

LECTURE 10

FINANCIAL MANAGEMENT IN EDUCATION

Lecture overview

Welcome to our 10th lecture on Financial Management in Education.

This lecture will discuss the functions of budgeting, accounting and auditing. In addition, it will examine the role of the school's principal as a Finance Manager.

Objectives



By the end of this lecture you should be able to:

- i. Define budgeting and explain its purpose in the school management
- ii. Define accounting and explain its purpose in the school management
- iii. Analyze the accounting documents
- iv. Explain auditing and its purpose in the school management
- v. Discuss the role of the head teacher as a finance manager/controller

Budgeting

What is budgeting?

Budgeting is planning the financial activity of organization such as school. It begins with the long range organizations, which often takes the form of a two –to-five-year plan. Along with the long range plan, there is a short range plan. This covers the situation which comes up monthly and sometimes weekly or daily.

A budget therefore is a financial blueprint for a given period of time, often a year, which structures plans on a framework of estimated revenues and expenses. A school budget is therefore an instrument that guides and controls the school's income and expenditure, while fulfilling the educational objectives of the school.

A budget according to Okumbe (1998) is an educational programme which is expressed in financial terms.

Allen (1992) defines budget as a tool for effective financial management. Budgeting helps to bring out the critical actions which have to be taken and provides a comprehensive picture of the entire organization and its state of development

Purposes of the school budget/college budget

- It enables an organization to determine the quantity and quality of both human and material resources required to enable organization to fulfill the purposes for which it was established.
- It enables the educational management to have accurate forecast of the expected receipts and expenditures during a definite period of time. Estimate receipts and expenditure help in balancing the budget which prevents budgetary deficits.
- Basis for accounting: It makes it possible to ascertain whether funds have been spent efficiently thus ensuring efficiency in accounting procedures.
- It also provides a means for those providing the funds to measure whether the custodian of school resources is worthy of their trust and confidence.
- In addition, it provides a mechanism of controlling expenditure and evaluating performance as well as serving as an instrument for delegating authority.

According to Roe and Edgor, (1960) the following are also other purposes of the budget;

- To provide for an appropriate allocation of authority between the executive (principal) and the legislation (BOG) branches of the school /college.
- To provide a comprehensive view of all services in order to make equitable provision for each service
- To provide a basis for keeping revenues and expenditures in reasonable balance
- To provide a systematic plan for studying the quality and quantity of educational services
- To provide a plan attaining the purposes for an institution or service.
- A budget t shows the estimate of the amount of money to be received (receipts) and amount of money to be to be spent (expenditures) in order to achieve the educational objectives.

A school budget /college budget has three components: it should contain

- a. An education plan or performance plan
- b. An expenditure plan, cost or spending plan and
- c. A revenue /income plan.

a) The educational plan :

It should outline the school needs in three major areas namely;

- Curriculum instructional needs, which includes all subjects offered in schools, new subjects, changes in curriculum that require more teaching resources, strengthening of areas with good performance, improvement of weak areas etc.
- Personnel needs which include; appointment of qualified personnel, in servicing personnel already appointed induction of new teachers and new curriculum, motivation of personnel etc.
- Material /resource needs which include; repair and maintenance of resources, construction of more facilities, control of wastage and losses acquisition of adequate physical and material for teaching and learning etc.

b) An expenditure plan

The school/college expenditure involves the following:

Tuition, local travelling and transport, electricity, water and conservancy, contingencies, repairs, improvements and maintenance boarding, food, salaries, consumable goods etc.

c) Revenue plan

This includes not only governments grant but also locally collected monies such as tuition fees, rent and service charged, building fund, activity fund, school farm and other income generating activities, sale of obsolete equipment etc.

Accounting

What is accounting?

Financial accounting is the process of recording, classifying and summarizing financial transactions of an educational organization and interpreting the results of these transactions.

Financial accounting is concerned with the maintenance of records in which financial transactions of an educational organization are summarized. It ensures that the financial resources are used for the intended purposes only, proper

business management for promoting economy and enabling educational authorities to have a quick but effective check on both rate of expenditure and proper financial control.

Accounting Documents (Book keeping)

According to Okumbe (1998), the art of recording business transactions is capable of being measured in financial terms. There are various books of accounts used in educational organizations namely;

Receipt book: this is a receipt that is given for money paid in or out in duplicate. It is an evidence of cash spent or received.

Payment voucher: this is a document detailing the purpose of payment with other information such as date, amount, item of expenditure etc.

Cash book: this entails detailing money received and paid out of the school on daily basis, i.e cash or cheque received and paid out. The transaction must balance at the end of the day.

