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## MODULE FIVE

### UNIT FOUR

#### **Basic Framework and Mechanisms of Financial Management**

##### **Introduction**

In the first three units, you have learnt how to identify sources of school funds, budget for and secure the funds. Financial management, amongst other things, involves recognising and respecting authorities, regulations and practices governing the receiving, keeping and spending of funds. In this unit you will learn about the basic framework and mechanisms of financial management and gain experience in applying appropriate financial management practices and skills.

Individual study time: 6 hours

##### **Learning outcomes**

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

- describe the basic framework of financial management
- state the authorities, rules and regulations governing school funds and the receiving and banking of school funds
- describe the practices for book-keeping in schools and the use of inventories
- outline safeguards for the security of school funds.

##### **Basic framework of financial management**

###### **Activity 4.1**

Before you proceed to look at Unit 4 in detail, please revise Units 2 and 3 by looking back on the sources of funds for your school budget and answering the following questions:

- (1) How much funding did you secure from each source?
- (2) Which source was most reliable? Why?
- (3) Over what period did the funds come into the school?
- (4) Is the amount collected more or less than budgeted?  
If less, how and when do you envisage filling the gap or achieving your planned target?
- (5) Are your priorities still the same?

1 hour

##### **Comments**

You will realise that funds coming into a school are not entirely certain and are often not adequate. To manage these limited funds, the school head, as a public employee

and the accounting officer, must be guided by the basic framework and mechanisms of financial management.

### **Framework for managing school funds**

#### ***Activity 4.2***

- (1) Considering your school, identify and describe the framework in which you as a head manage the school funds.
- (2) How flexible are you in deciding what to spend funds on and under what circumstance?
- (3) How free are you to make purchases?
- (4) What are the national as well as school financial policies within which you operate?
- (5) How do you allocate funds and operate votes?

1 hour

### **Comments**

Your answers in the above activities are likely to bring out and include the following:

#### **Keeping accurate financial information**

You are expected to keep complete and accurate financial information and to present this information properly. This information should include sources of revenue and accurate entry of expenditure, avoiding errors or omissions as much as possible. Proper presentation further demands that you always put any required financial information under the correct heading and in the correct place.

The information should be arranged under broad headings, such as transport, and then put under smaller headings, such as petrol and vehicle maintenance. Preferably you should present the information under appropriate, clearly understood headings in a layout based on the way in which education is actually provided. This will enable you to compare costs of the range of services offered by the school.

Flexibility and freedom with responsibility

In managing school funds, you should enjoy some financial freedom and flexibility to enable you consider a range of options. This demands a high sense of responsibility in order to use the freedom and flexibility effectively.

#### **Virement (switching expenditure)**

In a school with a well-organised financial management system overall types of virement can be applied. Under this system you, as the head of the school, can always agree with the governing bodies to switch expenditure between one heading and another if they so wish and if need be.

This depends on how you have prioritised the school services.

#### **Purchasing Freedom**

It is important for you as the head to enjoy freedom of purchase. Lack of purchasing freedom restricts the freedom of schools as consumers and delays the purchasing process.

### **Financial Policies**

The school should have financial policies to guide the financial administrators and managers. These policies will assist financial control and regulate the processes of receipting, keeping, withdrawing and expending funds. However these policies should not clash with the official national policies on school finances.

### **Proper allocation of funds**

To manage the school finances you should be conversant with what each department has and what it needs. Involving teachers and heads of department in this process is very important.

### **Authorities, rules and regulations governing school funds**

It is important that you are equally conversant with the authorities, rules and regulations that should guide you in the effective handling of school funds.

### **Tuition fees**

#### ***Activity 4.3***

Reflecting upon the situation in your school:

- (1) Who establishes the level of school fees? Where is this stipulated?
- (2) Who pays tuition fees to the school?
- (3) What rules and regulations governing fees, originate at:
  - national;
  - district;
  - school level?
- (4) To whom is the school head accountable over tuition fees?

40 minutes

### **Comments**

Tuition fees are gazetted, therefore government is the authority for these funds, which must be expended as the law dictates. In the above activity your response might have indicated that at national level, relevant government authorities are likely to determine the level of fees, sources of fees and their purpose.

At district level, the District Education Officer and Treasurer are likely to monitor the use of fees in schools under their jurisdiction. In some cases they may determine the level and purpose of the fees. Whereas at school level, the management committee or board of governors decides on specific items to be purchased and guides you the head to purchase and account for the fees. This information should be found in government statutes and standing instructions.

