

**FINANCIAL MANAGEMENT PRACTICES OF THE HEAD TEACHERS
IN PUBLIC SECONDARY SCHOOLS IN CENTRAL DIVISION,
EMBU DISTRICT, KENYA**

**UNIVERSITY OF NAIROBI
EAST AFRICANA COLLECTION**

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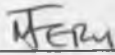
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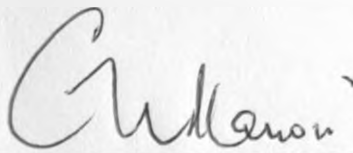
DECLARATION

This research project is my original work and has not been presented for a degree in any university.



Judy W. Njeru

This research project has been submitted for examination with my approval as university supervisor.



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DEDICATION

This project is dedicated to my family for their moral and financial support during my research work. May God Bless them all.

ACKNOWLEDGEMENT

I am indeed grateful to many who have made the completion of this project successful. In particular, I feel greatly indebted to:

Mr. Edward N. Kanori my supervisor without whose constructive criticisms and much valued ideas this project would have been impossible. All the secondary school heads of Central Division, Embu district for having provided me with the data. All my colleagues for their encouragement and co-operation and especially, Mr. Cyril Owiso. My sister Rose whose moral support was highly valued. Last but not least, my friend Sarah who typed this project.

To all God bless them greatly.

ABSTRACT

The purpose of this study was to research on financial management practice of headteachers in public secondary schools in central division, Embu district. Specifically the study sought to identify how the management of school finance is practiced in the target schools. Also, it was necessary to determine any weaknesses in management associated with financial practices in the schools.

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The literature review explored on the empirical findings on financial management in schools and what different authors have written on financial management in schools. Thus literature review dealt with both the financing and investment decisions.

The study employed descriptive research (ex. post. facto) incorporating a survey design. A population of 25 headteachers, which represented all headteachers in the division, was targeted. A total population study was therefore used because of the small population size. Data was collected from the headteachers using semi-structured questionnaires. The instruments were first piloted and then administered. The resultant data was analyzed using descriptive statistical methods. The findings of the study indicated the following;

- i) In cash management:
 - a) There was preparation of cash budgets though the span reported of one year is too long to allow for effective management of cash.
 - b) The major source of cash was fees.
 - c) Cash collections were banked daily.
- ii) In receivables management, there were a variety of procedures employed to remind students of overdue debts. The most popular was sending letters to the parents.
- iii) The school head was responsible for the management of working capital.

The study indicated that the following practices did not support current theory of working capital management:

Cash Management:

- a) The majority of the schools did not have a policy on the amount of cash to hold.

- b) While theory contends that the major use of funds in schools is staff salaries. The study indicated that for boarding schools, the largest item of outflow was boarding expenses. For day schools, the largest item of cash outflows was books and stationery.
- c) A majority of the schools did not invest their idles funds.

Receivable Management:

The schools did not evaluate the creditworthiness of students which practice could be explained as being strongly influenced by political and social considerations.

Inventory Management:

- a) A majority of the schools did not have an inventory policy.
- b) No school used any sophisticated inventory model.

Credit Management:

- a) A large number of the schools did not take short term loans.
- b) The majority of the schools did not take advantage of cash discounts.

As a major conclusion of the study therefore, there seems to be lack of professionalism in some areas of management of school finances. Majority of headteacher lack sufficient financial management skills. It was also established that headteachers play a key role in managing school finances in collaboration with the BOG.

Key recommendations were made;

- The study suggests that the headteachers need to embrace a systematic approach to financial management.
- A more collaborative approach, involving major stakeholders in the schools should be encouraged to enhance efficiency in collection and disbursement of funds.
- Use of planning, programming and budgeting system (PPBS) should be encouraged since it is useful in enhancing efficiency and effectiveness in financial management in schools.

- Proper personnel should be entrusted with the responsibilities of managing working capital, they must be trained on financial management practices to enhance their financial skills. This calls for in-service training to reinforce and update their skills.
- The Ministry of Education to encourage and facilitate for the training of the headteachers.

The following areas were suggested for further research;

- A study to be done to determine the attitudes (views) of both the school Heads and the Board of Governors of the schools on the management of working capital components.
- Similar study to be done in other divisions, districts and provinces. A study to be conducted to compare the practices among or between different type of schools (this would call for hypothesis testing).
- An evaluation study to be done to determine whether there is any relationship between background training of a school head or other members of the school board and the existing capital management practices.

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LIST OF ABBREVIATIONS

- KESI** - **Kenya Education Staff Institute**
- MOEST** - **Ministry of Education Science and Technology**
- KSSHA** - **Kenya Secondary School Head Teacher Association**
- BOG** - **Board Of Governors**
- PPBS** - **Planning, Programming and Budgeting System**

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Different scholars have defined school management in various ways. According to the Report of the Commission of Inquiry into the Education System of Kenya (Republic of Kenya 1999) management is a term used to describe the techniques and expertise of efficient organisation, planning, direction and control of a given institution. Griffin (1984:4) defines it as the process of planning, leading and controlling an organisation's human, financial, physical and information resources to achieve organisational goals in an efficient and effective manner.

The various functions of management include finance, production, personnel and marketing. Specifically, financial management deals with the efficient allocation of financial resources within the organisation. Financial management involves three functions namely: the mobilisation of funds (financing); the channelling of the mobilised funds into areas where returns are maximised while risks are minimised (investment); and the distribution of the resultant earnings to the shareholders (dividends). In a typical business firm, the objective is to manage the finances so as to maximise shareholders wealth.

Financial management is not the domain at profit making firms only, but also for non-profit making organisations. The public sector can specifically apply the same

principles in ensuring effective and efficient utilisation of resources. However, the finance techniques have to be modified to suit the unique circumstances that prevail in the public sector. That is, the financial decisions in the public sector can also be classified as financing (fund raising), investment and dividend. The dividend decision is a trivial one in the public sector as no dividends are declared. The size of and composition of the public sector is quite widespread especially in the developing countries.

Education is one of the main public activities where extensive resources are directed. This is best indicated by the huge budgetary allocation to this sector by the Government of Kenya. Spending in education rose from Ksh.6 million in 1963 to Ksh.194 million in 1983 which is a rise from 18 per cent to 30 per cent respectively of the public sector's recurrent budget. Education accounted for nearly 7.2 per cent of the Gross Domestic Product (GDP) in 1981.

The fact that such resources are directed towards education implies that there is need for efficient management of these resources. Whereas tools of evaluation efficiency are difficult to come by or even understand, does not license the managers in this sector to carelessly and irresponsibly manage these resources. Of the total education budget, a huge chunk goes towards secondary education and some of the funds are managed by the school heads.

Schools, like other public institutions have both financial and non-financial objectives. Some of the non-financial objectives are aimed at providing a service to the citizens at

an affordable price. However, private schools offer the same service but with aims of maximizing the owners wealth. While in the private institutions the school managers have the responsibility of setting the financial goals and/or objectives, it is not the case in public sector institutions, where guidelines are issued by the Ministry of Education Science and Technology.

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The investment decision is an important decision if resources are to be efficiently managed. The investment decision involves the decision as regards the management of assets, both fixed and current, of the organisation. Proper management of fixed assets will necessarily require knowledge of capital budgeting tools. However, a large proportion of the schools total assets are held in the form of current assets (working capital). This therefore calls for their efficient management. Furthermore, since decisions regarding current assets are recurring in nature, managing them must take a lot of the school managers time. Added up, the total current assets of a secondary schools nationally would constitute a huge investment and therefore calls for their efficient management to ensure little or no wastage of scarce national resources. If managed inefficiently, the current assets held up in secondary schools would constitute a costly venture to the entire nation.

The Kenya Government realises the importance of sound financial management which obviously includes working capital management in schools. As a result, it has set up a training institute called Kenya Education Staff Institute (KESI) for all school managers and other education staff. The function of KESI include among others:

“...to design, produce, assemble, repair and maintain staff training materials and equipment for use in dissemination of managerial and administrative knowledge, skills and attitudes to all personnel working within the Ministry of Education with a view to setting and maintaining the highest possible standards of administration and management”.

Working capital components are defined by Van Home et al (1977: 333-345) as cash, accounts receivable, marketable securities and accounts payable. The concern in working capital management is the determination of the optimal ways of managing working capital components efficiently so as to contribute effectively to the maximization of shareholder wealth. However in public and private secondary schools the goal of working capital management is to avoid premature closure during term periods which disrupt academic programmes causing probably irreparable loss to the concerned students in addition to paying staff for work which they have not done.

Archer et al (1977: 575 –577) points that the relative importance of working capital management is dependent among others on size, industry and external factors such as inflation and the political legal environment. Working capital is thus of great concern in schools. Investments in working capital are sensitive to seasonal fluctuations and therefore requires careful planning to avoid a liquidity problem for the institution. Archer (1977) justifies working capital in that it helps the institution avoid future uncertainty and premium costs which may arise due to sudden changes in the institutions environment. However, it becomes necessary to determine the optimal levels of the working capital components. Large working capital positions are costly

to the firm and these costs may outweigh the benefits accruing to the maintenance of working capital positions.

