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Financial Risks in Rural Public Secondary Schools: The Case of 5 Selected Schools in Mudzi District of Mashonaland East Province, Zimbabwe

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Abstract: *The overall objective of the study was to identify and categorize financial risks that are prevalent in rural public secondary schools of Mudzi District in Zimbabwe, with the view of finding strategies that can be adopted to plug leakages in school finances. Five public secondary schools were purposively selected for study. Four of the schools were run by the Mudzi Rural District Council while one was a government secondary school. The target population included School Heads, SDC members and school bursars/accounts clerks, as well as influential members of the surrounding communities such as councillors and village heads. Data was collected using literature or archival searches, key informant interviews and informal discussions. Descriptive discussions were used to analyse data collected. Risk scales were applied to describe levels of financial risks in schools. Interviewed members particularly SDC members showed very low levels of risk perception while all the 4 council schools studied had very high financial risks mainly due to less frequent auditing by external auditors and poor management of revenue collection. Recommended strategies for ameliorating the financial risks were suggested taking from literature searches and from suggestions by interviewed stakeholders.*

Keywords: Financial Risks: *Threats that cause loss of or non-effective use of financial resources*

Public Secondary Schools: *Secondary schools which are directly under control of government through either the Ministry of Primary and Secondary Education or through Local Government authorities such as Rural District Councils and municipalities*

Ministry of Primary and Secondary Education (MoPSE)

1. Introduction

The thrust of the Ministry of Primary and Secondary Education (MoPSE) is to provide quality and inclusive education. Since the attainment of independence in 1980, the Zimbabwean government has initiated many reforms in the education sector including the introduction of free primary and secondary education to enable all children of school-going age to access education. In the first and second decades of attaining independence, huge financial resources were invested in education to achieve the government's objective of education for all.Some of these funds came from donors who were very eager to see the youthful country attaining its noble objectives.

Over the years, various educational programs and curricula have been produced by the Ministry of Primary and Secondary Educationwith a lot of funding coming from donors and the government of Zimbabwe. With the progression of time, government and donor funding of primary and secondary schools have dwindled. The main source of funding for the schools now hinges on levies paid by parents of children learning at these institutions. These levies, especially in the rural public secondary schools, are essentially nominal and are rarely paid by the largely poor parents.The situation is made worse by the late payment of levies for a sizeable number of the learners who are under the Basic Education Assistance Module (BEAM) program where the government pays levies for disadvantaged learners. Such payments usually lag behind by 2 to 3 years and therefore make it difficult for schools to operate efficiently.

There is a plethora of financial risk factors that bedevil the smooth running of theserural public secondary schools in Zimbabwe and Mudzi District is no exception. This scenario is exacerbated by the fact that a great many of the school authorities running these institutions possess little or no

financial literacy. Several of thesesecondary schools are facing serious challenges in financing the day to day running of the institutions owing to a labyrinth of factors. There is need for more research to ascertain in situ financial risks that are peculiar to secondary schools in rural districts such as Mudzi. Such research would inform decision making and the crafting of mitigatory strategies that can be employed to ameliorate the risk factors.

2. Statement of the Problem

Mudzi District public secondary schools are characterized by critically lowlevels of development owing to financial constraints. One such constraint is the lack of awareness of financial risks and how to mitigate them. There is critical need for research in the area of financial administration and financial risk management in public secondary schools in rural Zimbabwe.

3. Research Objectives

The objectives of the study were:

1. To identify and categorise the financial risks that are prevalent in selectedpublic secondary schools of Mudzi District.
2. To ascertain the levels of financial risk perception among administrators and School Development Committee members of selected Mudzipublic secondary schools
3. Identify possible strategies of mitigating financial risk in public secondary schools

4. Justification of the Study

Financial resources are key to the development of schools in Zimbabwe. Given the critical shortage of finances in rural secondary schools and the very low developmental levels of these institutions, there is a glaring need to conduct research on the financial risks that are prevalent in rural secondary schools which will help inform decision-making on the strategies that can be employed by school administrators and Ministry supervisory officials to minimize loss of financial resources in schools and maximize effective utilization of the meagre resources available. In many rural secondary schools, the school authorities are either ignorant of the financial risk factors that militate against the development of their schools, or they are a part of the risk factors that aresiphoning financial resources out of these poor schools. Education is a critical developmental factor in national economics. Management of public funds invested in the education sector must be seen as a priority. Such management requires well informed strategies that are supported by research inclusive of research on the financial risks that lead to leakages of financial resources from school coffers. School administrators and School Development Committees need elevated risk perception which can help them notice financial risks as they appear and craft relevant proactive strategies that can help them avoid such risks.