### **Grants**

#### ***Activity 4.4***

Grants are funds that government or other non-government organisations give to run schools. Reflecting on your school situation:

- (1) List the various sources of grants to your school.

- (2) What activities or items are financed from grants in your school?
- (3) Who decides on how to spend the grants?

20 minutes

### **Comments**

Guidelines on the management of grants are usually contained in the rules and regulations of school governing bodies. Grants are managed and controlled in a similar way to school fees except that they have to be spent for the purpose(s) indicated against the grant. Some grants have specific uses, for example, salaries; other grants may be spent flexibly for example, block grant.

### **PTA or community group funds**

#### ***Activity 4.5***

- (1) Does your school receive Parent-Teacher Association funds?
- (2) If so, how are PTA. charges levied and controlled?
- (3) What items are financed from PTA funds in your school?
- (4) What other community groups contribute funds to your school?

30 minutes

### **Comments**

Your answers might have included the following:

- 1 PTA funds are not government gazetted fees.
- 2 They include funds that are voluntarily paid by parents as decided in the general meeting of the PTA.
- 3 The funds are levied for the purpose agreed upon by the members of the association but approved by the school management committee or governing board.

Since you are the day-to-day administrator of the school, the responsibility for collecting and banking this money rests upon you, and you are accountable to the executive of the committee and the electorate. The management committee or the board of governors controls the PTA funds by ensuring that the money is expended in the manner and for the purpose agreed upon by the members of the PTA and approved by the governing body of the school.

### **Other funds**

#### ***Activity 4.6***

- (1) List other sources of funds for your school.
- (2) Do you declare funds from extra sources to school authorities?
- (3) Who decides on their use?
- (4) Do you include them in your budget?

20 minutes

### **Comments**

All funds obtained from other sources are also controlled by the school governing body, that is the school management committee or board of governors, which must

sanction their expenditure. You are the accounting officer of the school for these funds.

### Receiving and banking of school funds

It is clear that funds coming into the school must be received according to set procedures and kept safely. A receipt book is one of the commonest books of account. It is used in the process of receiving funds into a school.

### Receiving funds

#### Activity 4.7

- (1) Describe how you officially receive money in your school.
- (2) What kind of information do you record about funds received?
- (3) Look at the receipt leaf shown in Fig 3 and list the main information included on it.
- (4) Describe the use of a receipt.

20 minutes

Fig 3 A receipt leaf

*Fig 3 A receipt leaf*

<b>SCHOOL FEES RECEIPT</b>		No. 002
Nkumba Primary School P.O. Box 17, Entebbe		
		Date _____
Received from _____		
the sum of _____		
being payment of _____		
Shs _____		
Cash/Cheque No. _____		
Received by _____		Signature _____

### Comments

Typically in a school, funds come in cash, cheque or drafts. These monies must be received properly and kept safely.

A receipt book is designed for receiving real cash or cheques. A receipt must be made or written out immediately on receiving the cash money or cheque, and the original should be sent or given to the person(s) who has/have made the payment.

A receipt is used in a school to:

- acknowledge receipt of cash or cheque in settlement of school dues
- to provide proof to the school that the student has paid
- provide information for the cash book.

It bears the following basic information:

- the name of the person who paid the funds
- the name of the person who received the funds
- date received
- purpose of the funds
- type of funds (cash, cheque, etc.).

If money has to be kept before banking, it must be under lock and key or in a safe to avoid theft or damage by fire, etc.

### **Banking**

The head of the school should first bank all school funds and then withdraw as and when necessary. You should avoid using cash before it is banked as much as possible.

#### ***Activity 4.8***

For your school:

- (1) How do you open an account?
- (2) How many school accounts do you have?
- (3) How were these decided on?
- (4) Who are the signatories to each account?
- (5) What documents do you use in banking?
- (6) List the various types of bank accounts which a school can use.
- (7) What is the use of the following bank documents?
  - a deposit form;
  - a balance request form;
  - a signature specimen card;
  - a bank statement.

30 minutes

### **Comments**

The school can have as many accounts as found necessary by the governing body. It is always advisable for a school to deposit its excess revenue on fixed deposit accounts which generate higher interest. Each account usually has two or three authorised signatories, two of whom must sign a cheque before the bank can honour it. It is common practice that the chairman of the board of governors or management committee is a signatory. These signatories are usually introduced to the bank by the responsible officer.

The following are some of the bank accounts that can be opened and used by schools:

1 Current accounts (of various types) have deposit books both for cash and for cheques. Cheque books are used for withdrawals or transfer of deposits. Interest payment on the balance is usually high, for example, 20 per cent per annum.

