



**Gauteng Province:
Department of Education:
Financial Management and Reporting
Guidelines for Public Schools
2020**

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1. Introduction

Regardless the SGB trainings on financial management that the Gauteng Department of Education offers from time to time, cases on school financial mismanagement is still evident in public schools .

Such cases in many schools are not abated. In terms of Section 42(3) of SASA, 1996 it is statutory requirement that the MEC determines Annual Financial Statement guidelines for public schools. In addition financial statement could not be separated from the records of day today expenditures which mandatory should align with the approved budget of the school and be in accordance with prescripts by the MEC as stipulated in section 38(1) of the Act, thus budget, recording and reporting processes should form part of the guidelines.

The Gauteng Department of Education, other users of the public school's financial statements, who have interest on the performance of a school and its financial records are identified as active users of the Annual Financial Statements prepared in terms of these guidelines. These guidelines are appropriate for general purpose financial statements. General purpose financial statements are directed towards meeting the common information needs of a wide range of users

As a measure the Gauteng Department of Education takes a strand to promote effective, efficient way of financial management in public schools by developing financial management guidelines. The guidelines aims to rationalize financial management processes to make the implementation of the delegated functions be more predictable and presumably of high accountability.

The scope of the guidelines is produced to support implementation of effective financial management by SGB in public schools. It reviews the measures to prevent, deter and eliminate mismanagement of school finances.

2. Purpose of the Guideline and Objectives

The purpose of this guidelines is to promote and support for an accountable and transparent system of financial management and reporting practices in public schools for effective operational governance

The objectives of this guidelines are to:

- a) provide and explore key responsibilities and role functions of the SGB and the principal in financial management and reporting;
- b) provide control mechanism for effective monitoring;
- c) guide in budgeting procedures, income, assets and expenditure control;
- d) provide appropriate Procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective; and
- e) provide guidance on audit reporting process and drawing annual financial statements.

3. Legislative prescripts, regulatory framework and references

- a) The Constitution of the Republic of South Africa, 1996 (Act 108 of 1996), as amended
- b) The South African Schools Act (SASA), 1996 (Act No. 84 of 1996), as amended
- c) The Gauteng Schools Education Act, 1995 (Act No 6 of 1995) as amended
- d) The Employment of Educators Act, 1998 (Act No. 76 of 1998), as amended
- e) Public Service Act, 1994 (Proclamation 103, Published in GG15791 of 3 June 1994)
- f) GDE Circular 25/2008

4. Key role players and their roles and responsibilities in terms of Financial Management as per SASA

4.1 School Governing Body (SGB)

The School Governing Body is responsible for the governance of a public school and the Principal is responsible for professional management of the school. The School Governing Body may obtain assistance of the Principal and other members of the school staff for the day to day administration and organisation of the school however the overall responsibilities for controlling schools money and property still remains with the School Governing Body in terms of the Schools Act.

4.1.1 What the SGB must do in terms of SASA

- a) Take all reasonable measures within its means to supplement the resources supplied by the State to improve the quality of education provided by the school to all learners at the school. SASA 36 (1).
- b) Establish a school fund and Administer it in accordance with directions issued by the Head of Department. SASA.37(1).
- c) Ensure that all money received by a public school including school fees and voluntary contributions must be paid into the school fund. SASA. 37(2)
- d) Open and maintain one banking account. SASA.37(3)
- e) Ensure that money or other goods donated or bequeathed to or received in trust by a public school must be applied in accordance with the conditions of such donation, bequest or trust. SASA.37(4)
- f) Ensure that the school fund, all proceeds thereof and any other assets of the public school must be used only for educational purposes for the school or another school as agreed with such other school and the Department of Education or the performance of the functions of the governing body. SASA. 37(6).

- g) Prepare a budget each year according to prescriptions determined by the Member of the Executive Council in a Provincial Gazette, which shows the estimated income and expenditure of the school for the following financial year. SASA. 38(1)
- h) Keep records of funds received and spent by the public school and of its assets, liabilities, and financial transactions. SASA. 42(a).
- i) As soon as practicable, but not later than three months after the end of each financial year, draw up annual financial statements in accordance with the guidelines determined by the Member of the Executive Council. SASA.42(b).
- j) Submit to the Head of Department, within six months after the end of each financial year, a copy of the annual financial statements, audited or examined. SASA.43(5)
- k) Appoint a person registered as an auditor in terms of the Auditing Profession Act, 2005 (Act No. 26 of 2005), to audit the records and financial statements of a school. SASA.43(1)
 - (i) if the audit referred to in subsection (1) **is not reasonably practicable**, the governing body of a public school must appoint a person to examine and report on the records and financial statements referred to in section 42, who—
 - aa) is qualified to perform the duties of an accounting officer in terms of section 60 of the Close Corporations Act, 1984 (Act No. 69 of 1984); or
 - bb) is approved by the Member of the Executive Council for this purpose.