As argued above, current assets are a good measure of liquidity (working capital) it is also important to consider the obligations that mature in the short term, that is, current liabilities. Failure to pay up maturing obligations would earn the school a poor credit reputation which will reduce its accessibility to favourable credit terms. In other words, a more encompassing definition of working capital management would thus include the management of both current assets and current liabilities. Too much liquidity (current assets less current liabilities) would mean less risk of technical insolvency but it would constitute poor investment as too much funds are held in non-earning assets, that is, wastage of resources.

In the year 1974 the American government ordered the investigation of school finance for there was an outcry over how the funds were being utilised (Godfrey and Block, 1996). The investigations revealed that many teachers lacked financial management skills hence training programme needed to be initiated to train the teachers on how to handle finances, among many other duties. In his educational reforms programme in United States of America Bill Clinton former President, called for re-testing of teachers skills which included their financial management skills (Nginda, 2003). This angered many teachers and generated debate. However, the re-testing was done and the results indicated that many teachers needed to undergo extensive training in matters pertaining to financial management. He was concerned over proper management of school funds and other school issues.

Wrong financial management practices have also been observed in Britain in the case of a headmistress, who misappropriated school's funds to pay for her lavish lifestyle (Daily Nation, March 19, 2002). She was jailed for deception and theft from the publicly funded St. John Rigby school in South London. In general there is evidence showing that financial management is not handled in the right manner.

According to Koech Educational Inquiry Report (1999), Audit reports for secondary schools were not upto date in the entire republic. The report observes that schools funds had been embezzled years before the books were audited. It was also noted that there was no government control on the issue of official receipt books and that most schools print their own receipt books which they use for misappropriation and embezzlement of funds. More obstacles are seen as in the recent bursary disbursement policy (Daily Nation, 20th October, 2003). The paper observes that a policy shift has created delays in the disbursement of the Ksh.700 million bursary fund allocated to the secondary schools this year.

Under the new policy which was passed by parliament in the year 2002 bursaries for needy secondary schools students will now be processed at the constituency level. The process of vetting the deserving students is the one causing the delay. The most clear element of mismanagement in the bursary fund is that members of parliament have been trying to influence the composition of the committees by nominating their supporters contrary to the guidelines given by the Ministry (Republic of Kenya, 2003). Muthathai (2003) too, laments that the new bursary fund management process was vulnerable to abuse and added that it was likely to lock out many needy children.

The other troubled area in the secondary school financial management in Kenya is the issue of government's fee guidelines. According to Daily Nation (June 23rd, 2003), the Kenya Secondary School Headteacher Association says that the guidelines are not practical on the ground. The association continues to argue that it is impractical for somebody in Nairobi to issue a fees guidelines without visiting the institutions. Each institution has its own special needs which should be dealt with at the schools level.

More trouble on the school fees management in Kenya is observed in Kisumu municipality where schools heads and committees have been quarrelling over the recently released funds for free education (Daily Nation, April 30th, 2003). A headteacher was even quoted saying that they even quarrel over who should carry the money after withdrawing it from the bank. The Kisumu municipal education officer Ali Mohammed reacting on the matter called for trust and teamwork and warned against diverting the funds to other projects and directed that school committees be fully involved in decision making (Republic of Kenya, 2004).

1.2 Statement of the Problem

This study on Financial Management Practices of the headteachers aims at establishing how the money received by schools in form of school fees is managed by the headteachers in Central division of Embu district. The KSSHA rejected the fees guidelines from the ministry of education last year (Daily Nation 20th October, 2003). This was in a meeting in Mombasa, which was also attended by secondary school head teachers from Central Division, Embu District. Problems related to financial

management in Central Division have also been reported in the same division; this was when two school heads were interdicted for failure to account how they had utilized petty cash (Daily Nation, 20th April, 2003).

Another incident was noted where five secondary heads in Central division, Embu district were conned by a person who had promised to sell them textbooks at a very fair discount (Daily Nation, July 28th, 2004). The man collected funds but never delivered the books. When the Eastern provincial audit team visited these schools, the accounts were not updated and cash had been misappropriated hence they recommended for disciplinary action to be taken against the headteachers and the school accountants. Books should be bought from experienced booksellers through tenders.

During a price giving day at Kangaru school in Embu the Minister for Education Science and Technology warned booksellers in the area and elsewhere in Kenya against ganging up and dictating trade discount enjoyed by schools (Saitoti, 2003). He was reacting to the booksellers behaviour who had connived to undermine market forces by uniformly giving a five percent flat discount rate to schools contrary to an agreed price by the government and the Kenya publishers association. Such battles over discount rates are bound to affect schools as they acquire their facilities. During the same occasion at Kangaru school the then director of education, Naomi Wangai called for care over finances as more classes were being built to accommodate the new form ones in 2004 due to the increased enrolment, following the introduction of free Education (East African Standard, August 8th, 2003). She continued to state that time

was over when the school heads used to collude with people who had won tenders to siphon school funds during such projects.

It was also noted that some headteachers in the area had paid money to individuals who had promised to bring textbooks. The bookseller Mr. Kathugu, did not honour his pledge and when the provincial auditors team visited these schools, it was noted that some money used could not be accounted for, this was misappropriation of funds and they were eventually interdicted (Auditors report, 2004).

Finally, the Ministry of Education in the 1997-2010 Master Plan for Education and Training states that “there will be no real additional resources allocated to education and training and on the other hand government is committed to increasing access to education, and training” (Republic of Kenya, 1998). This further calls for assessment of financial management practices in secondary schools in Kenya.

The study thus sought to investigate how school heads carryout their working capital management practices and what problems they encounter when doing so. It therefore becomes imperative to conduct a study to determine the actual working capital management practices and the problems encountered in carrying out these practices.

1.3 Purpose of the Study

The purpose of the study was to establish the financial management practices of Headteachers in Central division of Embu district. This will particularly be with regard to handling of cash in the school, that is, management of the schools income in

form of school fees and other revenues, inventory management and credit management. The study also aimed at detecting whether any financial management malpractice exists, and attempted to come up with possible solutions to the detected malpractices.

1.4 Objective of the Study

The objectives of the study were:-

- i) To identify how the management of school finance is practised in secondary schools in Central division Embu District in relation to:
 - a) Money inform of cash
 - b) Accounts receivables like the school fees
 - c) Inventory and
 - d) Payables like the workers salary
- ii) To identify the weaknesses in the management of secondary schools finance by headteachers in central division of Embu District and recommend possible solutions.

1.5 Research Questions

The study attempted to answer the following questions:-

What are the financial managerial practices of the headteachers in public secondary schools in Central division of Embu district in relation to:

- a) Accounts receivables (like collecting school fees)?
- b) Money inform of cash?
- c) Inventory? and

d) Payables (like paying workers salaries)?

What are the weaknesses of financial management practices in public secondary schools in Central division, Embu district?

Are there any differences in financial management practices as per the category of public secondary schools in Central division, Embu district?

- How the management of the school finance is practiced.
- Cash
- Account relievable e.g. school fee
- inventory
- payables e.g. workers salary
- Weakness in management of school finance

- Differences as per category of school

1.6 Limitations of the Study

The study was carried out in Embu district which is in a rural setting. The results of this research may not apply in schools found in urban areas. The results may also not apply to other areas of different economic status. Hence there is need for research to be done in schools found in urban areas and in other such as semi arid areas and areas of high agricultural potential. This will cater for the differences in economic capabilities.

1.7 Delimitations of the Study

The study only involved public secondary schools and not private schools where procurement procedures are different. Study also targeted headteachers in public secondary schools of only one division in Embu division.

1.8 Assumptions of the Study

The following were the assumptions of the study:

- i) That all headteachers in public secondary school in Central division have been trained in financial management practices.
- ii) That the respondents would give accurate responses to the questionnaires.

1.9 Definition of Terms Used in the Study

Private school: This is a school established as a profit or charitable organisation.

A school manager: A school manager is defined too by the Education Act Cap.211 as any person or body of responsible for the management and conduct of a school and includes the Board of Governors.

School Finance: This includes cash at hand, expected cash also called accounts receivables, marketable securities such as shares and accounts payables such as salaries paid to workers.

Inflation: Rise of prices of goods within a short time.

Assets: Things which belong to the school like the textbooks, laboratory chemicals etc.

Liabilities: The debts that schools owe organisations or individuals.

Inventory: A book for recording goods received and who has received them in a school.

Credit: Ability to receive goods before payment. This too refers to a loan.

Virement: Technical power to transfer money provided for one purpose to another.

