Non-Government Schools Not-For-Profit Good Governance Principle 9 – Responsible management of finances

Good governance arrangements ensure school proprietors and boards[1] manage their affairs with suitable oversight and accountability, and are critical for meeting not-for-profit (NFP) obligations under section 83C of the *Education Act 1990 (NSW)* (the Act).

To help schools develop and maintain good governance practices, the Non-Government Schools Not-for-Profit Advisory Committee has developed a set of Guiding Principles for Good Governance.

Good Governance Principle 9: Responsible management of finances states that:

> 'Boards must ensure all school financial affairs are managed responsibly. This includes implementing clear processes that enable appropriate financial management, reporting and maintenance of records as per legal requirements. It is a responsibility of the board to inspect financial statements and identify any inconsistencies or concerns. Boards are also responsible for ensuring the proprietor/school does not operate while insolvent.'

Ensuring a school operates in a way that meets NFP requirements rests solidly on the board's responsible management of school's finances. The key elements of this principle are:

- Clear financial management processes.
- Regular review of financial information.
- Financial reporting processes are legally compliant.

Clear financial management processes

School boards make significant financial decisions on behalf of the school they represent, so it is critical that they put in place robust processes to manage their financial operations. In order to meet NFP legal obligations, boards must ensure that school income (including assets) is used only for the operation of the school and for the education of its students.

As part of putting in place clear financial management processes, a school board should:

- Be aware of its financial responsibilities, including reporting requirements, to all regulatory bodies and spending in line with funding requirements.[2]
- Ensure external advice (for example, auditors) is independent, clear and accurate.
- Ensure all board members are aware of their collective responsibility in relation to insolvency.
- Ensure all members have an ability to interpret financial statements, in addition to at least two members with strong financial management

1 'Proprietors and Boards' refers to all members of the governing body of the school sometimes also referred to as 'directors'. In these documents the governing body is referred to as the 'school board' or 'board members'.
2 These include the department, ATO, NESA, ACNC, and DESE.

skills/experience.

School boards need to be confident there are transparent and robust management processes in the day-to-day management of school finances to ensure the right information is provided to the board.

The board's oversight should include:

- Regularly reviewing financial management policies and processes (for example, delegations, fraud prevention, conflicts of interest and procurement) and compliance.
- Having confidence that the school's senior finance staff have the skills, qualification and experience to undertake the role to a high standard.
- Budget approval, closely examining financial reports prepared by the school and having the confidence in the integrity of the reports (questioning whether cash flow projections are realistic).
- Regularly reviewing the school's finances to ensure the schools budget supports its strategic plan.
- Being aware of the schools' internal financial controls[3] to protect against misuse of the school's income. Controls can include proper authorisations and segregation of duties, for example, staff responsible for accepting school fee payments do not also bank the deposits.
- Good governance policies including conflict of interest, document retention, code of ethics and whistle-blower policies.

Good financial management at a school involves the board and the school executive developing a relationship based not only on trust but also on critical assessment of the information provided to the board.

Regular review of financial information

The board is ultimately responsible for the school's financial activities, including its viability, and as such should receive regular and structured financial information including cashflow and budgets versus actual expenses and income of the school. In addition to verifying that the school is meeting its budget targets, the board should look beyond periodic financial reports to consider how the school's current financial performance compares with that of previous years, and how its financial future appears.

All board financial decisions should be made in accordance with the school's strategic plan, a plan which should be reviewed and assessed regularly. The board should set and review key performance indicators (KPIs) centred around the priorities of the strategic plan. All board decisions should refer directly to one or more KPIs. (More information on setting KPIs can be found in **Good Governance Principle 7: Assessment of board performance**).

All board members should feel confident they are making decisions based on sound advice. Given the complexity of the financial decisions, boards can also benefit from seeking independent advice on specific activities (note that independent financial advice is a requirement in some circumstances).

At board meetings, all members should be actively encouraged to interrogate financial information. It is good practice to have the school's independent auditor present the annual audit report so that board members can ask questions. Additionally, the Chief Financial Officer (CFO), or the most senior financial school staff member should regularly report to the board and be available to answer questions.

3 Financial controls are processes in place to detect and prevent errors, theft or fraud, or non-compliance with regulatory requirements.