4.1.2 What the SGB cannot do in terms of SASA

- a) Allow for a member of the governing body to be remunerated in any way for the performance of his or her duties. SASA. 27(2) However necessary expenses incurred by a member of a governing body in the performance of his or her duties may be reimbursed by the governing body. SASA. 27(1).
- b) Enter into any loan or overdraft agreement to supplement the school fund, without the written approval of the Member of the Executive Council. SASA.36(2)
- c) Invest surplus money in another account without the approval of the MEC. SASA.37(3)
- d) Allow Money from the school fund of a public school to be paid into a trust or be used to establish a trust. (SASA.37(7)(a)
- e) Pay or give to a state employee remuneration, other financial benefit and benefit in kind without the prior approval of the employer. SASA.38A (1).
 - (i) However, the governing body may pay travel and subsistence expenses relating to official school activities but such expenses may not be greater than those that would be payable to a public servant in similar circumstances. SASA.38A (5)
 - (ii) If a governing body pays remuneration or gives any financial benefit or benefit in kind contemplated in subsection (1) to an employee without prior approval of the employer, the amount of money paid or benefit

- given must be recovered by the employer on behalf of the school from members of the governing body who took that decision. SASA. 38A (9)
- (iii) Appoint a person who has a financial interest in the affairs of the public school to audit or examine the financial statements of the school
- f) In terms of Section 30 of SASA, the SGB may establish committees such as an executive committee, Finance Committee, fundraising committee, etc., depending on the needs of the school.

4.2 Principal

The principal is responsible for the day-to-day administration and organisation of teaching and learning at the school and the performance of the departmental responsibilities that are prescribed by all relevant legislation. In terms of Section 16(3) of SASA, the professional management of a public school is the responsibility of the principal as delegated by the Head of Department.

4.2.1 Role of the principal relating to finance management (SASA.16A)

- a) Assist the governing body with the management of the school's funds, which assistance must include:
 - (i) the provision of information relating to any conditions imposed or directions issued by the Minister, the Member of the Executive Council or the Head of Department in respect of all financial matters of the school contemplated in Chapter 4 of SASA;
 - (ii) the giving of advice to the governing body on the financial implications of decisions relating to the financial matters of the school;
- b) Take all reasonable steps to prevent any financial maladministration or mismanagement by any staff member or by the governing body of the school
- c) Be a member of a finance committee or delegation of the governing body to manage any matter that has financial implications for the school;
- d) Report any maladministration or mismanagement of financial matters to the governing body of the school and to the Head of Department.

4.3 Finance Committee

- a) A Finance Committee should be established in terms of Section 30 of SASA be composed as follows:
 - (i) Treasurer (Chairperson - who must be a member of the SGB);
 - (ii) Principal;
 - (iii) SGB Chairperson;
 - (iv) Finance Officer; and
 - (v) Co-opted finance expert (Where applicable).

- b) The possible duties of the Finance Committee will be the following:
 - (i) Support the treasurer in administering his duties;
 - (ii) Develop a finance policy and implement it;
 - (iii) Draw up the budget each year;
 - (iv) Ensure that all procurement is done through prescribed Preferential Procurement Regulation, 2017;
 - (v) Advise on fundraising;
 - (vi) Advise on ways to invest surplus money;
 - (vii) Advise the SGB on amount of school fees to be charged;
 - (viii) Advise the SGB on exemptions from school fees;
 - (ix) Assist the financial officer in drawing up annual financial statements; and
 - (x) Suggest who should be appointed as auditor.

- c) The Finance Committee may not take final decisions on any financial aspect. This is the sole prerogative of the SGB. The SGB must develop a term of reference that will guide the work of the finance committee; however, feedback from the SGB to the Finance Committee and backwards is critical for the effective management of the school's finance.

- d) The chairperson of FinCom shall be a member of the SGB. The deputy chairperson is appointed by the committee members. It is the responsibility of the chairperson to facilitate the committee's functions and responsibilities during meetings, and to present all the financial reports to the SGB. The deputy chairperson shall stand in for the chairperson should the chairperson not be available for the meeting.

- e) The finance officer of the school shall be the Fincom secretary and shall be responsible for:
 - (i) Sending out meeting invites to the committee members
 - (ii) Drafting the agenda for approval by the chairperson
 - (iii) Recording and keeping of minutes of meetings
 - (iv) Following up on action plans from the previous meeting with the committee members and any other person involved
 - (v) Circulating the agenda, minutes of previous meeting and any other relevant documents to the members two weeks before the meeting
 - (vi) Ensuring that all the logistical arrangements are made before the meeting e.g. booking meeting room, getting the recorder ready, printing out the attendance register etc.