Journal: this is a record of daily financial transactions

Financial ledgers: this is the information on journals recorded in ledgers- gains and losses

Some of the ledgers kept by the school include;

- a. **General ledger:** this contains all items e.g. food, stationery etc. it consolidates other books of account.
- b. **Fees ledger:** this contains all information on each student's fees paid, date balances etc.
- c. **Credit ledger:** this contains list of school debtors, amount owed, payments, balances etc.
- d. **Vote book (commitment register):** this shows balances, total vote for each item, expenses and balances or amount available in each vote head.
- e. **General stores inventory book:** this is where all equipment of the school are recorded. It also show when they are issued out and to whom.
- f. **Trial balance:** this is a list of all accounts which helps to control overspending.
- g. **School balance sheet:** this is a financial statement of the school at any given time. It reveals all the assets and liabilities of the school at a given period.

Activity



What are the purposes of accounting?

Auditing

What is auditing?

Auditing can be defined as an independent examination of the books of accounts and vouchers of a business with a view of forming an opinion as to whether these have been kept properly according to the companies act and as to whether the statements drawn there from portray a true and fair view of the company's state of affairs as at a given date.

Auditing is a procedure for verifying the financial operations of any given school. This helps to determine whether or not property and funds have been properly used and whether the budget has been adhered to.

Purposes of auditing

- To find out whether the organization has kept proper books of account eg cash book etc.
- To prove the true and fair view of the organizations state of affairs at a given date.
- To write a report
- To provide advice to the management eg BOGS
- To determine whether the financial statements made by educational organization are accurate in both calculations and figures in application to the recommended accounting guidelines.
- To determine whether the educational organization uses procedures which comply with the legal provisions, policies and procedures.
- To identify any operations or problems in the accounting procedure used by the educational organization so as to provide remedial recommendation for improvement.

Advantages of auditing:

- It provides assurance and credibility in the accounts report which is crucial to all interested parties in the organization.

- It protects third parties (parents, students) who do not take part in the running of the school.
- The audit will serve as a detective and preventative measure against errors and frauds in the organization.
- An audit keeps the bursar, accountants, head teacher and the clerk vigilant and up-to-date for fear of being apprehended.
- Audited accounts by independent auditors minimizes chances of disputes among BOG and parents.
- Audited accounts may be used as a basis for borrowing money from banks and other institutions.
- It gives assurance to all parties I.e. MOEST,BOG and parents that statutory regulations are followed.

Role of the head teacher as a finance manager/controller

The head teacher occupies a position of dual responsibility: as a director or chief executive, he attends board meetings and as a manager he performs the management functions which include the financial management functions.

The functions of a head teacher as a financial manager are as follows:

- Formulating of basic operating policies with established institutional policy.
- Formulating of basic organizational financial structure
- Formulating of basic employment and compensation structure with established institutional policies
- The administration of institutional finances and financial control
- Preparing institutional budget and submitting the same to the BOG for approval
- Administration of procurement activities, traffic and movement activities
- Authorizing, acquisition, alterations, replacements, maintenance, construction, expansion and disposal of properties within designated amounts.
- Maintaining contact with the government departments, trade association, trade unions and other bodies in connection with the formation and execution of institutional policies and plans.
- He/ she audits the accounts book and documents before and after transactions entered in accounts books.
- Ensures that all monies, collections, withholding and retentions such as PAYE, NHIF insurance deductions and any other statutory deductions

have been collected, withheld or retained for onward transmission to respective bodies.

- Ensures that all surplus money is returned to the treasury at the end of financial year. etc.

Activity



What are the limitations of auditing?

Summary

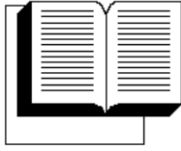
In this lecture we have discussed the functions of budgeting, accounting and auditing. In addition, we have explained the role of the head teacher as a financial controller and also outlined some of the accounting documents.

Self- Assessment Questions



1. List down the various sources of income in your school.
2. Name and explain the available accounting documents found in your school.
3. Explain the following key concepts in relation to the head teacher`s management and control of the school`s finances. (6marks)
 - i) Budgeting
 - ii) Accounting
 - iii) Auditing
4. Define the term budgeting and auditing and explain their purposes in school management- 3 purposes for each (10mks)
5. Explain the functions of head teacher in financial management.
10mks

Further Reading



Amanuel, A.T. (2009). *Managing Education: A handbook for student-teachers, trainers and school principals*. Nairobi: CUEA Press.

Okumbe, J.A. (1998). *Educational Management: Theory and Practice*. Nairobi: University Press.

Olembo, J.O, Wanga P.E & Karagu N.M(1992. *Management in Education*. Nairobi: ERAP.

Smarth, M.W. (2001). *Fundamentals of Management*. New Delhi: Chanda and Co. Ltd.