Estimates of income and unit cost of items
- iv. **implementing budget**- allocating money to various vote heads & incurring expenditure according to set procedures
- v. **Accounting;** ensuring proper documentation of all financial transactions
- vi. **Auditing;** checking to ensure funds are used for intended purposes
- vii. **Monitoring;** of revenue and expenditure; continuous collection of feedback from financial management system for improvement
- viii. **Financial Reporting;** to stakeholders

# Purpose of Financial Management

Financial management is mainly to:

- Ensure regular and sufficient supply of funds.
- Prioritisation of school activities and programmes.
- Effective funds are spent on the purpose for which they are intended
- Efficient use of funds; optimal use of the available funds
- Effective monitoring and evaluation of expenditure

# Best Practices in Financial Management

Best practices in financial management encompasses **Five Es**

- **E- Effective** planning for financial acquiring resources.
- **E- Efficient** use of acquired resources
- **E- Economy** in spending funds to ensure value for money
- **E- Equity** to ensure equitable allocation of available funds to all sections of institution
- **E-External accountability** to all stakeholder through auditing (Wango and Gatere, 2012).

# SOURCES OF FUNDS IN EDUCATION SECTOR

- i. **Public finance;** comprises about 80% including funds allocated and spent in education by various levels of government (central and local).
- Mainly in form of Grants, Tax reduction on goods/services related to education, scholarships among others



# Cont.

- Free Primary Education (FPE and FDS) in Kenya, Universal Primary Education UPE and Universal Secondary Education (USE) in Uganda & in Ghana Free Compulsory Universal Basic Education (FCUBE) Free Secondary Education (FSE).

## ii Private sources of finance

- Private sources comprise about 20% by household, communities, civil society and private firms.
- **Households** incur both direct and indirect costs. **Direct costs** include development and activity fees, transport to and from school, uniforms, teaching materials, Stationery, health, facilities, meals,
- **Indirect costs** is the opportunity cost of having their children in schools instead of working to earn

# iii International Donor Agencies

- International donor Agencies contributes about 2%
- Donor funding is mainly for school buildings, computers, other equipment and projects/programmes with special components like girls education and special needs.

# iv Partnerships

## Types of partnerships

**(a) Public-Private Partnership (PPP);**  
Public educational institutions engage in collaborations with private firms and agencies in effort to enhance access and quality of education

- This is embraced as corporate social responsibility - organizations in certain regions sponsor initiatives in schools e.g. Equity bank Master Card Program, Safaricom foundation and Jomo Kenyatta Foundation etc.

# (b) Public- Public Partnerships

- **Public- public partnerships;** institutions partner with other government agencies or ministries to promote education e.g. government ministries working with educational institutions for capacity building of their staff

# v. Income Generating Projects

- **Income generating projects;** in Kenya some schools have staff houses rent to teachers and support staff at subsidized rates.
- Some school rent school land and supply water to local people for subsistence.
- School management offer facilities like swimming pools, fields, halls, school buses for hire by local communities.
- Schools investment in form of treasury bills, bank interests on fixed deposits.
- At tertiary level public universities have module II for self sponsored students and research centers and hospitals

# Initiating School Projects Required;

**Project Title**

**Rationale**

**Project objectives**

**Project activities**

**Project budget**

**Project Monitoring and evaluation system**



# vi. Fundraising

- Fundraising initiative whereby voluntary agencies contribute funds for purchase of equipment and development projects. Some schools engage in fundraising e.g. walks, Alumni Association



# THE SCHOOL BUDGET

- **A budget** is a plan with estimates of money to be received (receipts) and to be spent (expenditures)
- financial plan for a specific period, usually one year
- It comprises of **Non-recurrent expenditure;** purchase of durable items like land, buildings, library books and equipment.
- **Recurrent expenditure;** consumable items e.g. exercise books, food stuff, stationary, salaries, utilities, repairs and maintenance.
- Two **approaches to budget** making; (i) previous years budget is modified (ii) Zero budgeting – analyzing needs and coming up with estimates especially for new organizations or those with dramatic changes

