

Financial Governance and Accountability

School Districts of British Columbia

Material Prepared by the *Financial Health Working Group*

2017/18



Introductory Letter *from* Deputy Minister of Education

Over the past several years there has been a growing interest in Financial Governance and Accountability of school districts.

With recent auditor reviews and special advisor reports recommending strengthening the financial accountability framework of school districts, the Ministry of Education has developed good practice guidance materials in partnership with the Financial Health Working Group. This Group includes membership from the Ministry, BC School Trustees Association (BCSTA), BC School Superintendents Association (BCSSA), BC Association of School Business Officials (BCASBO), Office of the Auditor General, and Office of the Comptroller General of BC.

Together, we are building on an already solid base of financial accountability practices exhibited by the K-12 Public Education Sector. This work supports leadership development in the sector, and the Framework for Enhancing Student Learning.

These financial governance and accountability documents support boards of education in the work they do as governors of our education sector. For example, having reserve policies that reflect your district's education priorities.

Shortly after the Financial Governance and Accountability material is distributed, the Ministry will facilitate regional calls with trustees, superintendents and secretary-treasurers. These calls will be an opportunity to discuss your initial reactions and questions with members of the Financial Health Working Group.

Ministry staff will attend upcoming Association meetings where more in-depth discussion of the material can occur. The first of these meetings will be the 2017 BCSTA AGM in April. Other meetings will be held during BCSSA Regional Chapter meetings and the 2017 BCASBO AGM in May.

The documents included in this package are intended to provide advice that increases the transparency and understanding of school district financial health and consistent practice across all school districts. Important aspects of this work are:

- Reporting the benefit and plans for accumulated operating surpluses
- Establishing an audit committee
- Linking financial decisions to the school district's strategic plan and risk profile

These documents and toolkits will provide practical examples of questions that Boards of Education could ask their senior staff to ensure they have a full understanding of their school district's financial information.

The BCSTA, in partnership with the Ministry of Education, is developing additional material for Boards of Education that address capacity building for school board trustees.

The Ministry is interested in facilitating the sharing of ideas and good practices with regard to governance and financial accountability so that all school districts can benefit. More robust governance and accountability practices ultimately benefits the students of British Columbia to develop their individual potential and to acquire the knowledge, skills and abilities needed to contribute to a cohesive society and a prosperous and sustainable economy. After all, this is why we are here. Both BCSSA and BCASBO also provide professional development for their members on these topics.

The following resources are attached to this letter, and will continue to be updated as new toolkits and good practices are developed based on your input, for the benefit of all school districts:

- Ministry of Education expectations of Boards of Education regarding financial governance and accountability
- Toolkit for Boards of Education – Financial Health and Other Questions
- Toolkit for Boards of Education – Accumulated Operating Surplus
 - Appendices:
 - I. BC Taxpayer Accountability Principles
 - II. Categorization of Internally Restricted Accumulated Operating Surplus by School District
 - III. SY2015-16 Accumulated Operating Surplus Percentage Compared to Expenditures and Funded FTE
- Toolkit for Boards of Education – Audit Committees



Dave Byng
Deputy Minister of Education

Expectations of Boards of Education – *Financial Governance & Accountability*

Executive Summary

With recent auditor reviews and special advisor reports recommending strengthening the financial accountability framework of school districts, the Ministry of Education has developed guidance materials in partnership with the Financial Health Working Group. This Group includes membership from the Ministry, BC School Trustees Association (BCSTA), BC School Superintendents Association (BCSSA), BC Association of School Business Officials (BCASBO), Office of the Auditor General, and Office of the Comptroller General of BC.

Together, we are building on an already solid base of financial accountability practices exhibited by the K-12 Public Education Sector. This work supports leadership development in the sector, and the Framework for Enhancing Student Learning.

Key elements detailed within the Financial Governance and Accountability documents and toolkits relate to budget monitoring, accumulated surplus policy, and audit committees.

These financial governance and accountability documents support boards of education in the work they do as governors of our education sector. For example, having reserve policies that reflect your district's education priorities.

Expectations

The Financial Governance and Accountability documents and toolkits are intended to be supplemented with the sharing of good practices and collaboration amongst school districts. Examples of areas that could benefit from the sharing of good practices include assessing a school district's risk profile and mitigation strategies, a framework

for developing a strategic plan, and a framework for evaluating the skills and abilities of trustees and/or establishing an employee performance evaluation framework.

School districts are currently at various stages of developing policies and strengthening their financial accountability framework. It is expected that all school districts will discuss and develop a policy on:

- Budget Monitoring and Reporting; and
- Surplus Policy

Development of the policies may be conducted during the 2017-18 school year and can be used to guide the 2017-18 budget process. While early adoption of the related policies is encouraged, the target date for boards to implement the policies is June 30, 2018 so that they are in place for the 2018-19 school year.

