



FINANCIAL CONTROL MECHANISM FOR SUSTAINABILITY: A CASE STUDY IN SATYANARAYANPUR S B HIGH SCHOOL (H.S)

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RESEARCH ARTICLE



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Abstract

A compact Financial Control Mechanism runs an organization smoothly and helps to reach to its summit of development. This involves the procedures, policies, and means by which an institution monitors and controls the direction, allocation, and usage of its financial resources. This mechanism protects the very core of resource management and operational efficiency in any organization. So, it plays an important role for the all-round development as well as the sustainability of the institution. The present study focuses on the financial control mechanism of the Head of the institution of Satyanarayanpur S B High School with its asset or fund allocation, cost and audit report and it reveals that the school goes through a strong asset granting and controlling with some recommendation that the Head of the institution would cautiously reduce the cost spent for the temporary staff, more allocation should be increased for the library, laboratories and students' toilets to run the institution for its sustainable development.

Keywords: *Financial, Control, Mechanism, Sustainability*

Introduction

In modern management, financial control is very important. If the financial control is effective, the organization will grow effectively in the future. Financial control is one of the performance control tools that is used by managers (Yogendrarajah, 2013). Financial control function has become an issue of paramount concern for every firm that strives to achieve profitability, growth and survival in a dynamic business environment. This is because a quality financial control system is essentially a hallmark for efficiency and effectiveness in operations which snowball into superior performances (Ibrahim & Mustapha, 2019). Financial controls involve the management of a firm's costs and expenses so that they can be controlled in relation to budgetary amounts. Thus, management determines which aspects of its financial position, such as profitability, sales or assets, are most important for the organization, tries to forecast them through budgets, and then compares actual performance to budgetary performance (Simko et al., 2020). Unlike financial control, the non-financial related control monitor aspects of the organization that are not promptly financial in nature, but are expected to lead to positive performance outcomes in the future. The principle behind such non-financial controls is that they can provide managers with a glimpse of the progress of the organization before measuring financial results. And this theory has some practical support (Ndegwa & Mungai, 2019). A highly satisfied customer is the best predictor of future sales in many of its businesses, so it regularly tracks customer satisfaction. Financial controls are the procedures, policies, and means by which an organization monitors and controls the direction, allocation, and usage of its financial resources. Financial controls are at the very core of resource management and operational efficiency in any organization (Agyapong, 2017). Financial controls refer to the development of policies and procedures by an organization to manage its financial resources and operate efficiently. It is essential for cash flow management, budgeting, and the prevention of any fraud or theft. Thus, it enables the business to track and oversee its financial activities to grow and prosper. An organization needs to implement a financial controls framework to manage, document, analyze, and report transactions.

Effective financial management planning aids the company in mitigating financial risks, complying with fiduciary duties, corporate governance, and due diligence requirements, and achieving financial goals (Yogendrarajah, 2013). Its absence can have an impact on budgeting, operations, and performance (Ibrahim & Abu, 2019). Financial controls enable an organization to determine the direction, allocation, and use of its financial resources. Thus, the organization can make sensible spending

decisions by maintaining financial accountability based on its objectives consistent with its existing situation and forecast (Okelo & Lagat, 2016). This strategy involves reviewing the organization's actual performance concerning its business plans and adjusting policies and procedures in response to any anomalies, irregularities, or unanticipated changes.

In simpler words, financial controls are necessary for the formulation of strategies and policies of an organization. It not only reduces expenses but can also streamline the entire process, resulting in increased profits (Malowa, 2021). The absence of it can bring chaos to the system. Again, financial control is to provide an overall guiding framework for a sound and efficient management resource in all institutions. The aim of having a strong system of financial control is to promote the institutions' ability to reach its objectives, providing reliable financial data, safeguarding assets and records, evaluating operational efficiency through the budget, organizational control and encouraging adherence to prescribed policies and regulations (Nkuah et al., 2013). Financial controls are a key element of organizational success and survival. There are three basic financial reports that all managers need to understand and interpret to manage their businesses successfully: (1) the balance sheet, (2) the income/profit and loss (P&L) statement, and (3) the cash flow statement. These three reports are often referred to collectively as "the financials." Hence control of the financial decisions and transactions of the public institutions related to the revenue, expenditure, assets and liabilities concerning their compliance with the budget, budget item, available applicable amount, expenditure programmed, financing program of the administration, to central government budget law and other financial legislation provisions and in terms of the utilization of the resources in an effective, economic and efficient manner (Nkuah et al., 2013).