# Budget Making Process

- Analysis of the school objectives and its current status  
SWOT Analysis of possible income to make estimates
- Establishment of possible areas of expenditure:  
department budgets adapt to needs of different sections or departments in a school.
- Drawing requisitions and approval by school management
- Approved items factored in the budget with cost estimates
- Implementing the budget –collecting funds from various sources and procurement
- Maintaining the budget- reviewing accounting records to ensure expenditures are within available resources.  
Adjustments made in exceptional cases
- Monitoring ; ensure accountability and efficiency in use of for all funds

# Leadership and Stakeholder Involvement in Budgeting

- Head teacher provide leadership in budgeting and ensure key stakeholders are consulted and play their roles
- HODs: Every department meets, discuss their needs and make requisitions
- Student councils meet discuss needs of students and submit a report through deputy principal or senior teacher
- BOM deliberates on the budget and approves
- Stakeholder in an AGM approves the budget
- Approval by Ministry of education

# Significance of Budgeting

Budgeting helps to;

- Obtain accurate estimates of anticipated income and expenditure to curb budget deficits
- Comprehensive and equitable allocation of financial resources in-depth analysis of needs
- Achieve efficiency stimulating confidence among stakeholders
- Determine quality and quantity of goods and services to meet changing needs in curriculum implementation
- It provides a plan for achieving school objectives
- Confers head teacher authority to levy and spend funds
- Enhances economical administration to ensure provision of services efficiently and effectively

# Procurement Process

- Public Procurement and Disposal act (2005) requires goods and services procured in public institutions be tendered
- **Tendering process** ; Advertising, for supplies, inviting suppliers to competitively bid and evaluation of bids to select the best evaluated bidder.
- **Principal is locked** out to ensure there is no interfere
- Induction of committee members into their new roles
- Lack of technical and legal knowledge of procurement (PPAD,2006) among head teachers and teachers.
- Proper procurement promotes efficiency by ensuring goods and services conform to specifications and are supplied in a timely manner (Public Officers' Ethics Act, 2005)

# FINANCIAL ACCOUNTING & ITS SIGNIFICANCE

## Concept of Accounting

It involves analyzing, interpreting and communicating the financial position of the school

- It enhances fiscal discipline through consistency and transparency in financial transactions.
- All money should be accounted for from its collection, expenditure and report writing

# Cont.

- Accounting helps in preparing, analyzing and interpretation of financial statements
- Helps to establish the financial position of educational institutions
- Helps to prepare financial reports used in decision-making

# Books of Accounts

- Main documents for financial management and training including;
  - i. **Requisition orders**-documents used by departmental HODs to request for supply of goods/ services
  - ii. **Local purchase order** - an official document presented to the supplier as an order for goods/services required by the institution.
- It shows the specifications of items, cost per unit and total
- It must also be entered in the commitment register and remain und lock and key



# Cont.

**iii, Cash books; records** of all financial transactions with **debit (left)** side in which all received funds entered in form of cash, cheques, Mpesa or postal orders.

- **Credit side (right)** where money paid out is entered.
- Debit and credit columns for vote heads in operation show amounts received & expended and balances in each vote head.

# Cont.

- **iv, Receipt books**- Contain receipts issued for all monies received in form of fees, grants from the ministry, NGOs and other donors, rents, sales and debtors.
- **Receipts** must be filled in duplicate and serially numbered, if an error is made in entries it is cancelled & must be retained in its place.

# Cont.

- **V, Commitment register** (vote book) records amount of money available in each vote head. All orders are recorded on the right hand side and the expected expenditure.
- Left hand side is completed when goods are paid for and received indicating date, payment voucher number; amount paid and balances if any.

