FINANCIAL RISKS

SUMMARY of Steps to Minimise Financial Risks
1. Program Budgets are monitored regularly and remain “healthy”
2. Use of a Cash Flow Budget for the Official Account to manage day to day receipts and expenditure
3. Regular comparison (min monthly) of budget to actual details in order to regulate and confirm cash flow predictions. Amend budget as necessary for future periods.
4. Identification of potential surplus (or deficit) funds in advance for decision-making purposes
5. Follow “Schools investment policy and guidelines” for investment decisions
6. Clear lines of responsibility for financial-related tasks within the school
7. Rotation and segregation of duties wherever and whenever possible.
8. Follow recommendation/s in annual financial audit report as detailed in the school’s Management Letter
9. Complete the “Internal Control” Checklist available within the publication “Internal Controls for Schools” as a management exercise to assess the current status of internal controls in place. Review and repeat as necessary.

FINANCIAL RISKS

Accounting Controls
The financial security of the school is dependent upon the safe collection and banking of money, and best practice procedures must be in place to safeguard receipts and ensure that all money collected is recorded and banked promptly. Schools can use manual, mechanical or electronic methods for issuing receipts, so long as effective controls are in operation.

Manual receipts issued from the school administration office
All cheques received by mail are to be entered in a remittance book, and all cheques, which have not already been crossed “not negotiable”, should be crossed as soon as they are received.

Individual receipts are to be issued immediately for all money received, for whatever purpose. Each receipt is to be signed by the administrative officer, and should state the purpose of the remittance, eg. donation from fund-raising activities, and the form of the remittance, eg. cash or cheque. If the receipt is a combination of cash and cheque, then the amount of the cheque should be noted on the duplicate copy.

Receipts should be prepared in duplicate, with the duplicate copy kept in the receipt book. Receipts should be pre-numbered in a continuous series, so that lost receipts can be quickly identified, and receipt books should be kept safely, with a record of those people to whom a receipt book has been issued.
Each day, the duplicate copies are totalled, and the total is entered into the receipt book after the last receipt issued. The money is counted, and the totals of cash and receipts must agree.

**Money received away from the school administration office**
Money received for the school at places other than the school office can be receipted in one of two ways:

- The person receiving the money can issue an individual receipt. Collections are then handed to the general office (on the same day) and counted immediately by the two people.

- For individual amounts up to $5 per pupil, a “class list” or teachers record of collection method can be used. This is usually more convenient for money collected for group activities, such as excursions.

In schools with coin-operated machines, such as drinks machines or photocopiers; two people should be involved in emptying them and counting the cash. If the machine includes a counter to record the sales made, total cash takings should be compared with the counter total.

**Cancelled receipts**
Any receipts, which are spoilt or cancelled, are to be endorsed “cancelled”, together with a brief reason for the cancellation. The cancelled originals should then be attached to the duplicates.
Alterations are not to be made on duplicate copies. File the documents in an appropriate book/file for future reference, request from auditor etc.

**Duplicate receipts**
Duplicate receipts must not be issued. If a receipt is lost and a request is made for a duplicate, the payer can be provided with a letter giving details of the original receipt, including the receipt number. This will enable it to be traced to the original receipt of the cash.

**Personal cheques**
Personal cheques are not to be cashed for any member of staff, school community or the public. Consequently, the cheques and cash banked will always agree with the breakdown on the duplicate receipts.

**Cash payments - Approval**
An important part of the process of ordering stores and services from any supplier is that the incurring of the expenditure is subject to approval by principal. Authority to sign purchase orders should be confined to the school principal and other responsible people delegated by the school council who have access to program budgets. Any purchase
approval will necessarily be dependent upon funds being available to meet the payment (fund sufficiency).

**Purchase order forms**
Order forms should incorporate the school’s name, school ABN, address, telephone number, and any other desired information. As purchase order forms are accountable documents, they should be recorded in an *Accountable Documents Register.*

It is recommended that purchase order forms be prepared in triplicate, so that:

- the original can be sent to the supplier
- a copy can be kept in the order book, and
- one copy can be attached to the payment voucher when the account is passed for payment.

Copies of the order forms are cancelled when payment is made, so that the order cannot be resubmitted and an account paid twice.

All cheques are to made out to the payee, never to cash (except for petty cash) and at no time should a blank cheque be signed.