1.9.1 Organisation of the Study

The study was organised into five chapters. Chapter one consists of introduction, background to the study, statement of the problem, purpose of the study, objectives, research questions, significance of the study, limitations and delimitations of the study and definition of significant terms. Chapter two consisted of literature review. The review covered empirical findings of financial management in schools, and writer's opinion on school financial administrative practices. Chapter three describes the research methodology which includes the research design, target population, sample and sampling procedures, instrument validity, reliability of the reliability, data collection method and data analysis procedure. Chapter four comprises of data analysis and discussions of findings. Chapter five focuses on findings, conclusions and recommendations for further studies.

CHAPTER TWO

LITERATURE REVIEW

The literature reviewed is in two parts. Part one looks at the empirical findings on financial management in schools and the second part consists what writer's have stated on financial management in schools.

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2.1 Empirical Findings on Financial Management in Schools

Most studies have mainly dealt with both the financing and investment decisions.

2.2 General Financial Administrative Practice

The management of schools is legally in the hands of the Board of Governors (BOG). The BOG is responsible for financial budgeting: fixing the amount of fees payable; receiving fees, grants and all donations given to the school. The Education Act also gives the BOG the authority to incur expenditure and hold property including shares, funds and securities. However, this will vary depending on the type of school.

The most conspicuous of the members of the BOG is the school head. His style, personality and strength in leadership must be evident to both his internal and external environments. The school head is "...therefore the legally responsible head...has some power of position and is a designated leader who cannot shirk his obligations (Heller, 1975). This is irrespective of whether the head hides behind the policies of the government, BOG, Teacher Unions and the wishes of the community.

The most frequently mentioned tasks of the school head in the literature are scheduling, budgeting, developing rules and regulation for supplies (Heller, 1975: 3 – 6). Heller argues that the above tasks are proof enough of the complexity of the headteachers' job and hence a lot of difficulty arises in guaranteeing success for each task. He further argues that an institution cannot exist without rules and regulations and therefore managerial skills cannot be treated lightly. He further asserts that the management tasks ranging from the collection of students fees to delegating sponsorship of activities must be handled personally or through delegation by the school head.

Briault (1974: 21) argues that responsibility comes back to one person (head) but consultations to the extent that others participate in decision making are desirable. Therefore allocation of resources within the school are made by the school head. Jacobson et al (1963: 405 – 432) also assigns the duties of supplies requisition, maintenance of inventory and budgeting of inventory to the school head. This view that the school head is responsible for the management of working capital has been supported by Barry and Tye (1975: 158) who advocate that a school head's responsibilities in the realm of finance are fully comparable to those of a fairly large enterprise in industry or commerce.

As noted above by Barry and Tye (1975) as long as it is permissible to compare management of finances between secondary schools and fairly large enterprises in industry and commerce, then it can be rightly argued that modern techniques of working capital management can be applied to schools.

Gendt (1974: 5 – 36) argues that rapid change makes school management more susceptible to new management tools which strengthen the definition of objectives and evaluation criteria, the identification and analysis of alternatives, the implementation of decisions and the assessment of progress. Among the tasks he has identified in which management tools can be used is financing is;

- allocation of financial resources to schools
- distribution of resources within the school
- budgeting and
- auditing control

While appreciating the usefulness of the budget in that it guards against careless spending, Gendt advocates the use of a Planning Programming and Budgeting System (PPBS). He defines the PPBS as a systematic approach to setting goals and objectives for an organisation, considering alternative means to achieving them and allocating the financial resources in a way that is most likely to see the desired outcomes occur. In his view, the PPBS can be applied at any level, that is, national local or institutional depending on the political structure existing in a given environment. Other techniques he advocates as useful in school management are simulation, delphi and network analysis. He singles out network analysis as very useful for scheduling and controlling the budgeting process in schools. The foregoing clearly shows that modern techniques of managing working capital can also be fruitfully applied to secondary schools.

A study on school management by Orwa (1986) revealed that most schools did not adhere to all the practices established as sound financial principles in the management of schools finance. Another study on the repercussions of financial mismanagement in secondary schools in Kenya found that, there were strikes, poor diet, inadequate teaching staff and inadequate facilities like textbooks (Muganda, 1986). Olembo (1992) studied the effects of individual schools being allocated moneys in lump sum based upon the number of students enrolled at the school and then the school principal is given great discretion to spend the funds as he deems fit. The study found that:-

- i) School based management practices enabled the schools to better serve the needs of the students.
- ii) Some principals involved parents and staff greatly in budgeting. This made the other stakeholder especially the parents feel that they were being involved in financial issues in the school.

2.3 Cash Management

Cash management hinges on the effective ways of collecting and disbursing. On one hand it involves the acceleration of collections and on the other, the delay of payments. In speeding up collection, Van Horne et al (1977: 349) states that it is aimed at;

- i) speeding the mailing time of payments from customers to the school
- ii) reducing the time during which payments received by the school remain uncollected funds and

iii) speeding the movement of funds to disbursement banks.

Gray (1980: 21) states that the customers, or clients (of a school) are the parents of the pupils and the 'consumer' or employer of the pupils when they leave. As such, in schools it is possible to arrange with parents or other customers to have their dues automatically deducted at source or from their bank accounts at specified times. The school may also require that students come with their dues at the beginning of the term and arrangements are then made to have these collections banked daily.

Slow disbursements accompanied by fast collections result in maximum availability of funds. The school can make its payments by use of a draft which takes a longer time to cash than ordinary cheques. However, delaying payments may hurt the school's credit standing and therefore the resulting cost of the delay must be taken into consideration.

The levels of cash to hold will largely depend on the transactions, precautionary and speculative motives. Cash may also be held to take advantage of cash discounts. Cash here is taken to include both liquid cash and marketable securities. Several models which aim at the determination of an optimal cash balance have been developed. These include the Baumol model, Stochastic models and the Probability models.

Another aspect of cash management is the cash budget which is future oriented. The budget serves both the planning and control functions. The budget performs a planning role in that, it shows the future times of excess cash (as a trade-off between in-flows and outflows) or deficits. This enables management to take relevant

measures, that is, arrange for financing in case of deficit and investments (short-term) in the case of a surplus. The cash budget is heavily dependent on past trends of customer behaviour, the credit period and bad debts incurred as well as the expected outflows.

2.4 Preparing the Institution's Budget

The budget sets out estimated cash receipts from the variety of sources approved by appropriate officials and the estimated expenditure on activities based on the expenditure priorities agreed upon by stakeholders and approved by appropriate officials. An annual financial budget should be an essential tool for financial control. It is the responsibility of the head of the institution, with support from stakeholders to prepare the annual budget. The BOG and other stakeholders must approve the budget. When preparing the budget, the head of the institution should ensure that transactions are classified in accordance with the vote heads (Chart of Accounts) as shown in Table 1 below.

Table 1: Vote Heads / Chart of Accounts

Income / Receipts	Expenditure / Payments
1. Grants from Ministry of Education	Personal Emoluments
2. Tuition fees	• Payroll for non-TSC and support staff
3. Rents	Tuition and Boarding
4. Examinations	• Institutional equipment and stores
5. PTA / Development	• Boarding equipments and stores
6. Text book fund	• Textbooks
7. Activity / Sports	Other charges
8. Grants / Donations / Parents contribution	• Local transport and travelling (LT&T)
9. Caution	• Repairs maintenance and improvements
10. Others (specify)	• Examination
	• Electricity, water and conservancy (EWC)
	• Activity / sports
	• Others specify
	Non-recurrent expenditure
	• Buildings
	• Permanent equipment
	• Special provision

Source: Report on Audit and General Inspection of Schools (2003)

Note: Vote heads will depend on the number of activities and transactions

- The Headteacher should designate a staff member (accounts clerk / bursar / finance officer) to be responsible for receiving and recording of cash received.
- At the end of the day, the designated staff should hand over any money collected to the head teacher for banking.

Gendt (1974: 65) contends that the budget should display costs on a programme by programme basis. That is a programme should be a well co-ordinated effort from the classroom to the national level. Once the program structure is completed, costs should be

calculated for individual sub-sub-programmes, sub-programmes and programmes. This means that school heads must submit their budgetary requests for budget on a programme basis.

Welliever (1974) studied investment and related financial management practices in Pennsylvania school districts. His findings were:-

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- i) That the practices employed in the majority of schools district investment programmes included most of those alleged by published professional opinion to be effective in maximising investment earnings.
- ii) There was little or no differences in the incidence of use in more and less effective investment programmes of eight to ten investment practices ranked among the most effective in maximising investment earnings by investment officers who administered more effective management programmes.
- iii) Both the wealth and size of the school district were related to the effectiveness of investment programmes.
- iv) Local financial effort to support education had little or no relationship to the effectiveness of school district investment programmes.
- v) There was little or no difference in the effectiveness of investment programmes administered by investment officers who had college degrees or state certification in education and those who had neither of these qualifications.

- vi) The incidence of use reported for various investment and financial practices by all districts, the less effective and the more effective, although not identical, indicated an overall similarity rather than difference in practices employed by half or more of each group.