2 Savings accounts.

3 Fixed deposit accounts/time receipts, where the customer is given a receipt and is only allowed to withdraw the money when the receipt matures.

### Withdrawing funds

#### Activity 4.9

(1) What bank and school regulations govern withdrawal of funds in:

- current accounts;
- savings accounts;
- fixed deposit accounts?

(2) Describe the steps you usually take to draw money for your school.

(3) On a cheque, identify the branch, the account number, the cheque number and the drawer and payee.

20 minutes

### Comments

Funds are withdrawn using a withdrawal form or a cheque leaf.

A typical withdrawal form is shown in Fig 4 and a typical cheque leaf in Fig 5.

Fig 4 Typical withdrawal form

Standard/Chartered		Savings Withdrawal			
Standard Chartered Bank Uganda Ltd.		Date:			
Branch	Transaction Type	Account Number			
Name					
Cashier's Stamp	1000/-				
	500/-				
	200/-				
	100/-				
	50/-				
	20/-				
	10/-				
	5/-				
	coins				
Signed					

A cheque is a written order directing the bank or bankers to pay money as therein stated.

Fig 5 A typical cheque

*Fig 5 A typical cheque*

No. 476310 1991  
UGANDA COMMERCIAL BANK  
CRESTED TOWERS BRANCH

PAY: \_\_\_\_\_ OR ORDER

SHILLINGS \_\_\_\_\_

Account Number: 80019 W. Matovu

### **Book-keeping**

To facilitate accountability and keep records and to enhance planning and overall financial performance, the school must keep clear and accurate information of all its financial transactions. This is called book-keeping.

#### **Activity 4.10**

- (1) List all books of accounts which you use in your school.
- (2) Which of these are used in handling
  - the receiving of funds;
  - the withdrawing of funds;
  - expenditure;
  - balances?

30 minutes

### **Comments**

Your list of books may have included the following:

#### **Vote books**

This is a book in which records of items and amounts of money approved to be expended per term are kept. This book should be consulted before spending is undertaken, as is it a safeguard against overspending in any one area.

#### **Vouchers**

Before payments are made, vouchers have to be written. A voucher explains the reasons and authority for the expenditure. A school should have and keep vouchers showing the details of financial transactions in the school.

#### **Local Purchase Order (LPO)**

The LPO is used for identifying and authorising local purchases voted for in the school. This is an agreement made between the school and a supplier that the school is



ready to purchase the item at an agreed price. The LPO book should always be kept under lock and key as some bad elements may use it wrongly.

### **Cash Book**

This is the book where all cash transactions are recorded each day.

### **Green Book/Petty cash**

Money which is disbursed for official purposes is recorded in the green book or petty cash book.

### **Cheque book**

A cheque is a written order directing the bank or bankers to pay money as therein stated. One should insist on obtaining receipts for any payments made by the school. Where official receipts are not available it is advisable to use petty cash vouchers to serve as written statements supporting the expenditure.

### **Journal**

It is very important for a school head to record all financial transactions in the journal. The journal has to be written every day. This is the first step of the accounting cycle of the school. See Figure 6.

*Fig 6 Sample of journal entries*

DATE	PURPOSE	AMOUNT
1/1/91	20 cartons of school chalk	400,000/-
	16 dusters	32,000/-
	20 bags of cement	120,000/-
4/2/91	10 bags of flour	200,000/-
	5 bags of sugar	50,000/-
	2 bags of salt	40,000/-
	200 school reports	100,000/-
6/4/91	200 envelopes	3,000/-
	40 packets of pins	12,000/-

### **Financial Ledgers**

These are the books where the head of the school posts the information provided in the journals. The purpose of ledgers is for recording the financial transactions of a school as they occur. See details on page 45.

### **Trial Balance**

This is the list of all the accounts used by the school. It is used to summarise the effect

of all transactions on the school accounts and show how each account is being used.

Trial balances help heads know the balances of each account and whether the school's records match those of the bank. Also they help check whether budgets are being adhered to.

### **Financial Statements**

These are the statements made by the head to convey information on the financial position of the school at a particular time. Often they are presented to the board of governors for discussion.

### **Balance Sheet**

This is the financial statement produced at the end of the school year which shows the financial position of the school. The normal practice is that the head of the school submits the balance sheets to the authority that approved the school budget, that is, the board of governors.