5. Theoretical Framework

The theoretical frameworks underpinning this study hinged on Agency theory, fraud triangle theory and accountability theory.

The Agency Theory was suggested by Jensen and Meckling (1976). It is also known as the Principal-Agent theory. It describes the relationship between two parties, the Principal and the agent.In this relationship, the principal employs an agent to do the work, or to perform a task on behalf of the principal. Sometimes the agent may portray self-interest behaviour at the expense of the principal. Agency theory is key in this study since the school development committee act on behalf of the stakeholders such as the government, parents and other stakeholders to run the school on their behalf. The school development committee are expected to act in the best interest of the stakeholders. The Ministry of Primary and Secondary Education in Zimbabwe, has put in place internal risk assessment and mitigation measures as to support effective management of school finances. An understanding of the agency theory enables one to better navigate situations where you are either the principal or the agent and establish effective collaborations (Rustiawan, I. Ausat,A.M.AS. Gadzali S, Suherlan,S and H. K. Azzaakiyyah,H.K.(2023).

Fraud Triangle Theory also known as the fraud Diamond theory was proposed by Donald Cressey (1953) who studied the behaviour of fraudsters. Cressey presses that for fraud to occur, pressure, opportunity and rationalization must be present. The theory suggests that employees commit fraud when they have the opportunity to do so, when they are motivated to do so, and when they can justify or rationalize their behaviour (Cressey, 1953). Fraud triangle theory is pertinent inguaranteeing that opportunity, rationalization and pressure to commit fraud are minimized so as to protect finances invested in education.

Accountability Theory was framed by Tetlock and Lerner in 1999. The theory posits that individuals or organisations are responsible for their actions and decisions and that they should be held accountable for the consequences of those actions. The theory is rooted in the idea that accountability breeds transparency, trust, and ethical behaviour. It asserts that several mechanisms such as; the presence of another person, identifiability, and expectation of evaluation may increase accountability. The expectation of assessment, awareness of monitoring, and social presence improves employee's accountability toward organizational system. (Trevor, Anderson & Didier ,2016). Accountability theory can be applied in this study to enhance accountability through risk assessment. School headswill embrace the perceived need to account for their actions thus leading to high degree of accountability. If school headsexpect evaluation and are aware of monitoring, then fraud will reduce and accountability will improve.(Rustiawan, I. Ausat,A.M.AS. Gadzali S, Suherlan,S and H. K. Azzaakiyyah,H.K.(2023).

6. Literature Review

Several studies on financial management in public institutions have been carried out and enactments made to guide the use of public financial resources. The Government of Zimbabwe through the Ministry of Primary and Secondary Education is also increasingly becoming conscious of the need to train school administrators in the use and management of financial resources though these trainings are still far in between. However, the legal framework is clear on the roles of Government officers in managing public finances. One such act is the Public Finance Management Act [*Chapter 22:19*] of 2009 which provides for the control and management of public resources and the protection and recovery thereof. The object of the Act is to secure transparency, accountability and sound management of the revenues, expenditure, assets and liabilities of any public entity.

In his research titled *Financial Management Concepts: A Review*, Sukenti (2023) asserts that financial management is a process that organises financial activities from planning, implementation and control to financial accountability. He further asserts that when it comes to educational institutions, the impact is quite significant. According to Sukenti, the need for financial management can be summed up as the need to identify the objectives to be met, the right choice being the one that advances the company's objectives and usually, the objective of financial management choices is to maximise the company.It is apparent from this synopsis that in order to maximise a company, or in this case, a public secondary school, there is need to plug the leakages of finances, which can best be done through identification and familiarisation with the common financial risks in the institutions.(Irawan, A.P.: E. Supriyatna E, I. Widjaja I, andLin, L.L.C, 2017;Irena, M. and Mariana, B, (2017).

Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives and these risks from across the entity are considered relative to established risk tolerances (Atieno, Olweny and Miroga, 2019). Atieno, Olweny and Miroga further asserted thatn financial accountability in someKenyan public secondary schools is still wanting and a report by Ethics and Anti-Corruption Commission established that thirty percent of funds channeled to subsidized secondary education could not be accounted for by the various school principals. The results of their study regarding the question of whether prevention, control, and management of risk affect financial accountability showed that the majority (37.5%) of the respondents strongly agreed while 58.7% of the respondents agreed or strongly agreed that prevention, control, and management of risk affect financial accountability, 9.6% of the respondents were neutral while 31.8% disagreed or strongly disagreed (Atieno, Olweny and Miroga, 2019;Gadzali, S.S;Santosa,SChoerudin, A Ayesha,I and Ausat, A.M.A,(2023).

