



## SCHOOL FINANCIAL HEALTH CHECK

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## **Introduction**

This “School Financial Health Check” has been developed by School Management Programme Bougainville using a similar “Health Check” designed for specifically for NGOs: “Mango’s Financial Health Check”.

Its purpose is to help you assess the financial management in your school.

Money is crucial for any organization. Schools as well cannot achieve much without it. They have to look after it carefully. That means working with good financial management.

This Health Check involves answering a simple set of questions. They cover all the key areas of school financial management. By the end of the Health Check you will be able to tell if the financial management in your school is healthy or sick - and whether you need to call a doctor!

### **About School Management Programme Bougainville (SMPB)**

SMPB is a capacity building program of the Catholic Education Agency in Bougainville. SMPB conducts trainings and workshops for school staff and board of management members of primary and vocational schools in Bougainville – in the field of school management and financial management. It provides free advice and mentoring as well. SMPB is based in Arawa.

### **About Mango**

Mango is a UK based NGO which exists to strengthen the financial management of NGOs. Mango publishes freely available tools, like “Mango’s Financial Health Check”, as well as running training courses, providing finance staff to work with NGOs and publishing books. See [www.mango.org.uk](http://www.mango.org.uk) for more details.

## **Who is this Financial Health Check designed for?**

The School Financial Health Check is designed as a practical support for school staff and board members of schools in Bougainville.

The Health Check can be run by any member of staff (teacher), BOM member, District Education Officer, Standard Officer or else. You do not need specialist financial skills to complete it. It includes explanations of each section and a glossary of the financial jargon used.

### **A word of caution**

This School Financial Health Check only provides a general indication of the health of your school's financial management. It is not a complete list of all aspects of financial management relevant for every situation, as well as it is not an audit.

Every school is different and its financial management must show this. A 'one size fits all' approach will never work – what is important for one school may not be appropriate for another.

But the key aspects of good practice are the same for most schools most of the time. This Health Check focuses on those key aspects. They are the foundation stones of good practice.

### **Using the School Financial Health Check**

The School Financial Health Check is a series of just over fifty simple statements. Discuss each statement with the relevant members of staff and BOM and record whether it is "always true", "mostly true", "sometimes true" or "never true" in your organization.

The responses are explained and given a score as follows:

<b>Response</b>	<b>Explanation</b>	<b>Score</b>
Always true	True 100% of the time	5
Mostly true	True more than 80% of the time	4
Sometimes true	True between 20% and 80% of the time	1
Never true	True less than 20% of the time	0

The scores are written out alongside each statement. Circle your score for each statement on the Health Check. Then add up your scores for each section. That's it! Then by comparing your scores to the table on the 'interpreting your score' page you will be able to tell how healthy your financial management is.

You will probably need to involve various different members of staff in the process of completing the Health Check. Generally, it is appropriate to complete the Health Check with the head teacher, the treasurer and the chairperson.

You might choose to complete the Health Check through a workshop (lasting approximately one to two hours) or through a number of one-to-one meetings.

**One more thing:** Doing the Health Check it is very important that you are honest to yourself. It helps you to find out areas that you still have room to improve your school. No school is perfect. All schools have deficiencies somewhere (after all – the head teacher, her staff, and BOM are only human and not perfect).

If the test shows that your school has some problems areas: see it as an opportunity to improve a few of those problems at a time.

## Section 1: Basic Systems

### A) Supporting Documents

Every financial transaction should be backed up by a 'supporting document', e.g. an invoice or receipt. This is the evidence that a specific transaction has taken place.

		<i>Always</i>	<i>Mostly</i>	<i>Some-times</i>	<i>Never</i>
1.1	A supporting document is available for every expenditure transaction for the current financial year.	5	4	1	0
1.2	A supporting document is available for every income transaction for the current financial year.	5	4	1	0
1.3	Supporting documents are neatly filed, so that it is easy to find any document when it is needed.	5	4	1	0
1.4	The bank statements or pass books for each bank account are neatly filed ("0" if there is no bank statement or pass book)	5	4	1	0
1.5	Supporting documents and bank statements are kept for the previous seven years.	5	4	1	0

### B) Combined Cashbook

Every transaction should be written down in the Combined Cashbook (CCB). A CCB is just a list of the money that the school has spent and received, together with a section on budget analysis. It can be kept on paper or on a computer.