Objectives of Financial Control Mechanism

An organization must prepare a financial controls checklist to minimize the risks, avoid future consequences, and ensure profitability. Its main objectives are –

- i) Boost productivity and profitability by streamlining processes across all areas and departments.
- ii) Conduct frequent audits and report accurate financial data to guarantee the balance sheet, cash flow statement, are all free of errors.
- iii) Direct, allocate, manage, and employ financial resources per needs, resulting in increased performance and productivity.
- iv) Improve operational efficiency by evaluating financial data, distributing resources more efficiently, and controlling cash flow.
- v) Maintain financial accountability and communication at all levels, ensuring all stakeholders comply with fiduciary responsibility, corporate governance, and due diligence obligations.
- vi) Meet production targets, cut costs, and prevent invoice fraud through on-budget, on-target expenditure (Gaba et al., 2009).

Types of Financial Control Mechanism

- **Immediate (Directional) Financial Control**

It involves taking quick actions in response to discrepancies in financial reports, which if ignored can result in significant losses or undermine an organization's goals and operations.

- **Selective Financial Control**

It concentrates on particular aspects of an organization, such as management and production. It evaluates how a process operates, how it adheres to guidelines, and whether it contains flaws or margins of error. Then it employs all available metrics or makes amendments to improve performance by maximizing resource utilization.

- **Postdate Financial Control**

It usually takes place after operations have occurred and identify flaws in current policies and regulations. A corporation evaluates its existing strategy and performance compared to its anticipated objectives and then makes necessary changes or improvements based on the existing outcomes.

Aside from these, the balance sheet, cash flow statement, and income (profit and loss) statement assist organizations in evaluating their operations concerning their objectives –

- **Balance Sheet**

It provides information about the financial success and position of the organization against expectations at a particular point in time. It has two components – assets and liabilities.

- **Cash Flow Statement**

It shows the total cash available for a business, i.e., cash received minus cash expended every month of a fiscal year. Negative cash flow necessitates a re-evaluation of corporate strategies.

- **Income (Profit and Loss) Statement**

It depicts the relationship between business income and expenses over time. It consists of revenue, sales cost, gross profit, operating costs, and net income (Gaba et al., 2009).

Budgeting

Budgets are important tools for financial planning. Every organization needs to make basic decisions about how it will allocate its resources. An explicit planning is required for setting goals, determining resource allocation patterns, and deciding what program services will be provided. In wake of these requirements, a budget is required to be prepared. A Budget can be defined as a "comprehensive and coordinated plan, expressed in financial terms, for the operations and resources of an enterprise for

some specified period in future.” Budgeting, as a tool of planning, is closely related to the broader system of planning in an organization.

Types of Budgets

a) On the basis of Functionality

i) Master Budgets

An institution’s Master Budget projects the overall financial and operating plan for the forthcoming fiscal period. It is generally prepared annually. It is very comprehensive in nature as it includes all possible sources of income and expenditures. It is the end-product of all the budgeting process and is generally prepared after all different Departmental Budgets have been prepared.

ii) Departmental Budgets

Budgets of different departments must be prepared by their respective Departmental Heads.

b) On the basis of Flexibility

i) Fixed Rigid Budgets

A Fixed Budget is prepared for a fixed level of anticipated operation. According to CIMA “a budget which is designed to remain unchanged irrespective of the level of activity actually attained is a fixed budget”. It is based on the assumption that an institution can accurately and precisely forecast the level of its operation in a specified period of time.

ii) Flexible Budgets

These are also known as Variable or Sliding or Dynamic Budgets. It is geared towards reflecting different levels of operation and activities. The merit of flexible budgets is that instead of one estimate it contains several estimates or plans in different conditions or situations. It works on the assumption that since the future is unpredictable, therefore operations of an institution cannot be predicted with absolute certainty.