(Simeyo& Onyiego, 2013) carried out a study entitled, "The effectiveness of internal control procedures on management efficiency of FPE funds in public primary schools in Kisii Central District." Descriptive survey research design was used on a target population of 267 respondents which consisted of 132 head teachers, 132 chairpersonsof school committees and 3 District Education staff in Kisii Central District, Kisii County. A of sample of 117 was selected for study. Descriptive statistics was used to analyze data. The study findings revealed that risk assessment improves management efficiency of funds in schools. It was recommended that risk assessment as part of the internal control procedures be enhanced to improve financial management. (Transparency International Kenya, 2014) Carried out a study entitled "Assessing corruption risks in the education sector in Turkana County". The objective of this assessment was to identify areas of potential resource leakages and formulate appropriate strategies to remedy this situation. A total of 16 schools were randomly sampled from Turkana Central, Loima and Turkana West. Qualitative methods were adopted in the assessment in a bid to get rapid insight, perceptions and practices as narrated by the respondents in primary schools. Formal and informal interviews, focus group discussions were used to collect data. It was discovered that many schools did not have procurement committees in place and there was a conflict of roles by the School Management Committees (SMCs). Some valuable assets for example, land was not secured in some schools. Security of finances was not assured therefore increasing the risk of the leakage of education resources. Audit of schools was limited to a few due to limited capacity. Lack of auditing was found as a huge risk that could lead to continued financial malpractices as not all culprits may be discovered. The study recommended that principals, especially those newly promoted, should be trained on prudent financial management.

(Otieno &Nyagechi, 2013) Carried out a study entitled, "The effectiveness of internal control procedures on management efficiency of FPE funds in public primary schools in Kisii Central District." The study used a descriptive survey research design and targeted 267 respondents comprising of 132 head teachers, 132 SMCs chairpersons and 3 District Education staff in Kisii Central District, Kisii County, from which a random sample of 117 was taken for study. Data was analyzed using descriptive statistics. The findings of the study revealed that the use of internal control procedures is effective in the management efficiency of funds in schools. The study further established that computerized procedures were seldom used as an internal control procedure in public primary schools; staff accounting skills were low in public primary schools and audit staff was still inadequate. This interfered with the collection of audit evidence for purposes of early detection and prevention of fraud. The study, therefore, recommends embracing enhanced internal control procedures in their resolve to efficient management.

7. Research Methodology

The research design adopted in this study was essentially a qualitative design. A combination of methods to source data were used including archival searches (Sukenti, 2023), key informant interviews and informal discussions. The schools picked for study were purposively selected for convenience and strategic geographical positioning. Four of the schools selected for study are run by the Mudzi Rural District Council while one is a Government secondary school. Schools selected were then coded as S_1, S_2, S_3, S_4 and $S_5$for ethical reasons.The target population included School Heads, SDC members and school bursars/accounts clerks, as well as influential members of the surrounding communities such as councillors and village heads. Areas of financial risks were identified and the risks categorized using information from literature searches. The financial risks peculiar to the settings of Mudzi District secondary schools were then identified and the schools were placed on a risk scale as high risk, moderate risk and low risk schools depending on the peculiar circumstances of the school. The risk perceptions of interviewed respondents were also placed on a risk perception scale as high, moderate, low, and poor financial risk perception. Strategies for ameliorating the financial risks were suggested taking from literature searches and from suggestions by interviewed stakeholders.

8. Results and Discussion

Common financial risks identified from archival searches include **market risk** (fluctuations in asset prices), **credit risk** (borrower default) and **liquidity risk** (difficulty in converting assets to cash. (Li. C, Dong, H. Chen,S. and Yang, Y2014).

1. **Market risk** is caused by movement of prices in financial instruments in the market. The sub-categories of market risk include:
   - **Interest rate risk** which is theinflation risk that will affect the value of an organization's finances and also directly affect stock prices, foreign exchange rate and assets value (Mihajlović.M, D. Tadin D, and Gordić B, 2020).
   - **Currency risk** which is therisk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Relates to translation and conversion exposure.
   - **Price risk whose** sub-categories of riskinclude equity price risk and commodity price risk. The later relates to changes in prices of inputs needed by an organisation which can affect its outcomes (Nona,A.Nurharyanto, A. and Lubis, K.M (2021).
2. **Credit Risk**
   - It is the possibility of incurring losses due to failure by creditors to own up their contract agreements.
   - Another form of credit risk most common in public sector organisations is the debt leverage risk.
   - The larger the debt becomes as a portion of capital structure, the higher the risk of default and write offs.
3. **Liquidity Risk**
   - Relates to funding or cash flow risk.
   - It is the difficulty encountered by the organisation raising funds to meet financial obligations and remain a going concern.