		<i>Always</i>	<i>Mostly</i>	<i>Some-times</i>	<i>Never</i>
1.6	The date, description and amount of every transaction are recorded in the CCB.	5	4	1	0
1.7	All cashbooks (Petty Cashbook <u>and</u> CCB) are updated at least once per month.	5	4	1	0
1.8	A separate CCB or section in the CCB is kept for each bank account.	5	4	1	0

### C) Budget Analysis (Accounts Codes)

Accounting works by assigning codes to the transactions entered in the cashbooks. The codes allow transactions to be added together and summary reports to be produced. The set of accounting codes that an organization uses is called its "Chart of Accounts". This is equivalent to the "Budget Analysis Section" (or "Item Analysis") of the CCB.

		<i>Always</i>	<i>Mostly</i>	<i>Some-times</i>	<i>Never</i>
1.9	The Budget Analysis Section is used to code all the financial transactions in the CCB.	5	4	1	0
1.10	The same Budget Analysis is used to write budgets and financial reports.	5	4	1	0
1.11	Transactions of specific projects/activities are classified in separate columns of the Budget Analysis Section.	5	4	1	0

Total score for basic systems	
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## Section 2: Internal Controls

Schools use different internal controls to make sure funds are used properly and that they can achieve their objectives. This list presents a selection of controls. Lukaut: This list is not complete, but at least it includes controls for all key areas of financial management.

*Please note:* the other sections of the Health Check are also important controls. For instance, supporting documents prove that a transaction has happened. Reviewing financial reports is a crucial control for head teachers and board of managements to ensure that expenditure stays within the boundaries of the budget and SLIP.

		Always	Mostly	Some-times	Never
2.1	All cash kept in the office is kept in a locked cash box or safe.	5	4	1	0
2.2	All bank accounts are held in the name of the school, not in the name of individuals.	5	4	1	0
2.3	There is a written policy (e.g. finance policy) setting out which members of staff can authorize expenditure.	5	4	1	0
2.4	Each single transaction is authorized by the head teacher, and BOM-signatories, by signing payment voucher or cheque.	5	4	1	0
2.5	Staff/BOM check that goods and services bought by the school have been received before bills are paid.	5	4	1	0
2.6	Payments are done after a detailed invoice/receipt is received (including 'payee' and 'amount'); and after all details are noted down on the cheque-but.	5	4	1	0
2.7	Salaries for auxiliary staff and allowances are checked by the head teacher or a BOM member every month.	5	4	1	0
2.8	Financial duties are split between different persons (e.g. head teacher, treasurer, chairperson)	5	4	1	0
2.9	Petty cash records of the head teacher are checked every month by the treasurer. (circle "0" if head teacher does not receive petty cash)	5	4	1	0
2.10	Bank reconciliation is done every month for every bank account! (bank and CCB balance are reconciled)	5	4	1	0
2.11	Cash reconciliation is done every month! ( <u>physical amount of cash in the office</u> and in CCB reconcile)	5	4	1	0
2.12	All reconciliations are checked by a senior staff or BOM member every month.	5	4	1	0
2.13	All assets owned by the school are recorded in an Asset Register or Stock Book.	5	4	1	0
2.14	An audit is carried out once per year, by a qualified auditor or a qualified member of community or BOM.	5	4	1	0
2.15	Every year, auditors are selected by BOM (not only by those that are involved in finance, like HT, treasurer, or chairman).	5	4	1	0
2.16	All cash receipts like school fees are deposited into the bank account monthly.	5	4	1	0
2.17	All goods received are checked upon delivery.	5	4	1	0

Total score for internal controls	
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## Section 3: Planning, Budgeting, SLIP

### A) Budgets

Budgets are important for strong financial management. For budgets to be useful they must be accurate and complete – and available to head teacher, staff and BOM at all times. That means that your budget is based on a realistic assessment of the activities that you expect to carry out and of how you expect to pay for them. E.g. use past year's experience for estimating your school fee collections. School Learning Improvement Plan (SLIP) is one tool to create a useful budget.

		Always	Mostly	Some-times	Never
3.1	A budget has been prepared for all of the costs and incomes of running the school, for the last three years.	5	4	1	0
3.2	Budgets are prepared for every project before the project starts, in consultation with teachers, BOM, community.	5	4	1	0
3.3	Budgets are prepared by calculating the cost of planned activities, which fit in to overall objectives.	5	4	1	0
3.4	Budgets include enough income to pay for all planned expenditure.	5	4	1	0
3.5	SLIP and budgets allow enough flexibility to adjust activities to any changes in local circumstances.	5	4	1	0
3.6	SLIP and budgets are approved by the Board of Management (BOM) – before the school year starts.	5	4	1	0

### B) Quarter Budgets (Cashflow forecast)

A quarterly budget is as important as the budget itself. It tells you when receipts and payments should happen. Even if you know that you will receive K10,000 for a project, you can not start spending money on the project before you have received the cash!

