1 Audit summary

1.1 Introduction

Effectively managing school funds is critical to the ongoing financial viability of Victoria's government schools, and in turn contributes to the provision of better quality education.

The management of school funds is governed primarily by the *Education and Training Reform Act 2006*, and guidelines issued by the Department of Education and Early Childhood Development (DEECD). The Act requires schools to establish a school council to take responsibility for the governance and financial management of the school, and for DEECD to monitor the activities of school councils. Although the Act does not permit schools to borrow funds, under the *Co-operatives Act 1996* a school community can establish a cooperative for this purpose.

At 30 June 2008 funds held by Victoria's 1 595 government schools were around $705 million.

This audit assessed whether government schools were managing their funds appropriately, and the adequacy of the role played by DEECD in supporting and monitoring schools in performing this function. The audit also examined whether using school cooperatives to borrow funds was consistent with legislation, adequately managed and disclosed by the school, and adequately monitored by DEECD.

Twenty-one schools were examined in the audit that held funds and investments totalling $37.3 million at 30 June 2008. Seven of these schools had cooperatives.

1.2 Overall conclusion

With minor exceptions, which are being addressed by the respective schools, most were managing their funds in accordance with applicable legislation, policies, and guidelines, including sound investment management practices. In this regard DEECD was adequately supporting and monitoring schools with an effective quality assurance regime.

All school cooperatives examined were legally established. They complied with the various requirements governing their operation, except for some legislative financial reporting requirements. This non-compliance has weakened the accountability of schools for these entities. DEECD needs to address both these financial reporting issues and the existing legislative anomaly that allows cooperatives to borrow funds for use by the school but does not permit a school to borrow in its own right.

DEECD also needs to provide clear guidance to schools about the insurance implications where school facilities are jointly funded by the school and DEECD. At one school examined this uncertainty has resulted in the school having a financial exposure of $500 000, including an associated $150 000 cooperative loan liability, if the facility was completely destroyed.

1.3 Key findings

- Only three of the 21 schools examined failed to comply with some of the policies and procedures governing the management of school funds. Instances of non-compliance were investing in shares, which is no longer permitted, an overdrawn bank account and incorrect information in financial reports.
- DEECD provides an adequate range of support and guidance to assist schools in managing their funds and this work contributes to an effective quality assurance regime.
- Monitoring by DEECD of schools' management of funds is facilitated by reviews of school financial reporting and independent audits.
- Cooperatives did not fully comply with their annual reporting requirements, including failing to prepare, having audited and table annual financial statements.
- Although legal, in substance the establishment of school cooperatives enables schools to enter into loan agreements, which may contravene the *Education and Training Reform Act 2006*.
- While school facilities are fully covered under DEECD's insurance policy, in the event that a jointly funded asset is fully destroyed, DEECD may choose to pay only to the school's entitlement, creating a financial exposure for the school for that component funded through donations or fund raising activities.

1.4 Recommendations

DEECD should:

- Reinforce to schools the importance of school cooperatives fulfilling all of their legislative annual reporting requirements in a timely manner **(Recommendation 5.1)**.
- Address the legislative anomaly regarding school borrowings **(Recommendation 5.2)**.
- Provide guidance to schools regarding the insurance implications where new school facilities are jointly funded by DEECD and the school. This should include clarification of their respective financial obligations in the event the facility is fully destroyed or only partly damaged and the availability of school level insurance. **(Recommendation 5.3)**.