Costing

According to the Chartered Institute of Management Accountant (CIMA), Costing is the technique and process of ascertaining costs. It lays down basic principles to be followed for ascertaining the cost of products, jobs, processes and services. The process of costing is very dynamic and keeps on changing from time to time and from industry to industry. The application of techniques helps the accountant and management in deciding how to reduce and control various costs. The resources may be tangible (eg. material, equipment, transport, etc.) or intangible (eg. wages, salaries, rent, electricity charges, etc.). The cost may be a fixed amount for a lease period or duration (eg. rent of the building) or variable (eg. stationary, electricity, petrol, etc) (Gaba et al., 2009).

Classification of Cost

a) On the Basis of Variability

i) Fixed Costs

Costs which do not change with the increase or decrease in the level of operation are Fixed Costs.

ii) Variable Costs

There are costs like electricity charges, stationary expenses, etc. in an institution which can vary if the productions are increased by the producers. These are variable costs. These costs vary directly in proportion to the change in the level of activity. If the level of operation increases, these costs increase and if the level of operation decreases the costs also decrease proportionately.

iii) Semi-Variable Costs

These are also known as mixed costs. These costs increase with the increase in operation but not as proportionately and decrease with the decrease in operation but less than proportionately. Practically, majority of costs belong to this category.

iv) Step Costs

These are the costs which remain fixed till a certain point of operation. As soon as the level of operation exceeds this point, it leads to increase in cost. Then the costs remain fixed for a certain level of operation and if we keep on increasing the level of operation, again the costs will increase (Gaba et al., 2009).

b) On the Basis of Controllability

i) Controllable Costs

Costs which can be controlled or manipulated by the management are controllable costs.

ii) Non-controllable Costs

Non-controllable costs are those costs whose size cannot be influenced significantly by the management or any authority.

c) On the Basis of Relevance

Costs can be classified into relevant and irrelevant costs with reference to decision-making. The cost which is influenced by a decision is a relevant cost and hence important for decision-making. The cost which is not influenced by decision-making

is irrelevant. Generally, in school teachers for all compulsory subjects have been appointed on a regular or full-time basis while music, arts and crafts and others hobby courses teachers as part-time or visiting teachers. Here the terminology relevant and irrelevant is in the context of decision making by management (Gaba et al., 2009).

d) On the Basis of Normality

The costs can be normal costs or abnormal costs. All costs which can be planned or budgeted are normal costs. All the unanticipated costs, which cannot be foreseen or budgeted are termed as abnormal costs. Examples: Normal- Housekeeping facility charges regularly. Abnormal: Damage to the institutional building by some calamities and the cost for repair is abnormal.

e) Other Costs

i) Opportunity Cost

Opportunity Cost represents the benefits foregone by not choosing the second-best alternative in favour of the best one. The benefit that would have accrued if the second option was followed would be the opportunity cost for the alternative selected.

ii) Out of Pocket Cost

Costs incurred or to be incurred in terms of outflow of cash due to a particular decision is an out-of-pocket cost. In a situation where the funds or resources are limited, such costs become very pertinent in the decision-making process.

iii) Sunk Cost

Investment of cash resources in the past decision-making are sunk costs. These cannot be changed in the future. Since sunk costs are the results of past commitments, they should be ignored for the purpose of decision-making.

iv) Replacement Cost

The cost of replacing a piece of existing machinery or equipment with an identical one is the replacement cost. It includes the cost price plus the transportation cost or any other installation cost.

v) Differential Cost / Incremental Cost

This is the most important cost in the decision-making process. Differential cost is the additional cost which will be incurred if the principal or management chooses one alternative in place of another.

Budgetary Control

Budgetary Control is a system of management and accounting control by which all operations- revenues and expenditures are forecasted as far ahead as possible and the actual results when known are compared with the budget estimates. This implies after the stipulated period, for which budgets were drawn, is over, the actual results are compared to the estimates and the variance is calculated. Also, the reasons for deviations are looked into. Therefore, the use of budget and the budgetary process for planning, coordination and control is known as budgetary control (Gaba et al., 2009).