- vii) Relative similarities in the practices employed in the investment programmes of all districts and two sub-groups from the upper and lower quarters of a distribution rates of investment return indicates that the degree of effectiveness of an investment programme was likely attributable to factors such as the philosophy of the board of education, quantitative and qualitative aspects of planning and the knowledge, ability initiative and diligence of the investments officer.

Elwood (1988) studied the financing of public school capital facilities in the Commonwealth of Virginia. He aimed at determining the alternative methods of financing capital facilities and considerations in the determination of school plant needs and implementation of capital improvement plans. He found that:

- a) financing was based on a tradition of local responsibility
- b) the state had made minimal provision for the costs to localities in financing public school capital outlay and
- c) federal and for public school capital outlay was limited or non-existent.

The second part of the literature review, reviews literature on who is in-charge of school finance and the managerial techniques used.

2.5 Financial Responsibility for the Headteachers in the Secondary School Working Capital

The government has over the years been concerned about the management of public funds in the educational institutions especially in secondary schools. This concern has been particularly pronounced over the last few years in the light of the increasing cost of education in the country and since the introduction of cost sharing policy in 1988.

The secondary schools BOG are responsible for financial budgeting, receiving fees, grants and all donations given to the school (Republic of Kenya, 2004). The Education Act (1970) also states that the BOG has the authority to incur expenditure and hold property including shares, funds and securities. All these duties are delegated to the BOG secretary and this is the headteacher. The headteacher implements the financial decisions deliberated on after they have been approved by the BOG (Daily Nation, October 20th, 2002). He continues to argue that responsibility comes back to one person, the head, with consultation with the BOG members. Therefore allocation of resources within the school are made by the school head.

2.6 Receivable Management

While it is desirable to have the school collect all its fees and other dues promptly it may not be possible. Receivables refer to these outstanding fees which are received at a period after services have been rendered. The level of receivable is to a large extent determined by policy decisions both credit and collection. However, the economic

conditions which affect the debtors ability to pay also influence the level of accounts receivable, although these are not controllable by the school head.

Extending credit in the school will involve several costs. These include, the costs of collecting the receivable arising thereof, the probable loss from bad debts and the opportunity costs of holding receivables. Granting cash discounts for early payment is an area which schools should explore. This will have to be traded-off with the costs associated with the collection of receivables and arising bad debts against the gains of holding the cash and probably investing it elsewhere.

In a business environment, it is common to evaluate the creditworthiness of customers. Certain criteria are set whose failure to satisfy disqualifies one from getting goods and services on credit. Unfortunately this is a futuristic decision and hence it is full of uncertainties. The problem for the school here is to use objective facts and subjective information to predict the bill-paying behaviour of the prospective customer and to reduce the risk of non-payment to an acceptable level. Each school has the discretion to set its own credit screen or none at all.

The school Head should not wait too long before initiating collection procedures. Procedures, whatever their nature should be firmly established. A letter is usually sent which may be followed by other letters more serious in tone and eventually a telephone call. If all this fails, the debtor may be sued or the debt turned over to a collection agency.

Receivables constitutes the schools fees and revenue generated by the school property like school gardens (Republic of Kenya, 2003). Two thirds of school fees is supposed to be paid by the end June. The amount of money that a school receives is dictated by the prevailing economic conditions although this is not controlled by the school head (Kinuthia, 2002). Extending credit in the school involves several costs the report continues to state. These costs include the costs of collecting the unpaid schools fees, and the probable loss from bad debts. Some institutes grant cash discounts for early payment with an aim of reducing these costs (Daily Nation, February 15th, 2004). The paper also states that in a business environment credit worthiness of customers is evaluated. Certain conditions are set whose failure to satisfy disqualifies one from getting goods and services on credit. Schools should be able to predict the bill paying behaviour of the prospective customer and take measures to reduce the risks of non-payment to an acceptable level. Nthiga (2004) adds that the public secondary schools fall back on bursary funds, sponsors like Plan International not only to offset future debts of students from poor background but also to ensure that the basic rights of students and access to education is not violated.

The Kenyan government encourages schools to engage in commercial activities to generate income (Republic of Kenya, 2003). This has been necessitated by changes in education especially the cost sharing strategy (Kamunge report, *The Presidential Working Party on Educational Manpower for the Next Decade and Beyond*, 1988). After the release of Kamunge educational report secondary schools lost the grants they used to receive.

2.7 Inventory Management

This is the process of recording goods received by the school and who has collected. The responsibility of maintaining the inventory is in the hands of the school head (Republic of Kenya, 2004). Proper maintenance ensures the smooth running of the schools.

Inventories provides a very important link in the provision of education. These include food, stationary and cooking fuel. It is important to maintain inventory in schools to avoid disruption of the smooth running of the school. A school could purchase stocks, even when not immediately needed so as to take advantage of quantity discounts which may be substantial. However, holding inventory has associated costs in storage, handling costs and the cost or capital tied up in the inventory. This means that for any inventory held there is a trade-off between the gains and the costs thereof.

There exists several systems of acquiring inventory in secondary schools. Firstly, the responsibility is given the school head. Taylor (1970: 148-152) feels that different means of achieving the same ends must be carefully costed and the least expensive adopted meaning that school head must drive hard bargains to suppliers. In Taylor's view, this is one of the most effective ways of obtaining value for money, that is, delegating spending power to the school head. He states that effective management at the school level must involve a certain freedom of choice to settle priorities in spending money and where necessary to exercise a degree of virement (technical) power to transfer money provided for one purpose to another.

Secondly, schools in a certain area could team up and make purchases through a central system making it possible to employ a qualified purchasing officer. This is more appropriate where schools are managed by the same authority.

Thirdly, the school heads could be given a total budget which is not broken down into expenditure of sorts. They must not exceed this budget. This system would be accompanied by permission to carry forward balances of money from year to year as an encouragement for better management of funds hence inventory purchasing.

2.8 Credit Management

This involves the delivery of goods. Trade credit in a business organization is a form of short term financing such as trade credit available to schools. This arises when schools buy goods and are not required to pay for them on delivery but are allowed a short deferment period before payment is due.

When a school decides to utilise trade credit as a mode of financing; it can adopt any one of the following alternative policies:-

- i) it can pay at end of the discount period
- ii) it can pay at the end of the credit period and
- iii) a school can pay its bills beyond the credit period, that is, credit stretching although it should take care not to adversely affect its credit rating in the market.

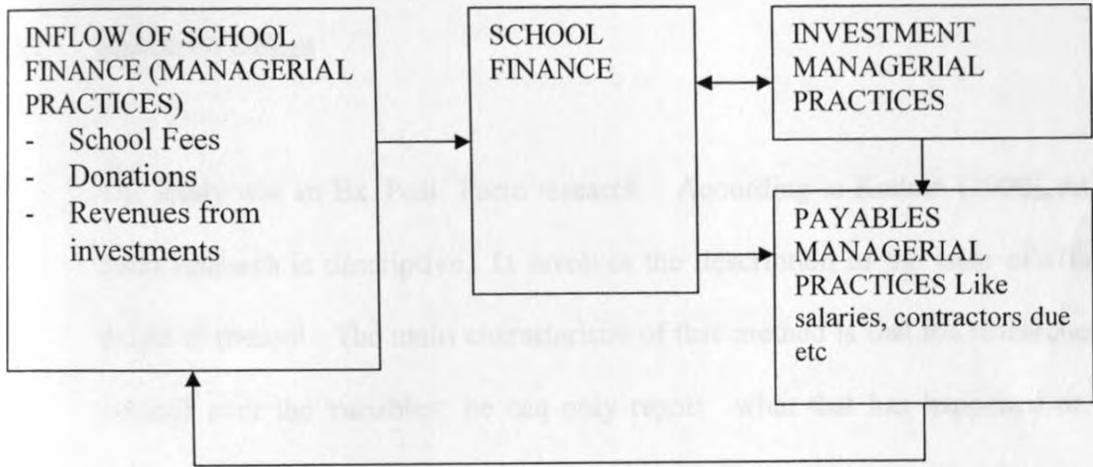
When a cash discount is offered and not taken, there is an opportunity cost which the school head should weigh against the cost of external borrowing. Delaying payments beyond the credit period has negative consequences in that it may affect the school's credit rating adversely. However, as may be the case in schools, the suppliers may not mind the extension of credit beyond the net credit period as the school's funds in-flows are seasonal and there may be less risk to the supplier. For this extended credit, however, there may be an indirect charge in the form of higher prices therefore requiring the school to carefully consider the cost of stretching accounts payable.

2.9 Conceptual Framework

The figure below shows how the various variables in the study interact. The various sources of school finance give the school finance. These are school fees, donations like bursary fund, income generated from various forms of investment like school farm, hiring out the school truck and halls. The school finance is then utilized in form of investment which can generate income. The two way arrow between school finance and investment practices shows this. The school finance can also be used directly for salaries, contracts and wages to various workers. The investment can also generate money to be paid to the workers. This is shown by the arrow between the investment practices and the payables practices. The accounts payable can flow back to the school as school finance if some of the workers or contractors are school sponsor since all these interactions are going on as finance is being managed at all stages.