- f) Committee's expectations of its members in achieving the objectives include:
- (i) Proactive contribution;
 - (ii) Compliance with the SASA in terms of their roles;
 - (iii) Regular active and constructive participation in meetings;
 - (iv) Specific and general proactive feedback on issues and developments that affect the financial management of the school;
 - (v) Respect and commitment to support the reputation of the school; and
 - (vi) Discretion in the observance of confidentiality

4.3.1 Meeting procedures:

- (i) The Finance committee should meet at least once a month to monitor the income and expenses of the school and quarterly with the SGB to present the financial records of the school. The number of meetings may be changed at the decision of the chairperson, or by agreement of the committee members.
- (ii) Members are expected to attend and contribute to all meetings, in person or by means of teleconferencing facilities if available.
- (iii) The Chairperson monitors attendance to meetings and, after discussion with the committee, responds as deemed appropriate to situations of poor attendance or contribution on the part of any member.
- (iv) Unless otherwise agreed or waived by all members of the committee, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be made available to each member of the committee and any other person required to attend, no later than 5 (five) business days before the date of the meeting. Supporting papers shall be sent to committee members, and to other attendees as appropriate, at the same time.
- (v) All Fincom recommendations shall be presented to the SGB for approval
- (vi) A **Fincom** meeting is quorate when the Treasurer, principal, finance officer and the SGB chairperson are present. The invitees shall not form part of the quorum. The chairperson has the authority to decide when a vote is required. Should voting be required each member will have one vote. Votes will be passed by most members present.
- (vii) Full minutes of the committee's meetings shall be recorded and kept by the committee secretary and such minutes shall be available for inspection at any reasonable time on prior reasonable notice by a SGB member.
- (viii) Minutes of committee meetings shall be circulated promptly to all members of the committee and, once agreed, to all other members of the SGB, unless a conflict of interest exists.

4.3.2 Conflict of interest and confidentiality

- a) In the case where a member becomes aware of any conflict of interest or any perceived conflict of interest, such a member is required to declare that interest. If any member is uncertain on if they have a conflict of interest they should declare such uncertainty and the committee members present at the meeting can vote to decide if a conflict of interest is present. The member concerned may not vote on any decisions made regarding a matter that is the subject of a potential conflict of interest.
- b) All committee members and other authorised persons participate in an official capacity and are required to respect the confidentiality of the work of the committee.

4.3.3 Reporting to the SGB and annual self-review

- a) The Chairperson shall report to the SGB at regular intervals on matters that the committee has reviewed, making recommendations when requested or when s/he considers it appropriate.
- b) The committee will report to the SGB on its work in discharging its responsibilities during the year and the outcome of its formal annual review.
- c) The committee shall at least annually review its own performance, composition and terms of reference in the spirit of on-going improvement and achieving maximum levels of effectiveness.

4.4 School Treasurer

- a) At its first meeting the SGB must, from amongst its members, elect office-bearers, who must include at least a **chairperson**, a **treasurer** and a **secretary** (Section 29 of SASA and PAM 19 (2) of PG 5156/PG 5161).
- b) The Treasurer must be elected by the members of the SGB. It is recommended that the treasurer serves as the chairperson of the Finance Committee. Note that the treasurer, depending on the specific needs of the school, should preferably be a parent member of the SGB. Should this not be attainable, the treasurer should be a member of the SGB. If the expertise does not exist on the SGB, a person with financial expertise can be co-opted to assist with this role.
- c) The duties of the treasurer will at a minimum be the following:
 - i) Oversee all financial matters of the school as directed by the SGB which includes:
 - (aa) Serving as a member/chairperson of the Finance Committee

- (bb) Advise the SGB on financial matters (the SGB can co-opt an expert on financial matters to serve on the SGB in an advisory capacity - Section 23(6) of SASA and PAM 2(1) (g) of PG 5136).
 - (cc) Monitor on a monthly basis
 - i) that all funds received are deposited in the school account;
 - ii) all payments were duly authorised;
 - iii) all donations received, in cash or kind; and
 - iv) all petty cash transactions, including the reconciliation of petty cash.
 - dd) Provide a financial report to the SGB at a minimum on a quarterly basis. Monthly financial reporting is considered more effective and is a recommended practice, however, schools may not adapt resources and therefore must as a minimum provide financial reports to the SGB on a quarterly basis.
 - ee) Monitor actual income and expenditure against the approved budget
- d) The treasurer should not be the person responsible for handling money matters daily. This is the responsibility of the Finance Officer appointed by the SGB.

4.5 Finance Officer

The SGB could delegate the function of maintaining financial records of the school daily. The Treasurer, who is the responsible person for the school finances, may be too busy to attend to the school finances daily. The appointment of a Finance Officer may assist in this regard.

The Finance Officer may be an administrator (non-educator at the school) or an educator (teacher) or a parent or a co-opted member on the SGB.

The Finance Officer records all financial transactions and keeps the Principal, the Treasurer, and the Finance Committee fully informed of financial matters. This delegation of responsibility to the Finance Officer should be **made in writing** and should clearly indicate his/her duties and these duties should be reviewed on a regular basis. It is also recommended that these duties be included in the school's finance policy.

Examples of duties of the Finance Officer:

- a) Receipting of income;
- b) Maintaining the cash book (cash receipts and cash payments) of the school;
- c) Performing the monthly bank reconciliations;
- d) Ensuring the completion of monthly and quarterly reports;
- e) Monitoring the budget against actual income and expenses;
- f) Maintaining the various Registers;
- g) Compiling the annual financial statements; and
- h) Any other delegated and other related tasks required by the Finance Committee.