Major **risk areas** in public entities identified from literature searches were as follows:

1. Preparations of Financial statements
2. Revenue and expenditure management
3. Procurement management and resource mobilisation.
4. Inventory management
5. Human resources and payroll management.
6. Transport management
7. Administration division
8. Records and information management
9. Information and communication technology

However, the major areas of risk identified in the five public rural secondary schools studied include the following:

1. Revenue and expenditure management
2. Procurement management and resource mobilisation
3. Inventory management
4. Records and information management
5. Information and communication technology

Results from the study indicated that of the 5 schools studied, 40% faced high financial risks in the area of revenue and expenditure management as clerks responsible for revenue collection were not adequately trained. This posed a risk of costly errors in the accounting systems and high risk of financial leakages through fraud and misappropriation of school funds. Cases of members of staff and

school authorities collecting hard currencies from parents or learners and then paying in local currency to the school were prevalent. School authorities also had a habit of using monies before banking. All the five schools (100%) faced high financial risks in the area of procurement management and resource mobilisation in which there was no adherence to proper procurement procedures thereby giving room for the manipulation of procurement process for personal benefit. 80% had high risk in the areas of inventory management and records and information management. there were high chances of members of staff converting school property for personal use since gadgets were not properly numbered and entered into inventories. Lastly, 60% of the schools studied had high risk in the area of information and communication technology. Risks included procuring obsolete machines due to lack of ICT knowledge, procuring machines at exorbitant prices from sellers who visit institutions taking advantage of little knowledge by school authorities.

The sources of financial risks identified from literature searches included the following:

1. Economic and finance changes such as fiscal risk and macro- economic challenges
2. Natural events including natural disasters such as earthquakes, pandemics and famine
3. Technological changes and trends such as the use of digital money
4. System weaknesses including internal audit control systems, financial handling system procedures
5. Human resource issues that include incompetence, fraud, corruption and theft

All these five sources of financial riskstallied with what was observed in the five schools studied. Late payment of BEAM funds by government eroded earnings for schools as the levies were paid in local currency (Zimbabwe Dollars) which had been seriously eroded by inflation, thereby causing serious losses to schools. Few suppliers were willing to accept payments in the local currency due to the inflationary tendencies, making it difficult for schools to utilize the levies paid in Zimbabwe dollars. In addition natural events especially heavy storms and strong wind took away roofs of classroom blocks in one of the schools studied and this has generally been a perennial problem in many schools. A lot of funds are being lost in these disasters. Four (4) schools out of the five studied were last audited in 2017. These infrequent audits are posing a threat of loss of funds through misappropriation and embezzlement. Generally Council schools are not regularly audited while the government schools have regular audits

In all the 5 schools studied heads were said to be demanding 10% bribe payments of the total value of goods or services supplied by companies or artisans as a way for the suppliers to secure tenders on a regular basis. This is posing high financial risks to the rural public secondary schools as suppliers are resorting to charging exorbitant prices for their goods and services in order to meet the demands of the school heads. The procurement process is not adhered to and quotations are doctored in order to make sure the desired supplier wins the tender.

Financial risk perception among the SDC members was generally low. Many of them possessed very little knowledge of the sources of financial risks in public secondary schools and did nothing to plug leakages of finances. Most of them seemed to have no voice in the utilization of financial resources in the schools but are just bench warmers during meetings. SDC chairs and their Vices do not scrutinize payment vouchers before signing them.

RECOMMENDATIONS

Basing on the observations made during the study, the following recommendations were made,

- There is need to conduct financial risk management training for school authorities, SDC members, school bursars and school staff members
- Each public secondary school must draft a School Risk Policy and form a Risk Management Committee responsible for implementing the Risk Policy
- Both Council and MoPSE must conduct regular audits in schools to make sure financial management standards and best practices are followed. Regular audits will also scare away potential looters of school coffers.

- There is need for responsible authorities to conduct risk awareness campaigns in institutions in order to develop a culture of effective risk management and minimize resistance to change in organizational structure.

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