Fig. 1: The Conceptual Framework Model

MANAGERIAL PRACTICES OF SCHOOL FINANCE



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The study was an Ex. Post. Facto research. According to Kothari (2000), an ex-post facto research is descriptive. It involves the description of the state of affairs as it exists at present. The main characteristic of this method is that the researcher has no control over the variables; he can only report what that has happened or what is happening. Hence this study was based on the premise that, many headteachers play a major role in financial managerial practices in schools.

3.1 Target Population

According to Peter (2003), target population falls under two broad categories: it might be a specified population or unspecified population. Specified population means all the members of the population to be involved in the research and are recorded in some register, for example, students in an educational institution, employees in a company, members of churches etc. Unspecified means members of the population who are not necessarily recorded in any registrar e.g. unregistered occupational groups such as barmaids, house-girls, jua kali workers etc.

This study involved the specified population. These included all the public secondary schools Headteachers in Central division, Embu district. There are twenty five secondary schools in this division (Republic of Kenya 2003).

3.3 Sample and Sampling Procedure

Peter (2003) defines a sample as a representative, part of a population. Thus by studying the sample, one can know about the population without having to study the entire population. The selection process of the sample is the sampling procedure or sampling technique (Kothari, 2000).

In this study, four schools were used in the pilot study. This left twenty-one schools as the respondents for the main study. According to Krejcie and Morgan (1972) when the population size is twenty-one, it is considered as adequate and quite representative. All the twenty one respondents were therefore used in the study.

3.4 Instrument Validity

Kothari (2000) states that validity indicates the degree to which an instrument measures what it is supposed to measure, that is, the extent to which differences found with a measuring instrument reflect true differences among those being tested. Thus to enhance validity, a pilot study was carried out. The pilot study helped the researcher in identification of items in the research instrument that were found to be ambiguous in eliciting the relevant information. Four schools were involved in the pilot study to

test validity of the research instruments. The answered questionnaires were evaluated and revised to ensure achievement of item consistency and relevance to the research objectives.

It was therefore necessary to restructure the questionnaire to include aspects on personal information of the headteachers.

This was also discussed with the research supervisor to ensure that all the elements of validity were taken care of in the study.

3.5 Reliability of the Study

A measuring instrument is reliable if it provides consistent results (Mugenda, 2000). A reliable measuring instrument does contribute to validity (Kathari, 2000). The researcher used the split-half method. In this method, two alternative forms of the questionnaire were correlated to establish reliability coefficient, as Singleton, et al (1988) explains. The coefficient of correlation using Kuder Richardson's method was computed at 0.835 (significant at 0.05) using the Statistical Program for Social Scientists (SPSS). Also, the respondents were asked to indicate items that they found difficult and ambiguous. This enhanced the reliability of the study.

3.6 Data Collection Method

A research permit was obtained from the office of the President. The researcher also paid a courtesy call to the District Officer, Embu district and the Embu district Education Officer as per the law requirements. The questionnaires were then

distributed to the twenty-one school heads by the researcher. The questionnaires were then collected after two weeks.

The questionnaire is divided into five sections. Section A is meant to identify personal details for demographic data of the headteachers. Section B: is meant to identify the category of the school.. Section C: this section addresses the management practices with respect to cash. The questions aimed at establishing whether schools have a formal policy of maintaining an amount of cash, budgeting practices, sources of funds, uses of funds, investment of idle funds and the banking practices. Section D; this aimed at establishing how over due fees is usually collected. Section E; this section dwelt on the inventory and credit management.

3.7 Data Analysis Procedure

The collected data was summarised to fit into the sections of:-

- i) Cash management practices
- ii) Receivables management practices
- iii) Inventory management practices
- iv) Credit management practices

Frequencies and percentages were used to present the results.

CHAPTER FOUR

DATE ANALYSIS AND INTERPRETATION

This section presents data analysis and findings developed in this study. The section is sub-divided into six major parts. The first part analyses the response rate. The second part presents an analysis of demographic data of the target secondary schools and head teacher characteristics. The third part examines current financial practices in the targeted secondary schools. The fourth part attempts to establish weaknesses associated with financial management practices prevailing in the targeted schools. The fifth part makes comparison of various school categories to establish any difference in financial management practices. The rationale for each section is based on the need to address the research questions stated in this study.

4.1 Response Rate

The total number of secondary schools in this study was twenty five. Four schools were used in the pilot study. This section of the population would not be used in the analysis in order to minimize possible biases in response. The response rate for the headteachers was 100%. This implies that all the twenty-one headteachers who received questionnaires responded.

4.2 Demographic characteristics of Headteachers and schools

Headteachers were asked to provide information concerning their gender, age, academic qualifications, professional experience, category of their school and number of pupils in their school. Table 2 presents data on qualification of headteachers

Table 2: Academic qualifications of Headteachers

Academic Qualifications	No. of Headteachers	Percentage
Diploma	3	14.3
BA/BSC + PGDE	4	19.1
B.Ed	12	57.1
M.Ed	2	9.5
TOTAL	21	100

The table reveals that majority of headteachers (57%) have attained Bachelor of Education degree. A reasonable proportion of the headteachers attained Bachelor of Arts/Bsc. and Postgraduate Diploma in Education. This shows that all the headteachers have professional qualification in education. This underscores the Teachers Service Commission policy of encouraging teachers to go for further studies by providing study leaves with pay.

Table 3 Presents data on the target headteachers administration experience

Table: 3 Headteachers Administration Experience

Experience in years	Frequency	Percentage
1 –5 years	3	14.1
6 – 10 years	2	9.5
11 – 15 years	9	42.5
16 – 20 years	5	23.8
Over 20 years	2	9.5
TOTAL	21	100

The statistics in table 3 indicate that majority of headteachers have a good administrative experience of 11 to 15 years (42.9%), while over 33% have an experience of over 15 years. This is an indicator of sufficient leadership maturity prevailing in the target schools.

The following were the categories of the target schools.

Table 4: Categories of Schools

Category of the school	Frequency	Percentage
Boarding	5	23.8
Day	10	47.6
Boarding / Day	6	28.6
TOTAL	21	100

The above table shows the distribution of target schools in terms of the categories. 23.8% of the schools were boarding, 47.6% were day schools while 28.6% were boarding / day schools.

4.3 Management of School Finance

The management of school finances is solely in the hands of the BOG, who are responsible for financial budgeting (Education Act, 1970). This involves fixing the amount of fees payable (though the Ministry of Education gives guidelines), receiving fees, grants and all other donations to the school. However, the headteacher plays a significant role as a secretary to the BOG. In the first research question, this study sought to establish how the management of school finances is practiced in secondary schools in central division of Embu district. In answering this question, the foregoing analysis examines management of cash, accounts, relievable, inventory and payables.

Table 5 presents data on whether or not the targeted schools use any written statements of deciding on the amount of cash to hold at any particular times. This includes both petty cash and cash at bank which can be withdrawn at will.

Table 5: Availability /use of cash / bank accounts

Availability/use	Frequency	Percentage
Yes	13	61.9
No	8	38.1
TOTAL	21	100

The statistics in table 5 indicates that majority of schools hold cash and bank accounts while a minority do not. This is represented by 61.9% and 38.1% respectively. Among the 38.1% of schools that do not hold cash or bank account statement, the

researcher sought to establish possible reasons for this state of affairs. The observations have been indicated on table 6.

Table 6: Reasons for lack of cash/bank account

Reason	Frequency	Percentage
1 Irregularity of cash inflows	4	50
2 Small number of student most of whom do not pay in time	2	25
3 Very little surplus cash is available	1	12.5
4 Courses required on financial management	1	12.5
TOTAL	8	100

Majority of head teachers lacking financial records on bank and cash accounts attributed this to irregularity in cash inflows. This implies that there are no definite time deadlines set by the school administration to ensure regular payments of school fees. About 25% of the head teachers indicated that they have a small number of students whose total financial outlay is very low to uplift school funds. Furthermore, such students do not pay their school fees on time. Availability of little surplus cash is yet another reason for lack of bank/cash statements. It appears that for these schools, operational costs almost outweigh revenues from normal sources of funds. Also, the need for financial management training was given as a reason for inability of the school to keep each bank/account records. This could be attributed to lack of financial management skills among the administrators of the target schools.

Table 7 presents data about the officer(s) responsible for deciding on cash amount to hold at a particular time in the targeted institutions.