4.6 Other Financial Delegates

4.6.1 There may be other delegated (written) tasks. The ***segregation of duties*** (see 5.4(c) (below for details) in assigning these tasks is of the utmost importance.

- a) The person(s) who handle(s) all income and issues receipts;
- b) Petty Cash Officer;
- c) Inventory Controller(s);
- d) Person(s) responsible for maintaining the asset register(s);
- e) Procurement official(s);
- f) Person(s) issuing receipt books and controlling receipt books;
- g) Tuck shop coordinator(s);
- h) Tour co-ordinator(s); and
- (i) Person(s) who manage(s) the keys of the safe in which the cash and financial records are housed, where it is not only the school principal. (e.g. Finance Committee members)

4.6.2 These tasks must be delegated in writing. Duties should be clearly spelt out and reviewed on a regular basis.

5. Establishing Internal Controls

To avoid errors and prevent fraud and corruption the Governing Body should establish internal control.

5.1 What is fraud?

- a) Fraud can be defined as the intention to commit an illegal or irregular act or to attain a goal which is not in harmony with the law, public policy or the policy of the school.
- b) Fraudulent acts include the following:
 - i) Maladministration or financial misconduct in handling or reporting money, transactions or assets
 - ii) Irregular behaviour in the allocation of funds
 - iii) Disclosing confidential information
 - iv) Manipulative conduct in awarding contracts
 - v) Invoicing for work not done
 - vi) Theft of funds
 - vii) Personal use of assets, e.g. equipment of the school
 - viii) Abuse of internet services of the school
 - ix) Deliberately refusing to report or act upon dishonest or suspicious conduct
 - x) Non- completion of leave forms and non-submission of leave forms

5.2 What is corruption?

- a) Any person who directly or indirectly accepts or gives any gratification from or to any other person, whether for the benefit of himself or herself or for the benefit of another person in an illegal, dishonest or unauthorised manner.
- b) Common forms of corruption are as follows:
 - (i) Performing favours for friends or relatives
 - (ii) Avoiding compliance with protocols
 - (iii) Manipulation of the outcome of procurement processes
 - (iv) Exercising preferential treatment in awarding contracts
- c) Rewards for corruption include the following:
 - (i) Kickbacks, e.g. cash
 - (ii) Employment offers for family and friends, e.g. nepotism
 - (iii) Funding of personal expenses
 - (iv) Granting sexual favours
 - (v) Gifts of any kind, special treatment or favours
- d) Examples of corrupt schemes include the following:
 - (i) Fictitious invoicing

- (ii) Over-billing
 - (iii) Slush funds
 - (iv) Rigging of procurement processes
 - (v) Manipulation of specifications
 - (vi) Tampering with documents
- e) Warning signs (red flags) of procurement fraud:
- (i) Close relationships with service providers or suppliers
 - (ii) The buyer does not shop around for prices - sole suppliers
 - (iii) High cost inventory
 - (iv) Lines of authority or responsibility unclear or circumvented
 - (v) Proper authorization procedures not followed
 - (vi) Inadequate record-keeping and documentation
 - (vii) Lack of segregation of duties
 - (viii) No reconciliation checks conducted or instruction for it not given
 - (ix) Operating outside the approved budget
 - (x) Too much trust in key employees
 - (xi) Management overriding controls
 - (xii) Lack of attention to detail

5.3 Internal control mechanisms to prevent errors, fraud and corruption

- a) Internal control is a process effected by the SGB, principals and other personnel, and designed to provide reasonable assurance regarding the achievement of objectives in the following three categories:
- (i) Economy, efficiency and effectiveness of operations
 - (ii) Internal financial control
 - (iii) Compliance with applicable laws and regulations
- b) To reduce the inherent risk of fraud within a school's procurement and payments processes, it is imperative that comprehensive internal controls are put in place.
- c) Internal control actions can be categorized as follows:
- (i) Preventative
 - (ii) Detective
 - (iii) Corrective

5.4 Preventative controls (Characteristics of Good Internal Control)

- a) Control environment:
 - (i) The SGB members and principal should by their actions and behaviour, promote an environment in which adherence to controls is regarded as very important.
 - (ii) If SGB members and principals set a bad example, ignoring controls and generally projecting a slack attitude, employees will soon adopt the same attitude.
- b) Competent, trustworthy personnel:
 - (i) Personnel involved in the internal control system must be competent to fulfil their functions honestly and be reliable.
 - (ii) This can only be achieved through the implementation of proper recruitment, and proper personnel- and training policies.
- c) Segregation of duties:
 - (i) Segregation of duties reduces the risk of intentional manipulation or error and increases the checking element.
 - (ii) Functions that should be separated:
 - aa) Preparing and authorization (supporting documentation)
 - bb) Execution (preparing the cheques requisition and cheque)
 - cc) Custody (signing the cheques)
 - dd) Recording (cash books).
 - (iii) In a perfect situation all four functions would be segregated, but, owing to cost constraints and lack of staff, it is not always possible.
 - (iv) The most important division is between custody and recording, which must always be segregated.
 - (v) The rotation of staff and/or duties also contributes to the segregation of duties.
- d) Isolation of responsibilities:
 - (i) The people involved at the school must be fully aware of their responsibilities and must be accountable for their performance.
 - (ii) All transactions require authorisation or approval from the responsible person(s).
 - (iii) When a document is signed, it isolates a transfer of responsibility from one person to another (limitations on delegations of authority).
- e) Access/custody controls:
 - (i) Establishing procedures and security measures ensuring limited access to assets
 - (ii) Proper storage and treatment of assets to prevent damage and deterioration of assets
- f) Source document design
 - (i) Properly designed documents to assist in achieving good internal control, particularly financial control. Documents should:

- aa) be in a pre-printed format, with a minimum amount of information to be filled in;
- bb) be pre-numbered; and
- cc) have blank blocks or grids for authorising or approving.

5.5 Detective controls

- a) Should be done on a regular basis by SGB to detect any irregularities, by doing the following:
 - (i) Checking that transactions are completely and correctly recorded, and accurately processed
 - (ii) Checking the arithmetic accuracy of records, e.g. reconciliations, account balances, documents
 - (iii) Supervision by responsible officials of day-to-day transactions and the recording thereof
 - (iv) Review of the management of accounts and budgetary control
 - (v) Regular storing (backing-up) of computerized records on disks to ensure that a change, after monitoring, is picked up later
 - (vi) Inventory (books, classrooms, etc.) cycle counts
 - (vii) Counter-checking
 - (viii) Monitoring staff behaviour
 - (xi) Surprise inspections and audits
 - (x) Transparency

5.6 Corrective Action

- a) Corrective action means the rectifying of a detected irregularity, for example: Principal organises a meeting between the SGB and the suspect. Try to obtain an acknowledgement of guilt.
 - (i) Get the suspect to make a statement to the police.
 - (ii) Relieve the suspect of his or her duties.
 - (iii) Contact your relevant district office to arrange an inspection.

6. Budgeting

The main reason for setting a budget is to forecast and plan for the school's expenditure for the year, having taken different factors such as income from school fees and activities and identifying the areas of the school that need improvement. The budget serves as the financial compass for such spending and will be used to identify areas where financial adjustments should be made to ensure that the funds are being spent in the best possible way.

It is also a statutory requirement for a school to have an approved budget in writing outlining all the spending patterns of the school that can be seen by the GDE at any time should they require it for any reason.

To be able to set up an adequate budget, schools should first set up a School Development Plan (SDP) which is a medium-term plan that covers the school's goals, activities and interests over a 3-year period. The SDP must be completed on the template as provided in GDE Circular 25/2008

The Schools Development Plan must be aligned to the term of the SGB; therefore, the development plan should be reviewed and developed every three years by the newly elected SGB during August and September.

In addition to the SDP, schools should have a Schools Improvement Plan (SIP) which is a short-term plan which is developed in response to the findings and recommendations made in the evaluation (Internal or External) reports.

This SIP must be reviewed and developed annually as it is aimed at effecting improvements in the school's areas of need as highlighted in the evaluation reports. The SIP must be completed on the template as provided in GDE Circular 25/2008.

6.1 Benefits of Budgeting

- a) A budget serves as a control measure to monitor current expenditure against projections.
- b) A budget can help you meet savings goals.
- c) Realistic budgets improve cash flows.
- d) A budget can help the entire staff focus on common goals.
- e) Contingencies can be built into the budget to prevent unexpected expenses.
- f) Regular budget monitoring reveals areas of over or under-expenditure.

The figure below indicates the flow of a typical budgeting process.