**Petty Cash**

Like the bank reconciliation statement, petty cash is a form of cash control. The current maximum for petty cash on a single item is $200.00, thereby indicating that petty cash management is a significant area for school’s to monitor. Because petty cash is essentially an alternative to the routine method of recording and incurring expenditure, it is important that a school’s budgeted and actual cash flow include the regular checks and balances applied to other internal controls.

Each petty cash item should be supported by a numbered petty cash voucher or docket, completed and signed by a responsible officer verifying the payment. All vouchers should be entered into a Petty Cash Book in number or date order. The petty cash book should be designed in such a way that common areas of expenditure are identified. When the petty cash is nearing depletion, the remaining cash should be reconciled against the vouchers and the details entered into the petty cash book before reimbursing the fund.

Each petty cash item including the opening and reimbursing of petty cash vouchers should be coded to general ledger and sub program then entered into CASES21 Finance, refer to CASES21 Finance Process Guide Section 5 – General Ledger.

**Bank Reconciliation Statement**
The cash balance for all school council operated bank accounts is to be reconciled with the bank statement/s each month, and verified by an independent person (usually the principal). The purpose of a bank reconciliation is to reconcile the school’s finance records (CASES21) with those kept at the bank. It is therefore an independent verification that the finance records of the school are correct, and is a vital part of the school’s internal control system.

Some receipts, such as interest from the bank, may have been credited directly to the school’s bank account and recorded in CASES21. . . The same will apply to direct debits on the bank statements.

To perform a bank reconciliation, the total receipts and total payments recorded as banked, must be compared with the amounts displayed on the bank statement. Any discrepancies between the two records will be either deposits by the school not credited at the bank (often the case on the last day of each month’s banking) and unpresented cheques (cheques paid out by the school but not yet presented for payment by the receiver of the cheque).

Once these identified deposits not credited and unpresented cheques are added/subtracted to the bank statement balance, the result should equal the school bank balance record/s.

**Cash Control**

Cash planning is an essential management tool, which anticipates future cash coming in, and future cash going out, to produce an expected cash balance at the end of a nominated period. (Refer sample Cash Flow Budget) An organisation’s very survival can depend on its cash “flow” and this is often described as the “acid test”, because the ability to meet short term commitments if they all became due at once, would determine survival.

Cash is often referred to as “liquidity” in accounting terminology, so the more “liquid” the operation, the greater its viability.

Forward projections of available cash has many benefits, it puts administrators in an excellent position to make confident decisions on resource management, eg. whether to transfer idle cash to an investment or cash management account and earn more revenue in higher interest, whether to purchase school requisites, whether to delay incurring expenditure etc.

As schools are not allowed to operate an overdraft, a projected cash balance can highlight periods of deficit and corrective action can be taken to avoid this becoming reality. Generally, cash planning results in more efficient and tighter cash control which in the long run, benefits the school community.

When an actual figure is placed against its budget equivalent, the result is called a “variance” or difference. The closer the variance to zero, the more accurate was the prediction and this should always be the aim of forward planning.
There are several particular warning signs which may indicate that a close examination of financial performance is necessary, either to curb expenditure or to adjust the budget. These include:

- collections for the period are much lower than anticipated
- payments for some budget items are higher than anticipated
- official account balance is low and large payments remain to be made. A close watch on the commitments and knowledge of investment funds available will assist in this comparison
- an increase in the cost of supplies for sale to students, with collections from students at low levels
- profits from the canteen, or donations from outside bodies are below expectations

**Banking**

All money collected is to be counted before being banked, and the total must agree with the total of receipts issued. All money is to be banked in the form collected, ie. cash, cheques, electronic vouchers, etc.. It is not acceptable to substitute cheques for cash. If cash is required by the school, for example for petty cash, then a separate cheque is to be cashed at the bank, after all cash collections have been banked intact.

Best practice requires that, as far as possible, arrangements should be made for the general office to receive all the cash collections in time for them to be banked on the same day. In any event, money is not to be left on school premises over a holiday period. When transporting cash to a bank, try and vary the time in the day that banking is undertaken and minimise attention by disguising the cash and coin carriers e g calico bags stamped with the bank name are not recommended. If possible, or if a large amount of money is transported, have a second person accompany the officer or alternatively, make several visits. Investigate insuring monies in transit.

**Commitment Control**
Purchase orders and outstanding invoices entered on CASES21 are the official commitments incurred by a school. Commitment details must be presented at monthly school council meetings.

Once a cash flow budget has been built for the nominated period, a scan of the cash balances at the end of each month will indicate the months in which cash surpluses or shortages are anticipated. If a shortage is indicated in particular months, then action can be planned to ensure that the school bank account is never overdrawn.