# Cont.

**Vi, Ledger-** an extract of all transactions recorded in cash book (double entry book keeping)

- **Store ledger-** entries of items received in the organization store.

## **Categories of store ledgers:**

- **Permanent store ledgers-** items with more than two years life such as furniture, machinery, tools and science equipment.
- **Expendable store ledger;** items neither permanent nor consumable such as science equipment (bottles and glassware) beddings and lighting bulbs; stationary, geometrical instruments and rulers; text books in book store and library.
- **Consumable store ledger;** items which change form when used such as chemicals, foodstuffs, detergents, paint and writing or typing materials.

# Cont.

**Vii, Payment voucher** records payments made indicating payees name, address, identification and date, voucher No. invoice No., reason for payment, amount paid, Cheque No. and vote head charged. Payment must be approved and signed by head of the organization.

**viii. Invoice** is a document prepared by a supplier indicating details of supplied goods or services; unit cost for each and the grand total demanded.

- It must be clear on the identity of supplying entity (company name) and date

# Cont.

## **ix, Journals; (a) Special Journals**

contains records of financial events as they occur on daily basis indicating the sales day, purchase, while

**(b)journal proper;** records of purchase of assets, writing off of bad debts, depreciation of assets and correction of errors in posting from cash books

# AUDITING SCH. FINANCES & REPORTING

## 1. Financial Auditing

- **Auditing:** Assessing adherence to procedures in expending resources both internally and by external experts to enhance accountability and transparency
- **External audit;** Systematic review of resources and operations by parties outside the organization.
- **Internal audit** is conducted by certain members of an organization to audit an individual or department; internal control of procedures as checks and balances designed to ensure accountability

# Other types of Audit

- **Audit of financial compliance** to accounting principles
- **Program compliance** on adherence to requirements of funding agencies
- **Performance audit**; checks on economy or efficiency in expending funds focusing on weaknesses



# Objectives of auditing

- Auditing gives a complete picture of how the school is operating; i.e. running smoothly or otherwise
- It helps to discover flaws and in order to develop mechanism to solve them
- Audit helps to track and solve internal issues.
- It helps to organization to earn trust from stakeholders and improve funding/credit rating
- Audits ascertain the sustainability of the organization
  
- Auditing promotes accountability; a test of how dependable financial system is

## 2. Financial Reporting

- School administrator produces reports for the board of management, ministry, parents & other funding agencies.
- It determines the profit or loss in planning revenues and costs
- **Surplus revenue**; as a positive operating report, the revenue is higher and expenses are lower
- **Excess expenditure**; shows a negative operating report with higher expenditure and lower revenue

# Components of Financial Reports

- Basic information; objectives and achievements
- Organizational performance section by section e.g. learners performance in curriculum and co-curriculum activities
- Revenue and expenditure statement in form of balance sheet for the planned period
- All revenue and expenditure by sources according to existing policies
- Human resource plan e.g. training