Table 7: Officer(s) Controlling Cash Management

Officer(s) Responsible	Frequency	Percentage
Board of Governors	17	80
Headteacher	3	15
Bursar	1	5
Other	0	0
TOTAL	21	100

The statistics in table 7 indicates that, in majority of the schools, the BOG control decisions on cash transactions. It is only in 15% and 5% of the schools where the head teacher and the bursar, respectively, have full control of cash transactions. It can be observed that a headteachers' control is more prevalent in schools that are not fully managed by the government representatives. It is worth noting however, that the BOG control the financial management of school as stipulated in the Education Act. The BOG is given the authority to incur expenditure and hold property of the schools.

4.4 Cash Budget

An important aspect of cash management is the cash budget. This budget is expected to facilitate future planning and control functions. The budget, as explained earlier, projects future cash surpluses and possible deficits. All headteachers targeted in this study (100%) indicated no incidences of cash surpluses. This implies that they arrange for short-term investment, to offset cash surplus during the budgeting. Deficits, however, could be prevalent.

Table 8 presents data on whether or not the school's management prepares cash budgets. The purpose here was to establish the management of future cash inflows and out flows to various issues.

Table 8: Preparation of Cash Budgets by School Management

Is cash Budget Prepared?	Frequency	Percentage
Yes	21	100
No	0	0
TOTAL	21	100

In all the schools targeted in this study, cash budgets are prepared by the management. The implication of this result is that all schools arm themselves with an essential tool for financial control. In this way they are able to estimate future cash receipts from a variety of sources approved by the BOG. They are also able to estimate future expenditure on activities based on the priorities of the BOG.

The headteachers were further asked to indicate who is responsible for preparation of cash budgets. Their responses are shown in table 9.

Table 9: Officers Responsible for Budget Preparation

Officers Responsible	Frequency	Percentage
Board of Governors	8	40
Head teachers	8	40
Bursar	5	20
Other	0	0
TOTAL	21	100

In majority of secondary schools, the BOG, and the Headteachers play a significant role in preparation of cash budgets. The school bursars are sometimes charged with

this responsibility as indicated in 20% of the schools. This may, however, be a delegation by the head teacher because of the bursar's accounting skills.

Table 10 examines normal time span for budget preparations. This indicates whether it is annual, on half-year basis or quarterly.

Table 10: Time Span for Cash Budgets

Time – Span	Frequency	Percentage
Less than one month	1	4.7
Three months	4	19.1
Six months	0	0
One year	16	76.2
Over one year	0	0
TOTAL	21	100

Over 76.5% of the target schools prepare budgets on an annual basis. The proportion of schools which prepare their budget on a quarterly basis is 19%. Only 4.75 prepare budgets on monthly basis. All schools observe government requirements on budget preparations. It can be argued, however, that schools which prepare budgets more frequently have an advantage of more effective planning and efficient management of receivable and cash out flows. As Van Horne, et al (1997) notes, cash management hinges on effective and efficient ways of collecting and disbursing funds.

The foregoing analysis on cash management in schools reveals that headteachers play the most central role in these functions. This is because they represent the BOG in ensuring that rules and regulations of the government are adhered to. The study did not however, reveal their managerial skills in this area. Prior analysis indicated that some, although a small minority, revealed lack of skills in this area. Briault (1974)

concur that responsibility of cash management comes back to the person of head teacher. This coupled with other administrative tasks in the school makes his/her job very complex. The foregoing results confirm that school fees constitute the main source of revenue for the target schools. It is therefore necessary to examine how this revenue source is managed.

4.5 Management of Receivable

As noted earlier in this study, receivable represent outstanding fees which are received after services have been rendered. This is determined by policy decisions for both credit and collection. Sometimes, however, adverse conditions of debtors (students') ability affect accounts receivables which are beyond the head teachers' control. Kinuthia (2402) postulates that delays in receivables increase costs of operations in schools.

Table 11 presents data on sources of cash inflows in the target schools

Table 11: Sources of Cash Inflows

Source	Frequency	Percentage
1. School Fees	21	53.8
2. Government Grants	6	15.4
3. Owner Investments	2	5.1
4. School Investments	7	17.9
5. Others	3	7.7
TOTAL	39	100

The statistics in table 11 indicate that school fees represent the largest proportion of cash inflows in the target schools at about 54%. Government grants represents only

15.4% of the target school investments, however represent a slightly higher proportion of revenue at about 18%.

Also, it can be observed that government grants represent a small proportion because some schools were established on community initiatives (Harambee). Some of these schools do not receive government grants. The results underscore the government policy on cost sharing and the need to encourage schools to engage in commercial activity to generate funds (Kamunge Report 1988 and G.O.K., 2003). However, it is worthwhile to examine the proportional contributions of each source to the schools total budget.

Table 12 provides an analysis of sources of cash receivables in the target schools.

Table 12: Percentage of Cash Inflows from various sources

Percentage Range	School Fees		Government Grants		Owner Investments		School Investments	
	No.	Prop%	No.	Prop%	No.	Prop%	No.	Prop%
1. 0 - 20%	0	(0%)	8	(38.1)	4	(19.1%)	17	(80.1%)
2. 21 - 40%	1	(47%)	0		0		0	
3. 41 - 60%	8	(38.1%)	0		0		0	
4. 61 - 80%	2	(9.5%)	0		0		0	
5. 81 - 100%	10	(47.6%)	0		0		0	
TOTAL (%)	21	(100%)	8	(38.1%)	4	(19.1%)	17	(80.1%)

The statistics in table 12 indicates that all schools (100%) receive their revenue from school fees. However, the school fees represent between 80% and 100% of total

school revenue. This proportion prevails in 46.7% of all schools. The implication is that other schools receive less than 80% of their revenue from school fees.

Government grants are received in only 38% of all schools. This implies, that over 60% of the schools do not enjoy government assistance. Those grants however, represent a very small contribution to the total school revenue. This is estimated at less than 20% of total school revenue.

Owner investment is an income generating activity in only 19.1% of all schools. It is however, worth noting that this investment represents less than 20% of the schools' total revenues. Schools' investments is a cost sharing initiative in public schools. It has become popular venture in majority (80%) of schools. The schools have recognized the value of the business initiative as a source of income to supplement other major sources which may at times, prove inadequate. Table 12 indicates, however, that school investments contribute less than 20% of the total school revenue.

4.6 Management of Expenses

This section provides an analysis of cash outflows to various cost centres.

Normal expenses include boarding costs, books and stationery, games BOG, staff salaries and other miscellaneous costs.

Table 13 provides data on the preparation of cash outflows to various cost centres.

Table 13: Preparation of Cash Outflows

Preparations (%)	Boarding Expenses	Stationery Exp.	Games Exp.	Staff Salaries	Miscellaneous Costs
1 0-20%	0	5	13	4	-
2 21-40%	4 (19%)	5	0	3	-
3 41-60%	4 (19%)	4	0	4	3
4 61-80%	10 (48%)	0	0	0	-
5 81-100%	0	0	0	0	-
TOTAL	18	14	13	10	3
PERCENTAGE	(86%)	(67%)	(62%)	(48%)	(14%)

Boarding expenses stand out to be a major cost experienced by majority of the schools (86%). For majority of schools with boarding facilities, about 80% of their revenues is absorbed in this cost centre. Others incur between 21% and 68% of their total revenues to boarding costs.

Stationery provision to students is a cost experienced by 67% of the target schools. However, this cost is minimal not below 20% of total costs. The cost of providing staff salaries is experienced by 48% of the targeted schools. This cost is however, below 60% of the schools' total expenses. Other miscellaneous expenses incurred by the schools represent between 40% and 60% of total costs.

Table 14 presents data on time of school fee payment by students.

Table 14: Time of School Fee Payment

Time of payment	Frequency	Percentage
1 Beginning of term	16	67
2 Middle of term	5	21
3 End of term	3	12
TOTAL	24	100

NOTE: *The total exceeds 21 because some headteachers provided two options.*

It can be observed in table 14 that 67% of the school fees is collected at beginning of term. However, 33% of schools permit late payments at middle of term and end of term. This increases the schools' costs of operation due to delays in submission of fee.

It is sometimes necessary to evaluate the creditworthiness of various students in order to provide better planning on revenue collection. Table 14 examines whether the school administration checks on students' ability to pay school fees. This could be a basis for recommending for bursaries from the Ministry of Education.

Table 15: Evaluating Creditworthiness of Students before Admission

Are students' evaluated?	Frequency	Percentage
Yes	0	0
No	21	100
TOTAL	21	100

It is evident from the students in table 15 that the schools do not evaluate creditworthiness of students in payment of school fees. This implies that non-payment due to students inability is only realized when it is too late. Further analysis of

headteachers response on management of school fees collection indicates that 38% of schools give a grace period of up to 30 days for full fees clearance, 24% give upto 60 days and the rest allow over three months.

4.7 Management of Inventory

This is a process which is concerned with records of goods received by the school and who collects them. The analysis examines the nature of stock accounts relating to stationery, food stock, fuel stocks and other miscellaneous items.

Majority of schools keep stock accounts. This represents 86% of all schools targeted in the study.