		Always	Mostly	Some-times	Never
3.7	For each term or quarter a quarterly budget is prepared, predicting the receipts and payments for that term.	5	4	1	0

### C) Donors, Subsidies

Donors, such as Council of Elders or AusAid like to fund specific projects with specific budgets. Subsidies and government grants are also usually designated to specific projects or areas of spending. But often schools work with different donors at the same time. It is very important to keep track of which donor is funding which project (or part of a project). It is very bad practice to 'lend' money received from one donor for one project to another project. In fact, this is often illegal. Accepting money from two different donors for precisely the same project or costs is also illegal.

		Always	Mostly	Some-times	Never
3.8	A report is prepared showing which donation, grant, or subsidy is funding which costs.	5	4	1	0
3.9	There are enough funds to cover all the expenditure necessary to run the organisation and projects.	5	4	1	0
3.10	Different donors are not funding the same costs on the same project (known as 'double funding').	5	4	1	0
3.11	The organisation can continue to operate even if any single donor stops providing funding.	5	4	1	0

Total score for planning	
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## Section 4: Reporting to Government, Agency, Community, BOM

Head teachers, Board of Managements, donors, agency and government need financial reports to understand the school's or project's financial position.

Head teacher and BOM need accurate internal reports to know where money has been spent and whether they have enough funds to pay for upcoming activities.

Community and students need financial reports to know whether money is being spent on their real needs. Donors need reports to monitor your use of their donations – they may cut their funding if they do not receive reports. The government also sets legal requirements for schools to submit financial reports to them.

The monthly financial statements should include

- A. a report of all incomes and expenditures during this month and a report on the amount of funds held in cash or in the school bank accounts (School Monthly Financial Return Summary Form)
- B. a report of the actual expenditure and income compared to the budget (School Financial Return Budget Analysis Form)
- C. a report on the school fee and other cash collections (Cash Receipts and Deposits Reconciliation Statement)
- D. Other important reports show the use of funds received from each donor (e.g. funding agency, Council of Elders, subsidy), often following a reporting format provided by the donor.

		<i>Always</i>	<i>Mostly</i>	<i>Some- times</i>	<i>Never</i>
4.1	Two weeks after end of every term the headteacher presents financial reports A and B to the BOM, and answers questions on details of expenditure or income.	5	4	1	0
4.2	Division of Education receives accurate budget reports A and B within two weeks after the end of each term.	5	4	1	0
4.3	Budget report and maybe other reports are presented to community every term, in easily accessible place and format (e.g. notice board or P&C-meeting).	5	4	1	0
4.4	At the end of last year the actual expenditure on each budget item was within 20% of the budget.	5	4	1	0
4.5	The BOM reviews financial reports every semester, and if necessary adjusts the budget.	5	4	1	0
4.6	BOM and headteacher understand what reports they have to submit to donors / COE / government etc.	5	4	1	0
4.7	Financial reports are submitted to donors / COE / government in the right format and on time.	5	4	1	0
4.8	"Cash Receipts and Deposits Reconciliation Statement" is submitted to Division monthly (5 points), termly ("4"), less than that ("1"), not at all ("0")	5	4	1	0
4.9	All reports are neatly filed away.	5	4	1	0

Total score for reporting	
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## Section 5: People

Good financial school management relies on good staff and BOM members. The people looking after the school funds need to have the right skills and support to carry out the responsibilities described above. This means that especially head teacher, chairman, and treasurer need to know equally well about financial management.

		<i>Always</i>	<i>Mostly</i>	<i>Some-times</i>	<i>Never</i>
5.1	The treasurer has learned the skills needed to oversee all financial activities.	5	4	1	0
5.2	The head teacher has attended at least one one-week-training on financial management.	5	4	1	0
5.3	There are enough finance staff to carry out all of the financial activities.	5	4	1	0
5.4	Head teacher, chairperson, and treasurer regularly meet and talk about school management, including finance.	5	4	1	0
5.5	Chairperson and other staff/BOM have the skills they need to implement controls and to manage budgets.	5	4	1	0
5.6	A clear written statement of every position's financial management responsibilities exists, especially for chairperson, treasurer, head teacher (e.g. as part of the school's financial policy).	5	4	1	0
5.7	All staff and BOM receive regular training/in-service on their financial management responsibilities.	5	4	1	0

Total score for people	
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## Reminder

The responses are:

<b>Response</b>	<b>Explanation</b>	<b>Score</b>
Always true	True 100% of the time	5
Mostly true	True over 80% of the time	4
Sometimes true	True between 20% and 80% of the time	1
Never true	True less than 20% of the time	0

## Interpreting your Score

Record your score for each section in this table. Then compare it to the columns on the right to gauge how much risk you are facing. Financial management is all about reducing your risk of running into problems.