Some schools may benefit from having a separate financial/audit subcommittee that reports back regularly to the board. Membership of a subcommittee can include independent external people with financial expertise that can help improve the integrity of financial decision making of the board. For schools with small boards, or that oversee less complex financial decisions, a subcommittee approach may not be the most suitable. Instead, the board should implement other robust processes to ensure the integrity of its financial reports and decision making.

Another good practice is to have a standing agenda item on assessing the financial health of the school. To assist the board in this assessment, financial reports should include financial health ratios such as liquidity ratios,[4] solvency ratios,[5] management ratios,[6] and balance sheet ratios.[7]

Financial reporting processes are legally compliant

School boards are legally obligated to report on financial information to a variety of jurisdictions. It is good practice for boards to maintain a comprehensive compliance calendar which sets all key reporting requirements (both specific reporting obligations with due dates and passive compliance requirements). The calendar should include all dates and all actions required by the school and the board.

Boards should pay close attention to the specific requirements for financial reporting as these may vary and compliance action may be taken if boards do not provide the required information. For example, if a board does not respond to an information direction request under their NFP legal obligations, the Minister may declare the school a non-compliant school and recover state funding.

Boards should also ensure financial decisions are accurately and transparently recorded and that records are maintained for legally required periods (refer to **Good Governance Principle 6: Integrity in Reporting** for further information on board documentation).

Case studies

Case study A – Effective processes for the responsible management of finances

Smart Kids Academy is a medium-sized metropolitan school. The proprietor of Smart Kids Academy is Smart Kids Ltd. Smart Kids Ltd does not operate any other businesses or schools and has a board of 7 members.

All board members of the school participate in annual financial management training and 4 of the 7 members have qualifications and professional experience in financial management.

At the next board meeting, the board is due to review the school's audited financial statements. Annual financial reports have been prepared by an independent

4 Does the school have sufficient cash assets (or assets that can quickly be turned into cash) to meets its current debts, with a margin of safety?
5 Does the school have sufficient assets (outside of cash assets) to meet all its debt obligations and still be able to remain in operation?
6 Does the school manage its cash flow well?
7 Does the school manage its assets efficiently to ensure the ongoing financial health of the school?

ASIC certified auditor. The report is circulated to board members along with a cover paper prepared by the Chief Financial Officer (CFO) 2 weeks before the board meeting. The CFO and the auditor will attend the board meeting to provide feedback on the report and answer any questions members may have.

At the meeting, a board member notes that while the school is identified as a 'going concern', financial viability is dependent on loans not being recalled and the continuation of government funding. The comments are noted in the minutes and the board agrees to review its financial position at its next meeting with a view to reducing these potential financial risks. The board asks the CFO to draft a report on options to increase the liquidity position of the school over the next 3 years while ensuring all legal requirements, including NFP requirements, are met. The report will be considered by the board at a future meeting to decide on future steps.

The board has good practices in place for the responsible management of its finances as:

- All board members are trained in financial management annually.
- Several members have appropriate financial skills and qualifications.
- Financial reports have met the school's legal obligation to be completed by an independent ASIC certified auditor.
- The CFO and auditor attend the board meeting so members are provided with the opportunity to ask questions and seek clarification on the information contained in the report.
- Action is taken by the board on the information contained in the report to improve the financial viability of the school while being conscious of the school's obligations to operate NFP.

Case study B – Ineffective processes for the responsible management of finances

Western Region College is a medium-sized regional school. The proprietor of Western Region College is Academics Ltd. Academics Ltd does not operate any other businesses or schools and has a board of 5 members.

The Chair of Academics Ltd has engaged his cousin's IT company which will provide services for the school. There is no record of board consideration or approval of the engagement in the board minutes. The IT services company does not specialise in educational software. The school does not have a formal contract with the company and did not seek quotes from other companies. The company has so far been paid $85,000.

The Board has not entered the transaction into the related party transactions register and the company has not made a declaration of the relationship. The school also does not have a procurement policy resulting in decisions being made without proper processes in place.

The Board has not practised good financial management as:

- An undeclared related entity has been engaged to provide services to the school.
- There is no evidence of independent market testing, no board consideration of engagement and no formal contract between the provider and the school to formalise the terms of services to be provided.
- The Board does not have a procurement policy to ensure due process is followed when considering engaging contractors for the school.

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