School districts should review the descriptions in the subsequent pages and related Toolkits and determine how best to address the following in their district:

- Capacity Building for School Board Trustees and Superintendents
- Taxpayer Accountability Principles
- Financial Statement Discussion and Analysis
- Incorporate Strategic Planning and Risk Assessment into budget decisions

By June 30, 2018, each Board of Education should have in place an Audit Committee and policy guidance for the committee, including Internal Audit processes, and a written plan on how the school district will address the above expectations beginning in the 2018-19 school year.

These expectations reflect recommendations made recently by Special Advisors appointed by the Minister of Education. At a future date, the wording may be amended to reflect other recommendations from the Auditor General and Ministry of Finance. How the school district implements these and future recommendations and guidance is at the discretion of the Board of Education and reflects appropriate latitude to implement based on each school district's unique circumstances, risk profile, and strategic priorities.

spending relative to budget, achievement of key milestones and risks related to delivering the project on-time, on-budget and against identified project specifications. In addition, on a quarterly basis, district financial staff should update the Board on local and annual capital reserves.

Budget Monitoring & Reporting

(Development of policies during the 2017/18 school year, with policy approved by the Board no later than June 30, 2018)

All school districts must provide the Board of Education (or committee of the board) with, at minimum, quarterly financial reports which indicate forecasted results compared with actual budget, and provide an accompanying discussion and analysis, as necessary, to fully communicate financial performance and key risks. Quarterly results and projections to June 30th should be provided as at September 30, and December 31 of each year. This will allow the Board to monitor the district's financial position throughout the year on an ongoing basis and the expected year-end position.

For significant capital projects, status reports should be provided that set out progress on

Good Practices for Budget Systems and Processes:

BUDGET ASSUMPTIONS

All plans, assumptions, implementation plans and risks should be fully-disclosed with the Board of Education trustees before they are asked to approve budget documents. These plans, assumptions, and related risks should:

- be disclosed in the budget documents
- take into account the economic environment of the school district
- focus on planned changes from the previous school year, and
- be realistic and consistent with the school district's goals and vision, as outlined in a strategic plan

At a minimum, these disclosures should include:

- key budget assumptions, such as student enrolments, grant rate increases, salary increases, and inflation rates
- financial and business risks, such as increases in interest rates and increases in fuel prices

- specific strategies explaining how the budget supports the school district's strategic plan/direction

In its presentation, management should walk the Board of Education through the supporting materials, budget highlights, budget assumptions, implementation strategies and financial and business risks so that all trustees understand the complete picture before they are asked to approve the budget.

BUDGET UPDATES

Budget update materials should be prepared, at minimum, quarterly and provided to school board trustees in a timely manner. The updates should include a comparison to the original budget and forecasts to the end of the school year in the following areas:

- revenues
- expenses
- accumulated operating surplus or deficit
- full-time equivalents (FTEs) for staff
- eligible funded students

The updates should also include an explanation of significant variances (i.e. variances greater than 5%).

The budget updates should be formally received by the board, and management should review the changes with trustees to make sure they are aware of the

current situation and the impact of the changes on the fiscal plan.

BUDGETARY CONTROLS

An effective budgetary process includes analysis of what happens when a plan is put into practice and what the organization does or does not do to correct for any variations from the plan.

Budgetary controls should include:

- clearly defining managerial responsibilities
- implementing a plan of action for individual budget sites
- taking responsibility for adhering to the budget
- monitoring performance against the budget
- taking corrective action if results differ significantly from the budget
- permitting significant departures from the budget only after approval by the board
- investigating unexplained variances from the budget

INTERIM REPORTING

Management should produce interim financial reports (in September, December, and March) that include a projection to the end of the school year and an explanation of significant variances between the budget and the projected totals to the end of the school year. Specifically, the interim report

should include all significant revenues and expenses, and changes to:

- unexpended capital allocations
- expended capital allocations
- investments in capital assets
- unspent capital balances
- accumulated operating surplus/deficit

These reports should be presented in a timely manner to the Board of Education for review.

For additional guidance, refer to the *Toolkit: Financial Health & Other Questions*

Surplus Policy

(Development of policies during the 2017/18 school year, with policy approved by the Board no later than June 30, 2018)

All Boards of Education should prepare and approve an operating surplus reserve policy that guides the accumulation, reporting and spending of the funds. The policy should guide:

- inter-fund transfers, and ensure that stakeholders are aware of the policy and understand what it means
- general guidelines as to how much (i.e. percentage or dollar amount) could be transferred to other funds
- how much might be allocated from current year's resources to be spent in a future fiscal year
- annual planning and reporting of the expected surplus/deficit for the year and the application of the Surplus Policy for that fiscal year.