Section	Your Score	High Risk	Medium Risk	Low Risk
1. Basic systems		0 - 35	35 – 45	45 – 55
2. Internal control		0 - 45	45 – 60	60 – 85
3. Planning		0 - 30	30 – 40	40 – 55
4. Reporting		0 - 20	20 – 30	30 – 45
5. Staff		0 - 20	20 – 25	25 – 35
<b>Total Score</b>		<b>0 - 150</b>	<b>150 – 200</b>	<b>200 – 275</b>

### **Total score is over 200**

If your total score is over 200 then well done! Your financial management is in good shape. The risk of not being able to complete your planned projects or running out of funds during the school year is low. But, you cannot afford to relax. Every school should aim for a score of 250 points!

### **Total score is between 150 and 200**

If your school's total score is between 150 and 200 then your financial management is not too bad but not too good either. There is a medium level of risk that financial problems will prevent you from carrying out your work. This is a cause for concern. Low scoring areas require immediate attention from managers.

### **Total score is less than 150**

Thank you for being honest with yourself!

If your school's total score is lower than 150 then you have serious problems. Your financial management is not in good health. There is a high risk that you will face financial problems in the near future: funds may be misused, donors may withdraw their financial support or you may not have enough money to pay for curriculum materials or other priority needs next month.

Headteacher and BOM should meet urgently to discuss how the situation can be improved. You should consider calling in assistance as soon as possible. This must be dealt with right now.

**Note:** a low score in any one of the sections indicates a serious risk, even if your total score is good. All of the sections are crucial for financial management.

The 'additional resources' page has details of some of the resources available from Mango to help you improve the health of your financial management.

## Additional Resources

You, the headteacher and BOM of your school, should come up with a strategy how to improve your school's financial management – by addressing the major weaknesses first. The Health Check may help you identify the weaknesses in your financial management.

### 1. School Management Programme Bougainville

School Management Programme Bougainville (SMPB) is a capacity building program run by the Catholic Education Agency in Bougainville. SMPB is there to help you improve your school's management. You can find us in

Wanbel Haus

Arawa, Section 11 (opposite Youth Centre, next to Catholic Education Office)

Occasionally we also offer office hours in

Catholic Education Office

Buka, Hahela

### 2. Mango's Guide to Financial Management for NGOs

Mango's free Guide to Financial Management for NGOs is available from [www.mango.org.uk](http://www.mango.org.uk). It includes a comprehensive introduction to:

- key responsibilities for NGO trustees, managers and staff;
- the basics of financial management (book-keeping, budgeting, monitoring and controls);
- advanced issues (sustainability, funding relationships, accountability and overseeing controls);
- what NGOs do and what this means for managing them.

It is packed with material to download, practical tools and case studies.

## Glossary

Account code	A code for a specific type of transaction. Transactions are given a code which describes what type of income or expenditure they are - e.g. transport costs, office rent etc.
Asset	Any item that keeps its value is known as an asset. For NGOs, these are normally stocks of goods, office equipment, vehicles and property.
Asset register	A register (list) of the assets owned by the organisation, including details such as: asset reference number, date bought, purchase price, supplier and location.
Bank reconciliation	This means reconciling (comparing) the cashbook to the bank statement. It is a fundamental internal control, demonstrating that the basic accounting records are right.
Bank statement	A report produced by the bank, listing all the receipts and payments made out of or in to a bank account.
Board Member	A member of a school's most senior governing body, the Board of Management (BOM), who shares overall responsibility for the NGOs work.
BOM	Board of Management; the BOM gains legal power once it is approved by the Bougainville Education Board (BEB)
Book-keeping	The process of recording the basic details of each transaction.
Budget	The best possible estimate of the cost of a set of activities over a given period of time, and of how you are going to pay for those activities
Cash advance	A sum of money entrusted to someone for a general purpose when precise costs are not known in advance.
Cashbook	A book or spreadsheet that lists all of the transactions made in to and out of a single account.
Cashflow forecast	A report that shows the expected timing of receipts and payments over a period of time.
Chart of accounts	A list of all account codes, including a description of each code.
Cost centre	A label for a group of costs which are looked at together. For instance, different projects are often treated as different cost centres.
Reconciliation	The process of comparing information held in two sets of records that describe the same transactions.
Supporting document	The original documents that describe each transaction. These include receipts, invoices and authorising documents.
Transaction	Any exchange of goods, services or money in return for other goods, services or money.