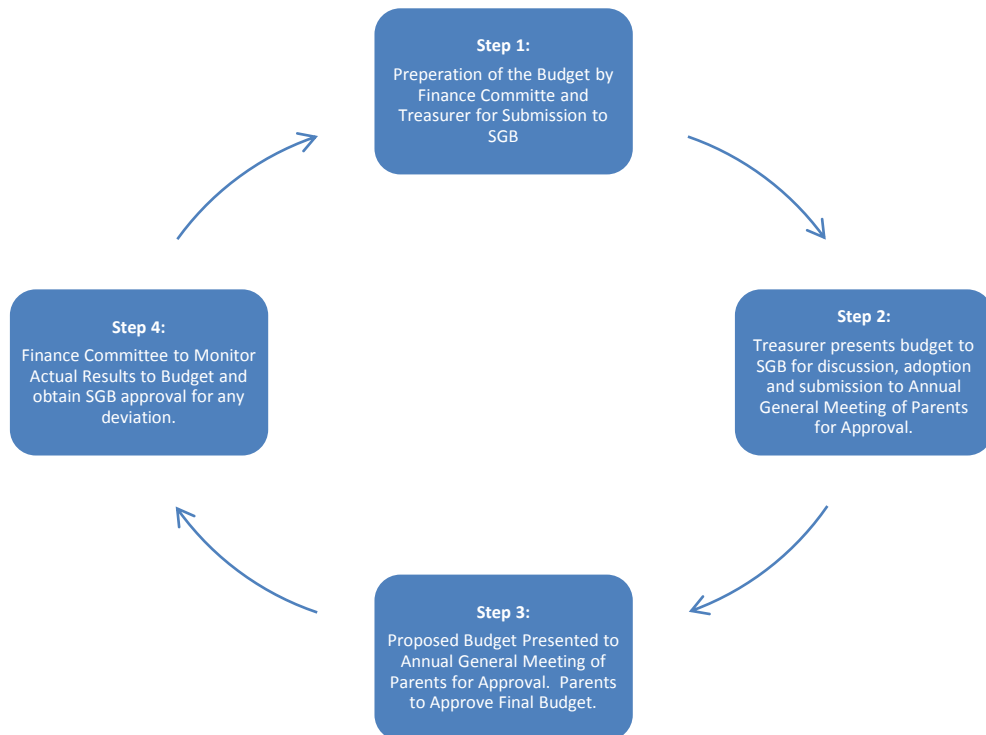


Figure 1: Budget Process (4 Step Approach)

6.1.1 Budgeting Procedures

6.1.1.1 Step 1 – Drafting the Budget

- a) The SDP and SIP must be used as the basis for the budget.
- b) The appointment of a person who must co-ordinate the preparation of the budget from the inputs of the different departments **must be minute** at a SGB meeting.
- c) The budget must show the following:
 - (i) A nil balance with neither a surplus nor a deficit (total income must equal total expenditure);
 - (ii) The actual income and expenditure of the previous financial year;
 - (iii) Projected income and expenditure for the full current financial year;
 - (iv) Estimated income and expenditure for the following year (the budget year);
 - (v) Percentage variance (%) between the actual expenses of the previous year and the projected expenses for the current year for each line item; and
 - (vi) Percentage variance (%) between the projected expenses for the current year and the budgeted expenses for each line item.

- b) The following items must be included as income and/or expenses:
 - (i) School fees
 - (ii) Gross school fees
 - (iii) Exemptions in respect of school fees
 - (iv) Bad debt in respect of school fees
- c) Other income
 - (i) State allocation for Safe Schools (if any)
 - (ii) State allocation for Norms and Standards (all schools)
 - (iii) State allocation for unscheduled maintenance
 - (iv) State allocation for municipal services
 - (v) State allocation for other expenses
- d) Other expenses
 - (i) Municipal services
 - (ii) Textbooks
 - (iii) Maintenance
 - (iv) Personnel expenditure: e.g. SGB appointments (Indicate number of appointments)
 - (v) Capital expenditure, e.g. equipment, building extensions
 - (vi) Telephone (internet)
- e) Schedules, with details of current figures in respect of the following items:
 - (i) Capital expenditure
 - (ii) Investments
 - (iii) Other assets
 - (iv) Liabilities
 - (v) Trusts - refer to Section 38 of SASA
- f) A separate budget for hostel income and expenses must be drafted in the same manner as the school's budget.

6.1.1.2 Step 2 – Adoption/Approval by SGB

- a) Approval by the SGB
 - (i) The treasurer of the SGB must evaluate the budget for completeness and accuracy and sign it as indication of approval.
 - (ii) The budget, together with the supporting documents and schedules, must be presented and explained to the SGB by the treasurer.

- (iii) The SGB must consider the budget and minute the adoption thereof before presenting it at the general meeting of parents for their approval.
 - (iv) A general meeting must be convened with parents for the presentation and approval of the budget.
- b) The general meeting of parents to approve the budget
- (i) A notice and agenda must be sent to the parents at least 30 days before the meeting, detailing the particulars and purpose of the meeting to be held.
 - (ii) The notice must contain the following:
 - (aa) Notification that the budget will be available for inspection at the school at least 14 days prior to the meeting;
 - (bb) A schedule for current and proposed school fees;
 - (cc) Notification that the criteria and procedures to be followed for fee exemptions may be obtained from the school;
 - (dd) An invitation, which contains the agenda of the meeting and invites parents to attend the meeting; and
 - (ee) An explanation that a resolution will be proposed at the meeting, to be approved by the majority of parents present and voting, to approve the budget and the proposed school fees, and that this decision will be binding on all parents.
- c) The budget meeting: requirements
- i) An attendance register must be kept.
 - ii) The minutes of the previous parent budget meeting must be read.
 - iii) The proceedings and the decisions taken at the meeting must be minute.
 - iv) The detailed budget, as described above, must be presented to the parents, e.g. PowerPoint presentation or overhead projector.
 - v) Approval of the budget requires that the majority of parent's present vote in favour of the budget.
- d) The following should be voted on individually:
- a) The amount of the fees to be charged per phase, e.g. Grade R, Foundation Phase, Intermediate Phase, Senior Phase or GETC or FETC; and
 - b) Equitable criteria and procedures for the total, partial or conditional exemption of parents who are unable to pay school fees, e.g. the exemption table should be reviewed annually, based on the new school fees structure proposed.