The purpose of restricted surpluses must be clearly documented and used as intended.

The threshold target for the Accumulated Surplus should be based on Total (versus net) Operating Accumulated Surplus. Surplus balances promote flexibility to absorb future year one-time costs, unforeseen expenditures, or reduced revenue due to declining enrolment.

For additional guidance, refer to the *Toolkit: Accumulated Operating Surplus*

Capacity Building for School Board Trustees & Superintendents

(Implementation by June 30, 2018)

The partner associations should work together to provide access to financial training on a regular basis. School districts should ensure that superintendents and trustees have access to financial training on a regular basis. Training should be provided, at minimum, in the following areas:

- governance – understanding roles and responsibilities of key stakeholders, and how provincial legislation and board policies impact school district operations
- financial literacy – understanding the education funding system, risk assessment, financial terms and language, components of financial statements and how they relate to one another, and what questions to ask superintendents and senior administration in order to obtain relevant and useful information

- financial monitoring – understanding how to verify information received from superintendents and senior administration, the internal control process, and how audit committees and internal auditors can benefit the operational efficiency of the school district.

Specifically, financial literacy training should include:

- the financial oversight responsibility of the board of education and management
- how financial statements are prepared and analyzed
- statements of financial position, operations, changes in net financial assets, and cash flows – how they are different and why they are all important
- the importance of notes to the financial statements
- how budgeting complements and supports financial reporting
- interim reporting against budget
- variance and comparative analysis
- good practices for a strong internal control system, including the use of audit committees and internal auditors
- how to ask clarifying questions of management and external auditors

For additional guidance, refer to the *Toolkit: Financial Health & Other Questions*

Taxpayer Accountability Principles

(Implementation by June 30, 2018)

The BC Government's *Taxpayer Accountability Principles* (TAP) are intended to apply to the broader public sector, which includes school districts. All Trustees, superintendents and senior administrators should receive training on the expectations of TAP and the expectations established by TAP should be incorporated into the school district's Code of Conduct.

Strengthening Board of Education financial literacy should be underpinned by the *Taxpayer Accountability Principles*.

Audit Committee & Internal Audit

(Implementation by June 30, 2018)

All school districts should formally assess the merits of establishing an Audit Committee. Terms of reference for this Committee should include oversight of audit and financial reporting, including review and approval of quarterly and annual financial statements, transfer of monies between funds, risk management and internal controls. Terms of reference for this Committee should require that it meet on at least a quarterly basis. The Committee should be comprised of a minimum of three individuals, at least one of whom is a financial expert. Provision should be made for members of this Committee to include non-voting individuals other than elected Trustees to provide advice and help ensure the presence of necessary financial expertise.

For additional guidance, refer to the
Toolkit: Audit Committees

Good Practices for Implementing Audit Committees and Internal Audit in School Districts:

AUDIT COMMITTEE

Boards of Education should appoint an audit committee, responsible for monitoring and reviewing the risk, control, and governance processes that have been established in board policies, to assist them in their financial oversight responsibilities.

Audit Committee members:

- should include members of the board, though these members should not represent a quorum
- should understand the organization's environment and accountability structure
- should be financially literate
- should have the ability to ask the right financial questions and follow up with clarifying questions

Staff support to Audit Committee:

- the Secretary-Treasurer can be on the committee as a non-voting participant, to provide staff support
- corporate secretary support should be provided to the committee for any recommendations to the Board of Education

External expert support to Audit Committee:

- the committee may include external expert support, such as individuals with an accounting designation or other relevant expertise the Audit Committee requires
- the external expert is a non-voting participant who provides additional technical assistance to the committee as an objective advisor with expertise in financial matters or other relevant expertise

In camera time at Audit Committee meetings:

- audit committee members should have in camera time without staff present
- in camera time should be at the beginning and end of each meeting
 - at the beginning of each meeting so that Trustees can raise any issues they want to ensure are addressed by the auditors, or other invited expert
 - at the end of each meeting to ask questions directly to the auditors, or other invited expert, and to hear of any concerns the auditors may have

INTERNAL AUDIT PROCESS

School districts should have an internal audit function (if the school district's size and complexity warrant one) to assess

and report on the adequacy of the internal controls. The internal audit function, where appropriate, should be responsible for examining:

- business strategies
- budgeting and accounting systems
- internal control and operational systems
- compliance with policies, procedures, and legislation
- economical and efficient use of resources
- the effectiveness of operations

The Ministry will work with school districts to assist with implementation of audit committees and an internal audit

function. For example, the sharing of internal audit resources amongst several school districts.

The internal auditor would have a direct reporting relationship to the Audit Committee.