4.8 Use of Inventory Model

The table below shows the shows the use of Inventory Model.

Table 16: Use of Inventory Model

Model	Number of schools in their different categories		
	Boarding	Day	Boarding / Day
Use of the Model	5	0	6
Does not use Model	0	10	0
TOTAL	5	10	6

From the table above it can be seen that many of the schools do not have inventory policy (47.6%). This implies that purchases for these items are adhoc and therefore can result to a wastage of resources. However, 52.4% of the schools do have a policy on the inventory to hold. This trend is representative of both the boarding and

boarding / day schools being 23.8% and 28.6% of the schools having a policy on inventory to hold respectively for both types of schools. For those schools which had a policy on inventory to hold, the head was responsible in deciding the amount of inventory to hold but with consultation with the BOG and Ministry of Education guidance.

Table 17 examines who manages stock of goods in the target institutions.

Table 17: Management Officers In-charge of Stock

Officer in Charge	Stationery	Food Stocks	Cooking Fuel	Miscellaneous Costs
Board of Governors	-	-	-	2
Headteacher	15	16	15	1
Bursar	-	-	-	-
Other	6	5	6	4
TOTAL	21	21	21	7

In all the schools targeted, the headteachers are in charge of stock control.

4.9 Credit Management Practices

Secondary schools engage in credit management by sourcing for goods or school supplies whose payments are negotiated to be paid at a later date. It is a form of trade credit availed by suppliers to the schools. Payments are then made at end of credit periods. Sometimes payment extend beyond credit period which adversely affect the schools credit rating in the market.

Table 19 presents data on instances when the target schools purchase the goods on credit. The headteachers were asked to indicate whether or not they purchase their supplies on credit.

Table 18 : Purchase of Items on Credit

Purchase of Items	Number of Schools	Percentage
Purchase on credit	18	86
Purchase by Cash	3	14
TOTAL	21	100

Table 19 indicate that 86% of the target secondary schools purchase their requirements on credit. This implies that the headteachers, as financial managers, negotiate with suppliers at agreed discount rates for later settlements of accrued debts.

The study further sought to determine the proportion of total purchases made on credit as well as cash-discounts negotiated.

Table 19: Percentage of Purchases on Credit and Cash Discount

Percentage of Purchase on credit	Number of schools	Number of schools offered cash discounts
0 – 20	6	4
21 – 40	6	4
41 – 60	5	1
60 and above	1	0
TOTAL	18	9 (43%)

It can be observed from table 20 that majority of schools receive credit purchase representing 40% of total purchase. Fewer schools (30%) are able to purchase on credit at 60% of their total purchases. It thus implies that most of the schools suppliers are reluctant to risk a large percentage of their sales to be purchased on credit by the schools. It can also be observed that cash discount are offered to schools with lower levels of credit purchases than those with higher credit purchases. This can be attributed to suppliers precautionary measures to avoid risk of overdue payment by schools. It was observed that majority of schools offered cash discounts are willing to buy their items in bulk. This is also true where the schools have the adequate bulk storage facilities.

The researcher further sought to determine how many of the target institutions take advantage of short-term loan facilities offered by banks. The results showed that all schools (100%) receive short-term loans. However, this short-term loan is received in the form of overdrafts. It was observed that some banks provide overdraft facilities to their customers on the basis of their debtors evaluation reports. In this way, they do not require collateral in form of physical assets, such as land or building.

4.9.1 Major weakness in Financial Management Practice

From the qualitative and quantitative data obtained in this study, major weakness were identified in the areas of management of cash, receivables, stock and credit.

Cash Management, as based on headteachers' responses indicated that some headteachers do not possess adequate financial skills to enable them control cash

transactions effectively. About 20% of the headteachers do not hold cash and bank accounts and statements. This constrained their efficiency in handling cash inflows and outflows. Some of the headteachers expressed their lack of financial skills. Although most of them (60%) have attended management training at KISE, the aspect of financial management was not effectively addressed, according to the headteachers.

Receivables management is not effectively practiced as required in good financial management principles. About 25% of headteachers responses indicated incidences of slow or delayed collections of school fees, giving students unnecessarily prolonged leeways in clearing outstanding debts. This has a marked effect on efficiency level that could promote faster disbursements and reduction of costs of operations.

In terms of stock management, it was observed from the respondents that the headteachers are overstrained as the key personnel in handling a complexity of tasks. Instead of delegating some of these duties to their junior staff, such as bursars, or finance clerks, the headteachers seem to handle all that portions to this function. Only about 16% of schools make use of bursars in this function.

4.9.2 Comparison of Financial Management Practices by Category of Schools

As explained in the third research question in this study, it is necessary to examine any similarities or differences in financial management practices in the target schools. This is analyzed on the basis of headteacher qualifications, level of enrolment, costs per school type, financial training and other costs. The schools are subdivided by

categories of boarding, day and combined day and boarding. Table 21 presents data on the comparisons.

Table 20: Comparison of schools in Financial Management

Category of School	Headteacher Qualifications	Financial Training	Enrolment Level	Cost of Tuition	Other Costs
• Boarding School category	80% graduates	10% of teachers	300-500 students	80% of school revenue	20% of revenue
• Day School category	70% graduates	55 of teachers	400-700 students	60% of school revenue	40% of revenue
• Combined Day and Boarding Schools	75% graduates	12% of teachers	350 -600 students	70% of school revenue	30% of revenue
AVERAGE	Average 76% graduates	Average 8%	500 students	70%	Average 30%

The statistics on table 20 indicate that staff qualifications in the various schools categories do not have major difference. However, boarding schools have higher percentage of graduate headteachers, day schools have a slightly lower compliment of graduate headteachers.

In terms of financial training 77% of headteachers did not have any formal training in financial management. These are specialized areas such as accounting or bookkeeping. There are slight variations in enrolment levels in the target schools. However, day schools have higher enrolment rates of between 400-700 students while boarding

schools has 300-500 students. The costs of running boarding schools still remain higher than day schools.

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SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Various systems of financial management developed in the data analysis. Conclusions are then based on the findings to highlight their implications to the targeted schools. On the basis of the findings, recommendations are developed to provide relevant strategies for the improvement of financial management.

Summary of Findings

According to the management of school finance it is practical to the targeted schools through the study is that that:

most bank accounts are held by the majority of schools. However, about 40% of the schools do not

keep financial records. In some schools is attributed to irregularity in year following yearly from their

do not retain surplus cash

most of cash expenditure, school fees represent the highest proportion of expenditure of schools.

Government grants are received in only about 40% of all schools.

management of cash is primarily in the hands of the board and headteachers.

A budget is prepared for all schools. This is mainly handled by the board and

headteachers. The time span for cash budgets is mainly one year.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This section presents major findings developed in the data analysis. Conclusions are then drawn from the findings to highlight their implications to the targeted schools. On the basis of findings and conclusions, recommendations are developed to provide relevant strategies for future change or improvement.

5.1 Summary of Findings

In establishing how the management of school finance is practiced in the targeted secondary schools, the study found that:

- Cash and bank statements are held by the majority of schools. However, about 40% of the schools do not.
- Lack of financial records in some schools is attributed to irregularity in cash inflows, especially from fees.
- Schools do not retain surplus cash.
- In terms of cash receivable, school fees represent the highest proportion of contribution to school revenue.
- Government grants is received in only about 40% of all schools.
- The management of cash is primarily in the hands of the board and headteachers.
- Cash budgets are prepared in all schools. This is mainly handled by the board and headteachers. The time spun for cash budgets is mainly one year.

- In the management of school expenses, the headteachers play a key role. Boarding schools stand out to be a major cost in the school.
- Majority of schools keep inventory accounts. The management of stock accounts is controlled primarily by headteachers.

In establishing major weakness in the management of school finance, the study found that:

- Majority of headteachers do not have financial skills gained through training.
- There is a marked level of inefficiency in debt management by headteachers.
- There little delegation by headteachers in financial control.

In establishing major difference in financial practices by school categories the study determines that:

- No major differences exist in staff qualifications.
- There is slight variations in levels of enrolment between the school categories, when day schools have higher student populations.
- Boarding schools experience more expenditure /costs of operation than day schools.

5.2 Conclusions

On the basis of the foregoing findings, a number of implications for current school management practices are observed. The general financial management practice in the secondary schools reflect the requirements of the Education Act, which empowers the BOG to ensure full responsibility. The BOG's role is executed by the headteachers in schools. It is noteworthy, however, that majority of head teachers may be overtaxed by

virtue of a complexity of administrative responsibilities in the schools. It is only in few cases where the bursars and accounts clerks are used.

The development of budget is prevalent in nearly all the schools in the study. Most of these budgets are developed annually. However, bi-annual or quarterly budgeting is lacking. This may constrain efficiency level in financial control. Cash management practices prevailing in the target schools indicate slow collections which further slows disbursements. Van Horne, et al (1977) argue that this may increase costs in the long run. Slow collections, may also affect the schools credit standings. Although most of the head teachers attend in-service training to update their administrative skills, they still lack specialized training in finance. This is likely to aggravate their efficiency and effectiveness in managing school finances.