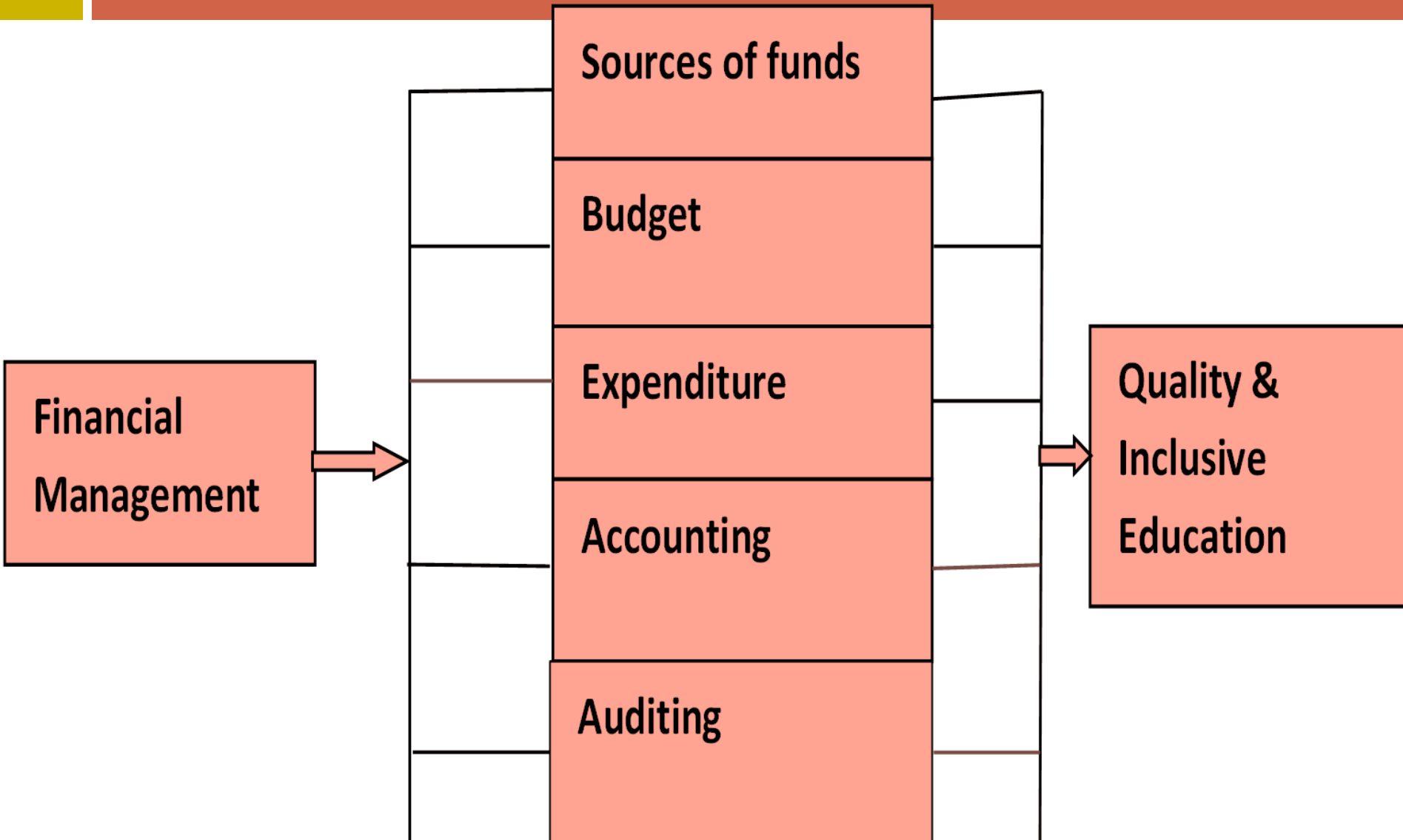
# Issues & Challenges in School Financial Mgt.

- Misappropriation/Mismanagement/embezzlement of funds
- Inadequate limited skills among school administrators.
- Inadequate financial resources to effectively run schools.
- Capitation from Government funding based on pupil's enrolment while some schools have very low enrolment.
- Inflation; sky rocketing cost of goods and services
- Delayed release of funds negatively impacts school programmes
- Poor support from parents/guardians/community.
- Regional disparities; grants insufficient to sustain education in areas of high poverty index.
- Lack of appropriate policies to guide financial management

# Measures to Counter Challenges

- Legal actions against head teachers and bursar who embezzle funds
- Establishment of internal controls/ monitoring of expenditure to enhance accountability
- Increased capitation/grants from the government
- Initiation of income generating projects to substitute government grants
- Financial management training for head teachers and bursars to enhance efficiency and effectiveness in financial management

# Proposed Financial Management Model



# THE END



**PRUDENT FINANCIAL  
MANAGEMENT IS A SURE  
WAY TO INCLUSIVE  
QUALITY EDUCATION**