The school district's Audit Committee meets on a regular basis with internal audit to discuss relevant matters and review reports from the internal audit function, and will consider recommendations to the board of education for policy or procedural changes for the school district.

Financial Statement Discussion & Analysis

(Implementation by June 30, 2018)

Financial Statement Discussion and Analysis, or FSD&A, as a concept, is in a developmental stage for school districts in British Columbia. Most districts may already be doing components of a formal FSD&A. All school districts should consider implementing FSD&A reporting to further strengthen financial governance and accountability.

FSD&A templates reflecting good practices will be prepared and shared with all school districts.

The *Budget Transparency and Accountability Act of the Province of British Columbia* directs school districts to follow Public Sector Accounting Standards (PSAS) excluding the *PS4200* series, and *Treasury Board Restricted Contribution Regulation 198/2011*, issued in November 2011. Boards of Education prepare audited financial statements in compliance with these requirements. These financial statements alone do not provide stakeholders with all of the information necessary to assess the school district's financial performance.

The following guidance has been modified for school districts based on material originally presented by the Auditor General of British Columbia in their report – *Understanding Canadian Public Sector Financial Statements* (June 2014).

The document *Toolkit: Financial Health & Other Questions* present common questions a reader should keep in mind when reviewing a set of financial statements. However, fully answering many of these questions requires additional information from a school district's management.

A common method used to disclose such information to readers is to supplement the audited financial statements with a *financial statement discussion and analysis* (FSD&A) from management. This supplementary financial reporting gives the entity's management a means of explaining the financial statement results to all readers in a consistent manner. The FSD&A attached to the financial statements is unaudited, however the auditor does ensure that commentary within the FSD&A is consistent with the audited financial statements.

Guidance for Preparing a Financial Statement Discussion and Analysis

As part of its mandate, the Public Sector Accounting Board (PSAB) developed a statement of recommended practice to assist public sector entities with the development of FSD&A reporting. The statement of recommended practice provides a general framework for determining the most relevant information to report. A high level summary of the guidance is provided in Exhibit 1. This exhibit should assist government, board members and other stakeholders with understanding what management should be reporting to readers when explaining the financial statements.

The statement of recommended practice provides management with more detailed guidance for specific financial statement elements.

Exhibit 1: Summary of SORP 1: Financial statement discussion and analysis recommended practice

Financial report components

- the entity's financial report should include an FSD&A along with the audited financial statements. The FSD&A should be cross-referenced to the audited financial statements.
- the entity should include a statement acknowledging its responsibility for preparing the FSD&A.

Qualitative characteristics

The FSD&A is meant to enhance readers' understanding of the entity's financial position and changes in financial position. To do this, this report must have the following qualitative characteristics:

- information must be presented in a way that is understandable to a general audience;
- information presented must be relevant for decision-making or assessing accountability;
- information presented must be consistent with the financial results contained in the audited financial statements; and
- the current and historical information presented throughout the report must be prepared on the same basis to enable comparability.

Key components of a FSD&A

The FSD&A should provide the following supplementary reporting to enhance readers' understanding of the financial statements:

- a summary of the significant events affecting the financial statements;
- analysis that explains the reasons for significant variances between planned and current year actual results;
- analysis that explains the reasons for significant variances between current and prior year results;
- analysis of significant trends (multi-year analysis) for specific financial statement elements; and
- information on known significant risks to, and uncertainties associated with, the entity's financial position and changes to financial position, along with a discussion of the entity's approach to managing the identified risks.

Strategic Planning

(Implementation by June 30, 2018)

All school districts should undertake a strategic planning process that culminates in the development of a specific vision and a long-term (i.e. three to five years) strategic plan. Management should have responsibility for developing the plan under the direction of the Board. Specifically, the Trustees should:

- provide direction to management on their long-term vision and expected direction for the school district;
- review and provide feedback on the draft plan prepared by management;
- formally approve the plan; and
- communicate the strategic plan to all stakeholders.

The final plan should include measurement criteria to help assess progress in its implementation, and management should be charged with providing regular status updates to the Board on activities taken to address the plan.

Finally, the renewed vision and strategic plan should be a guiding force in the development of the annual budget,

including ongoing monitoring of financial performance.

It is expected that the financial framework of the school district supports achievement of enhancing student learning. Clear linkages should exist between the budget and school district student achievement goals. This will necessitate development of key performance metrics outlined in the Board of Education's strategic plan.

Risk Assessment / Management

(Implementation by June 30, 2018)

All school districts should complete a comprehensive risk assessment, including an understanding of risk mitigation activities in place. Over a longer period of time (i.e. three to five years), more advanced Enterprise Risk Management (ERM) practices should be adopted.

Risk assessment and the managing of risks presents opportunities for shared service delivery.



Ministry of
Education