6.1.1.3 Step 3 – Approval by Annual General Meeting of Parents

- a) Approval of the budget
 - (i) Should the majority of parents not adopt the budget, the adjustments as proposed by the majority of parents present and voting, must be implemented by the SGB.
 - (ii) The SGB must ratify the budget as approved by the parents. The principal, treasurer and chairperson of the SGB must sign the budget.
- b) Implementation of the budget
 - (i) The SGB must ensure that full details regarding the school fees for the new financial year, with a notification that the criteria and procedures for exemption are available at the school, are published in the next parent newsletter.
 - (ii) A copy of the signed budget and minutes of the parents' budget meeting must be submitted to the relevant district office by no later than 1 December of each year.

6.1.1.4 Step 4 – Monitoring of Budget (Actual vs Budget = Variance)

- a) The Finance Committee manages the budget in consultation with the SGB.
- b) Deviations from the approved budget are subject to SGB approval.

7. Income/Receipts (Receipting, Depositing and Recording of all Income)

The figure below indicates the process of receipting income.

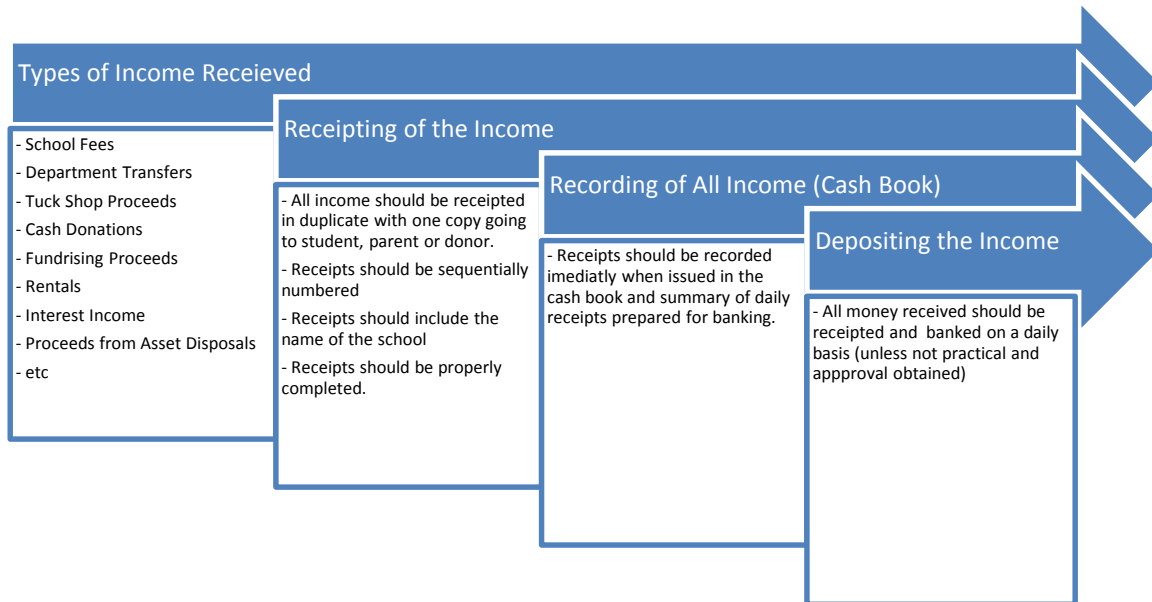


Figure 2: Process of Receipting Income

7.1 Types of income

7.1.1 Most schools of learning primarily generate income from the following sources:

- School fees
- Department transfers
- The proceeds of tuck shop sales
- Cash donations received
- Proceeds from asset disposals
- Fundraising proceeds
- Interest income from investments made
- Rentals

7.1.2 Formal acknowledgement, in the form of a receipt issued, must be made by the school for all income received.

7.1.3 Where electronic fund transfers (EFT) or direct deposits are made, it is not necessary to issue a receipt, since such income will be reflected and referenced on the school's bank statement, however it is considered good business to issue receipts for all funds received. The depositor also has the cancelled cheque, duplicate deposit slip or e-receipt as proof of payment.

7.2 Completion of a Receipt

7.2.1 Schools must ensure, when issuing receipts, that the following minimum requirements are met:

- a) All receipts must reflect the date.
- b) All receipts must reflect the name of the person or school from whom the money is received.
- c) The nature of the income must be reflected.
- d) The receipt must reflect the amount received in both words and figures.
- e) The receipt issued must be sequentially and uniquely numbered. (Receipts must be pre-numbered.)
- f) Receipt should differentiate between cheques or cash received.
- g) The duplicate receipt must reflect all the details as indicated on the original receipt.
- h) The name of the school must be stamped on the receipt if the receipt is not from a pre-printed receipt book.
- i) The receipt must reflect the signature of the person who issued the receipt.
- j) Should a receipt be incorrectly completed, such receipt must be cancelled and a new receipt issued.
- k) If a receipt is cancelled, the original must be attached to the duplicate, either via stapling or glue.
- l) Under no circumstances must information be altered, e.g. "tippex".

7.2.2 Notwithstanding the aforementioned procedure, income derived from minor fundraising events, e.g. Civvies days, Valentine's Days, Computer classes, etc, can be recorded on class lists by the class teacher. The Finance Officer then issues a covering receipt for the money reflected on the class list. The receipt must be attached to the class list and kept on file. The covering receipt must be referenced.