### **Income Statement**

The income statement summarises the extent to which profits or losses in an account are occurring. In it, revenues and expenditures are compared in order to project the profits or losses. It is also prepared at the end of the financial year.

### **Black Book**

This is a record of the outstanding debts of the school.

### **General Stores Inventory Book**

This is a book where records of equipment and tools are kept. The purpose of this inventory book is to enable the school administration to keep track of school property and plan for the future supply of such property whenever needed. The items should be clearly arranged. Provision should be made to record both acquisitions and dispositions of items kept. The head has to ensure that no items are stolen or sold out, and that an item which should last one month does in fact do so.

In this book acquisitions and dispositions resulting from deployments in equipment are posted from books of inventories.

### **Security of funds**

Care must be taken to ensure that monies received into the school are safely handled and expended only by authorised persons as officially planned.

### **Receiving funds**

#### ***Activity 4.11***

- (1) Where do you keep your cash, etc. in the school?
- (2) What safety precautions does your school have?
- (3) What financial risks are likely to occur in your school?

10 minutes

**Comments**

Cash or sensitive books of accounts must be kept under lock and key and if possible, in a strong safe to guard against fire, theft, burglary, forgery and pests.

**During banking**

Ensure that you carefully fill in banking forms and retain and file copies of the deposit forms. Also note:

**Bank Statements/Bank Reconciliation**

These must be received on a monthly basis and compared with what is in the ledger and these must agree. Any discrepancies must be reported to the bank manager immediately.

**Account Balance**

The bursar should always ask for the account balance when he comes to the bank. This account must be signed by the manager and the accountant, and not the ledger keepers. Why?

**Bank staff**

The bursar should avoid getting used to one bank staff member doing everything as this encourages forgery, or complicity.

**Stop payments**

Once the cheque book is misplaced or has some leaves missing, immediate report should be made to the bank to stop payment, otherwise the money can be paid to wrong elements.

**Withdrawal of funds and prevention of forgery*****Activity 4.12***

- (1) How do you withdraw money from your school accounts?
- (2) List ways in which money could be stolen from an account. (3) List possible precautions against these.

20 minutes

**Comments****Cheques**

1 When you write the figures in words on a cheque, there should be no space in between the words. Any space left at the end of the word 'only' should be covered with one ruled line.

2 The amount in figures and all parts of the cheque must be clearly written and the remaining areas uncovered should be covered by double ruled lines.

3 The following figures should be watched carefully as they can easily be forged: 9, nine(ty) 8, eight(y) 7, seven(ty) 6, six(ty) 4, four(ty).

4 Change of signatories should be communicated to the bank immediately.

5 Any alteration on the cheque must be countersigned by both signatories. However, where the alteration involves altering both the amount in words and in figures, a fresh cheque should be written and the wrong one cancelled.

6 The counterfoil must be countersigned by both signatories and the amount on the cheque must agree with the amount on the counterfoil. It is important to write at the back of the counterfoil the reason for the withdrawal.

7 The cheque book and all important accounting documents and banking documents must be kept under lock and key by the responsible officer.

8 No cheque leaf must be signed when blank as this can be stolen and used in forgery.

9 Every time a cheque is written the remaining cheque leaves must be counted and must also be used in their serial order. Watch out for cheques taken from the back of the book!

10 For cash cheques both the face and the back must be signed by both signatories and must bear the title of account on both sides. The person receiving the cash must have his/her name and identity written by him or her and signed at the back of the cheque.

11 A school cheques should normally require at least two signatories - either the head of school or deputy and the person concerned with school book-keeping, in other words the bursar.

### **Using carbon paper**

All financial papers should be signed directly and not on a carbon, as an unscrupulous clerk can put some blank vouchers in and the officer will sign.

### **Signing without security**

No voucher or cheque should be signed without first scrutinising it. Signing when one is too busy or too tired can encourage lack of security.

### **Signatures**

Signatures should not be so simple that they can easily be forged. Many people keep two signatures - one for bank purposes and one for other duties.

### **Saving Accounts**

The person depositing should ensure that the bank employee initials or signs for the balance posted in the passbook, as sometimes the passbook may be posted when actually the deposit slip has been destroyed and money taken. Periodically the balance in the passbook should be compared with that on the bank's ledger card.

### **Summary**

In this unit you have learnt the following:

- 1 School funds are managed within specific authority guidelines and a framework which must be clearly known.
- 2 School heads must learn to receive and bank school funds properly.
- 3 Books of accounts of school fees must be kept properly.
- 4 All possible care should be taken to ensure security of funds.

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