Importance of Financial Control Mechanism

Any organization, irrespective of its size, operates under a set of principles, guidelines, and measures. There are many reasons why internal financial controls are a crucial part of strategic organizational planning –

- Encourage employees to communicate with one another and motivate them to adhere to the company policies for overall process improvement.
- Examine budgets, balance sheets, and financial statements for irregularities and take corrective measures.
- Improve the efficiency, profitability, and security of the business operations against fraud and theft.
- Manage financial resources, which are critical for other resources needed for the successful operation of the business.
- Monitor and measure total cash inflow and outflow, resulting in the process efficiency.

Rationale of the study

The financial control mechanism is an important aspect of any organization and it is most vital to the head of the institution to handle cautiously all the financial sides to conduct the organization smoothly, so the study is extremely needed to know the financial management and the controlling of fund allocation of the school.

Objectives of the study

The main objective of this case study is to -

1. Know the financial strength of the school.
2. Find out the financial control mechanism of the school.

Methodology of the study

The study was conducted through the purposive sampling technique, Satyanarayanpur SB High School (H.S) was selected purposively and the relevant data were collected from the Head of the institution and from the school audit files, and after the collection of the data, they are analysed mathematically to fulfil the objectives of the study.

Delimitation of the study

The study has some delimitations- due to the school closure for the ongoing summer vacation the case study was conducted only in this particular secondary school in the Sundarban region, South 24 Pgs., W.B., and this was selected conveniently. Due to the shortage of time, only the data of assets and liabilities for one financial year (2023-2024) was collected and analyzed for the study.

Analysis of the study

West Bengal Board of Secondary Education West Bengal Board of Secondary Education was established under the West Bengal Secondary Education Act, 1963 and which was amended from time to time. The Board is a State-administered autonomous body having the power to advise the State Government on all matters relating to Secondary Education to lay down the general policy for the development of Secondary Education in the state. The Board is headed by the President. The major activities of the Board are undertaken through many statutory committees:

- Executive Committee
- Examination Committee
- Finance Committee
- Recognition Committee
- Syllabus Committee
- Appeal Committee
- Two other committees, one dealing with the affairs of disciplinary matters of teaching/non-teaching staff of the aided schools and the other dealing with the prayers for correction of records.

Types of schools under WBBSE

- i) There are very few State Government-run Secondary schools in West Bengal.
- ii) Most of the schools under WBBSE are non-Government but are aided schools. Even some of the Anglo-Indian schools come under this category. The salary of the teachers of these schools including the post-retirement benefits is borne by the State Government.
- iii) There are few schools which charge tuition fees from the students. These schools are not provided with the salary component by the Government. The schools generate the salary by charging the fees. They get aid in the form of Dearness Allowance (DA) from the government.
- iv) Some schools do not take any support from the State Government. They support themselves by generating funds by charging tuition fees.
- v) The other types of school are known as the Government Sponsored schools which have a distinguishing feature related to the management structure of the school. These schools are run by a management which is partly nominated and partly elected. Ashram-type residential schools for the boys and girls of the SC/ST communities fall under this category.

Fund Flow

Department of School Education Government of West Bengal

- Government Schools
- DA Aided Schools
- Government-Sponsored Schools

Satyanarayanpur S B High School (H.S)

Satyanarayanpur S B High School (H.S) was established in 1950 and it is managed by the Department of Education. It is located in a Rural area. It is located in Goshaba block of South Twenty-Four Parganas district of West Bengal. The school consists of Grades from 5 to 12. The school is Co-educational and it doesn't have an attached pre-primary section. The school has a hostel facility for both students and the teachers and is not using a school building as a shift school. Bengali is the medium of instruction in this school. This school is approachable by an all-weather road. This school academic session starts in January. The school has a government building. It has got 14 classrooms for instructional purposes. Some of the classrooms are not in good condition. It has 2 other rooms for non-teaching activities. The school has a separate room for the headmaster. The school has a Partial boundary wall. The school does have an electric connection. The source of Drinking Water in the school is underground Pumps and it is functional. The school has 2 boys' toilets and it is functional. and 2 girls' toilets and it is functional. The school has a playground. The school has a library and has 600 books in its library. The school does not need a ramp for disabled children to access classrooms. The school has some computers for teaching and learning purposes The school is not having a computer-aided learning lab. The school is Provided and Prepared on School Premises providing mid-day meals.