This may involve planning to delay purchases or payments, or arranging to have some invested funds transferred to the official account to meet the cash shortfall.

Well managed program budgets will minimise over-commitment of funds as “healthy” budgets reflect the overall effective management of school finances. Authorisation and approval by appropriate officers to ensure sufficient funds are available prior to purchasing will also prevent over-commitment.

**Investments**

Maximising available financial resources, within conservative and prudent boundaries, should be the aim of all schools with surplus funds. A cash flow budget, is the initial plan to determine the extent of potential investment amount and duration.

Before any investment decisions are made, school council should have an “Investment Policy” in place. Details should include:

- level of funds to be invested
- term of the investment/s
- type of investment/s in relation to the school’s cash flow requirements

Refer to the *Schools investment policy and guidelines* available on the Financial Management website.

The policy should be reviewed regularly in line with current investments. All investment decisions should be approved by school council and authorised by the principal and a school council office bearer.

Each investment must be recorded in a school investment register and entered onto CASES21.

**Administrative Controls**

Effective management control provides for:
• validity and completeness of financial transactions i.e. when reporting on a particular area/s, the data contained in the report represents the entire period for which the report has been generated.

• properly authorised transactions carried out by people acting within their designated authority e.g. as mentioned earlier, approval to incur expenditure should be granted by personnel having access to relevant budgets for fund sufficiency purposes.

• correct valuations of assets and liabilities to show the school's true financial position i.e. the asset register and commitment details are accurate in terms of historical cost recording and fully complete items contained in each.

• appropriate classification of accounting information for reporting purposes i.e. the school level chart of accounts reflects accurately and completely, correct coding, use of predefined codes for revenue, expenditure, general ledger, and program and that the subprograms are consistent with school council approved budget or amendments.

• correct timing to record transactions as close as practical to the time of occurrence i.e. processes are in place to ensure that: commitments are identified and processed in accordance with suppliers terms, monies received are recorded and receipts issued immediately, full advantage is taken to assist cash flow in favour of the school (encourage incoming cash as quickly as possible and delay outgoing payments without compromising due dates for payment or forfeiting discount).

• adequate security i.e. all attractive and accountable assets are securely housed, exterior doors, windows, gates etc and interior doors leading to attractive and accountable assets have good key/alarm controls to deter theft.

• evidence of physical existence i.e. conduct a stocktake minimum once a year to provide evidence of physical location. Attractive and accountable assets should be monitored regularly, or at random, to safeguard the security of items.

Accounting controls are designed to provide reasonable assurance that:

• Transactions are properly authorised.

• Transactions are recorded in a way which will:

  (a) permit the preparation of financial statements which will provide information useful to the users of those statements, whether they be internal or external users, and

  (b) maintain accountability for assets. This is known in accounting as the stewardship function, in which those in control of assets are to ensure that they are safely kept and used for their proper purpose.
Access to assets is only permitted in compliance with school policy, and that proper authorisation is obtained for their use i.e. keys loaned to staff and others, are recorded in a register and monitored for both long and short term loan. Student access to specific assets is either under staff supervision or limited to specific personnel.

Accounting records of the school’s assets are compared with the physical assets at reasonably frequent intervals, to enable appropriate action to be taken in a timely manner in case of discrepancies i.e. a stocktake based on the latest updated asset register report and physical evidence of existence. An organisation chart identifying the personnel responsible for key duties and showing a link in the chain of command, will assist to ensure that all appropriate personnel are aware of individuals’ specific roles and responsibilities. A written description of these responsibilities should be provided to each officer to ensure a clear understanding of the various duties. Amend the chart when necessary e.g. change of staff, permanent rotation of duties etc.
REFERENCES
(Available Financial Management website)

Financial Executive Memoranda/Circulars

Publications

School Finance Manual

Internal Controls for Schools

School Level Chart of Accounts

A Guide to Budget Management

School Level Payroll Requirements for Schools

Asset Management Policy

School Cash Reserve Benchmark Policy and Guidelines

Schools Electronic Funds Management Guidelines

Schools Investment Policy and Guidelines

Victorian Government Schools Reference Guide

SEIS Policy & Guidelines

Financial Reporting for Schools

Websites:


Victorian Government Schools Reference Guide:
Emergency & Security Management: 

Tax Compliance Unit (DEECD) 


“Victorian Government Schools Reference Guide” – Section 7 Resources – DEECD 