5.3 Recommendations

(i) On the basis of the foregoing findings, and conclusions, the study recommends the following:

The headteachers need to embrace a systematic approach to setting goals and objectives for financial management. The use of planning, programming and budgeting system (PPBS) would be useful in enhancing efficiency and effectiveness in financial management in schools.

(ii) A more participatory management of school finances should be introduced. The headteacher needs to involve all major stakeholders in this function such as teachers,

parents and board members. By planning in collaboration, delays in payments of school fees would be highly reduced.

- (iii) Cash management in schools need to be based on effective ways of collection and disbursements. This would involve acceleration of collections and delay of payments. This should be effected by speeding the mailing time of payments from parents to schools. Also, it could involve reducing grace periods for outstanding debts.
- (iv) The cost-sharing policy is already in place, hence reduced grants from the governments. The schools need to enhance their level of internal investments to promote cash inflows to the schools. Production units (business centers) could be introduced to increase the level of capital investment in schools.
- (v) More specialized training on financial management should be reinforced to increase head teachers financial management skills. This would be effected by introducing more in-service training programmes on an annual basis to reinforce and update their skills. Opportunities for further training would also be encouraged by the Ministry of Education.

5.4 Suggestions for Further Studies

For any policies to be effective, the dedication, commitment and co-operation of all the parties involved are of extreme importance. Research is therefore needed to

determine the attitudes (views) of both the school Heads and the Board of Governors of the schools on the management of working capital components.

Further, the proper personnel must be entrusted with the responsibilities of managing working capital. Several leaders in both politics and religions have expressed deep concern to the level of financial mismanagement in secondary schools (Daily Nation, June 2002). This is not to say that in all, Heads(or those responsible) mismanage funds. This calls for a study to determine whether there is any relationship between the background training of a school head or other members of the school board and the existing working capital management practices. A similar study could be done in other divisions, districts and so on. A study could be conducted to compare the practices among or between different types of schools. This would call for hypothesis testing.

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APPENDIX A

LETTER TO THE HEADTEACHER

Judy W. Njeru
University of Nairobi
Department of Educational
Administration and Planning
P. O. Box 92
KIKUYU

The Headteacher

Secondary School

Dear Sir / Madam,

RE: FINANCIAL MANAGEMENT PRACTICES

I am a post graduate student in the University of Nairobi, pursuing a Master of Education in Administration and Planning course. I am conducting a study on financial management practices of the headteachers in public schools in Central division, Embu district.

I am humbly requesting you create time, out of your busy schedule and respond to the questionnaire attached. The responses will be treated with confidentiality. To ensure this, no name of the institution on the respondent is required.

Yours sincerely,

Judy Njeru

APPENDIX B

QUESTIONNAIRE

To be filled by the school manager (head) or any other person with the necessary information. Please put a tick (✓) in the box and where this is not so, write the answers in the spaces provided. If more space is needed, please use the back of the respective page.

SECTION A

Personal Details

Tick (✓) the right choice

1. Your professional qualification

Diploma []

BA/BSc + PGDE []

B.Ed []

M.Ed []

2. Your experience

0 – 5 yrs []

6 – 10yrs []

11 – 15yrs []

16 – 20yr []

Over 20yrs []

3. Please indicate here below the category of your institution.

Boarding []

Day []

Boarding / Day []

4. Please indicate here below the type of your school.

Public []

Private []

SECTION B

1. Do you have any written statement of deciding on the amount of cash to hold (both petty cash and cash at bank which can be withdrawn at will) at any one particular time?

Yes []

No []

2. Please briefly explain the salient features of the written statement you have indicated in (1) above, for example, we must hold shs.10,000 at all times and petty cash must not exceed shs.500.

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3. Please give some reasons as to why you do not have a written statement on the amount of cash to hold at any one particular time

a) _____

b) _____

c) _____

4. Who is responsible for deciding on the cash amount to hold at a particular time in your institution?

Board []

Headteacher []

Bursar []

Other (specify) _____

5. Do you ever reach a situation where the school has idle funds, that is, funds which do not have immediate use?

Yes []

No []

6. How do you invest these idle funds (not necessarily at the end of the year)?

Place them in a Savings account []

Place them in a Fixed deposit account []

Other (specify) _____

7. Does the school management prepare a cash budget, that is, a plan of cash inflows (mainly fees) and outflows (expenditures)?

Yes []

No []

8. Who is responsible for preparing the cash budget?

Board []

Headmaster []

Bursar []

Other (specify) _____

9. What is the time span (plan horizon) for your cash budget?

Less than one month []

Three months []

Six months []

One year []

Over one year []

Other please specify _____

10. Please indicate below the approximate percentage of your cash inflows from various sources.

	Percentage (%)
Fee	_____
Government grants	_____
Owner investments	_____
School investments	_____
Others please specify	_____

11. Please indicate here below approximate percentages of your cash outflows (expenditures) to the various uses.

	Percentage (%)
Boarding expenses	_____
Books and Stationery	_____
Games	_____
Staff Salaries	_____
Other(s) specify	_____

12. How frequently do you bank your cash collections?

Daily []

Weekly []

Other please specify _____

13. Please indicate the problems (if any) you encounter in managing administering cash in your institution?

SECTION C

1. When are students expected to pay up their school fees?

Beginning of term []

Middle of term []

End of term []

Other please (specify) _____

2. What percentage of the school fees is not received when it is due?

0 – 10 []

11 – 20 []

21 – 30 []

31 – 40 []

Other please specify _____

3. Are any attempts made to evaluate the credit worthiness of would be students before admitting them?

Yes []

No []

4. If yes please explain how this is done

5. Who is responsible for collecting overdue debts (fees)

Board []

Headteacher []

Bursar []

Other please specify _____

6. At what point in time after a student's bill is past due will the student be reminded of the amount due?

0 – 30 days []

31 – 60 days []

61 – 90 days []

Other (specify) _____

7. How is this reminder done?

Letter to student []

Personal interview with student []

Letter to parent []

Phone to parent []

Other please specify _____

8. What action(s) do you employ after the first reminder is not needed?

9. Please indicate the problems if any encountered in collection of overdue fees from the students and in determining the credit-worthiness of the students.

SECTION D

In this section the word inventory means the stock of consumables such as stationery (exercise books) and for schools with boarding facilities. It includes such items as cooking fuel, food and so on.

1. Do you have any written statement as to the amount of stock you should hold at any one particular time?

Yes []

No []

2. Who is responsible for making decisions regarding the amount of inventory to hold?

Type of stock	Board	Headteacher	Bursar	Other (specify)
Stationery	[]	[]	[]	_____
Food	[]	[]	[]	_____
Cooking or Other fuel	[]	[]	[]	_____
Others please specify				
_____	[]	[]	[]	_____
_____	[]	[]	[]	_____
_____	[]	[]	[]	_____

3. Please give some factors you take into considerations while determining the level of inventory to hold

- a) _____

- b) _____

- c) _____

4. Does your school use any of the sophisticated inventory control models, for example, the Economic Order Quantity model?

Yes []

No []

If yes, please indicates the model _____

5. Does the school purchase some of its requirements on credit?

Yes []

No []

6. If yes, what percentages of the purchases are made on credit?

0 – 20 []

21 – 40 []

41 – 60 []

Other please specify _____

7. Does the school take advantage of cash discounts that are offered by creditors?

Yes []

No []

8. If yes in (7) above, what considerations do you take into account?

9. If no, why not?

10. Does your institution get short-term loans from the bank?

Yes []

No []

11. Please state the kind of short-term loan

Overdraft []

Other (specify) _____

THANK YOU VERY MUCH FOR YOUR MUCH VALUED CO-OPERATION

MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY

Telegrams: "EDUCATION", Nairobi
Telephone: Nairobi 334411
When replying please quote



JOGOO HOUSE "B"
HARAMBEE AVENUE
P.O. Box 30040-00100
NAIROBI

Ref. No.

MOEST 13/001/34C 401/2

12th November, 2004.....

Judy Wangechi Njeru
Nairobi University
P.O. BOX 30197
NAIROBI

Dear Madam

RE: RESEARCH AUTHORISATION

Please refer to your application for authority to conduct research on "A study of financial management; practices of the Head Teachers in Public Secondary School". This is to inform you that you have been authorised to carry out research in Embu District for a period ending 31st December, 2004.

You are advised to report to the District Commissioner and the District Education Officer Embu District before embarking on your research project.

Upon completion of your study, you are expected to submit two copies of your research findings to this Office.

Yours faithfully

A handwritten signature in black ink, appearing to read 'B. O. ADEWA', with a long horizontal stroke extending to the right.

B. O. ADEWA
FOR: PERMANENT SECRETARY

Cc
The District Commissioner
Embu District

The District Education Officer
Embu District