Generally, the financial grants that are provided to the schools are normally- i) Matching grant, ii) Class-wise grant, iii) Deficit grant, iv) Miscellaneous grant.

ASSETS/ FUND FOR THE FINANCIAL YEAR 2023-2024

| PARTICULARS | AMOUNT |
|---|-------------------|
| M.P LAD Grant | Nil |
| M.L.A LAD Grant | 500000 |
| SSA/RMSA | 200000 |
| Special B.D.O Grant | 50000 |
| Library Grant | Nil |
| Composite Grant | 100000 |
| Hostel Grant | Nil |
| Admission Fees | 638700 |
| Earnings from Lease | 32000 |
| Local Donation | 71000 |
| BCW Grant and Sports quota | Nil |
| Bank interest on Deposits | 9428.84 |
| Balanced Fund | 235721 |
| Sell off old books and khatas and other materials | 12300 |
| TOTAL | 1849149.84 |

COST FOR THE FINANCIAL YEAR 2023-2024

| PARTICULARS | AMOUNT |
|--|---------------|
| Salary of part time & non-teaching staff | 168000 |
| Building Construction | 842247 |
| Upkeep of rooms and lawns | Nil |
| Repairs and maintenance | 132251 |
| Stationary | 2312 |
| Postage | Nil |
| Other supplies | Nil |
| Telephone expenses | Nil |
| Insurance | Nil |
| Furniture | 312755 |
| Different Departmental expenses | Nil |
| Electricity | 12750 |
| Equipment | Nil |
| Rent paid | Nil |
| Travelling Allowance | Nil |
| Local travel | Nil |
| Sports | 21742 |
| Any special event expenses | 7540 |
| Laboratory Expenses | 1200 |

| | |
|--|----------------|
| Library | 32312 |
| Periodicals, Journals, etc | Nil |
| Teaching Material bought | Nil |
| Excursions or field trips etc | Nil |
| Seminars or work-shops/ Cultural programme | 5200 |
| Faculty Enrichment Programme | Nil |
| Any additional new activity conducted during the period. | Nil |
| Saraswati Puja & faste | 44100 |
| Cost of up-gradation of equipment | Nil |
| Miscellaneous | 7312 |
| TOTAL | 1589721 |

BALANCE SHEET

Asserts and Expenditures
 (As on 31st March 2024)

| ASSETS | LIABILITIES | BALANCE |
|---|--|-------------------------|
| Grand Total of all Asserts from all sources- 1849149.84 | Grand Total of all Expenses- 1589721 | 259428.84 |
| | | Cash in Bank- 236217.84 |
| | | Cash in Hand- 23211 |
| TOTAL BALANCE - | | 259428.84 |

Recommendations

Though the situation is going to be neo-normal after overcoming the pandemic post-Covid effect and the most severely affected victims are the secondary educational institutions, after the completion of the study some recommendations are suggested –

- The Head of the institution would be more cautious about the financial allocation.
- The major portion of the amount is used for the salary of the part-time and non-teaching staff and that must be reduced.
- More funds would be used for the development of laboratory and library purposes.
- More funds must be used for the supervision of separate toilets for the boys and girls.
- Government must allot necessary funds for the school development.

Significance of the Study

The study is very significant as it will help a lot to the policy planners and scholars, educationists and the government officers to know the practical scenario of the secondary schools and how the head of the institutions are utilizing the funds for conducting the organizations and of course, further research and a broader study is needed in this area with more samples.

Conclusion

Therefore, at the ending of the study, it can be concluded that financial control is an important mechanism for the overall development of the institution and this vital task can only be performed by the Head of the institution who must have the ability to understand the practical scenario and the need of the hour. In some cases, it is found that some external obstacles become prominent and the Head of the institution becomes under pressure. So as an efficient individual the Head of the institution must have to play the role of a manager by coordinating and controlling the financial fund allocation and by using it properly, realizing the necessity for the fundamental development of the school. So financial control mechanism is an important tool and the Head of the institution must have the efficiency to nurture it to move the school a step ahead for its sustainability.

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