7.3 Recording of information in cash book

7.3.1 Once the income received is receipted, the nature of the income must be recorded in the Cash Book (Cash Receipts Book) and summarised for daily banking.

7.3.2 All direct deposits must also be reflected in the Cash Book (Cash Receipts Book). Should the school have an internet banking facility then the school would be able to capture direct deposits daily, however, as many school still receive bank statements by post this may only be practical on a monthly basis. All direct deposits must be recorded and reconciled on a monthly basis at least.

7.4 Receipt and management of income from donations

- 7.4.1 Where funds are donated from a will with special conditions, the funds must be deposited in the school account
- 7.4.2 An additional bank account may be opened to ensure that the funds are kept separately and that spending is in compliance with the conditions set out in the will.
- 7.4.3 No expenses must be paid from this account.
- 7.4.4 When expenses from the bequest funds are due, the necessary funds must be transferred from the bequest account to the main school account.
- 7.4.5 A separate ledger control account must also be opened for each bequest received.
- 7.4.6 A register must be maintained for all donations.

8. Bank and cash (Bank Accounts, Credit Facilities & Investments)

The figure below indicates the components of a banking process.

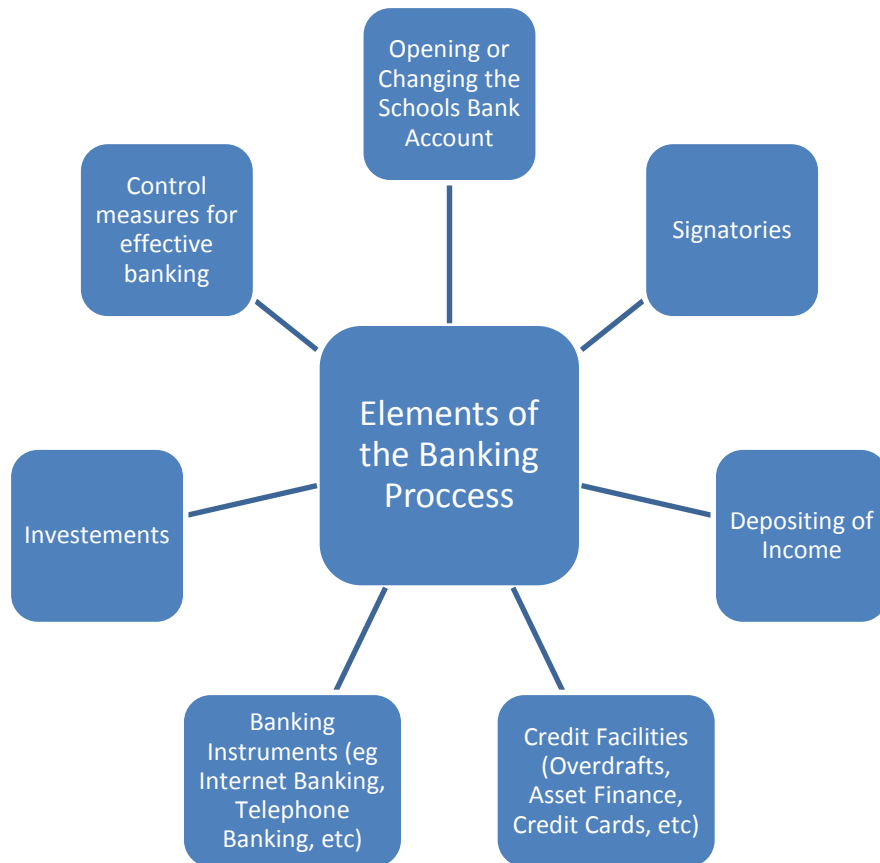


Figure 3: Components in the banking process

8.1 Factors to be considered before opening or changing a bank account

- a) The school must bank with a registered bank within the Republic of South Africa.
- b) The School can only open **one bank account**. Any additional accounts may only be opened subject to formal approval from the Member of the Executive Council (MEC) for Education. An application form must be filled in, together with the applicable information, and be sent directly to the relevant District Office.
- c) The bank account (cheque/current account recommended) must be opened in the name of the school.
- d) The banking school chosen must be decided on in a formal SGB meeting.

- e) All schools can receive better rates as they have Public Benefit Organisation (PBO) status.

8.2 Signatories

- 8.2.1 Once the SGB has made the decision to open a bank account, the signatories approved by the SGB must formally approach the bank chosen and complete the required mandates. Note that the SGB Constitution must be forwarded as part of the application to the relevant banking.
- 8.2.2 The minutes of the SGB meeting approving the authorised signatories must be attached to the application to the financial school.
- 8.2.3 A **minimum of three signatories** should be put in place, with the instruction that **any two** of the approved signatories may sign cheques. It is recommended that one of the signatories must be a management member (SMT) of the school, preferably the principal.

8.3 Depositing of income

- 8.3.1 In terms of the South African Schools Act, a school must operate a banking account. (Preferably a cheque/current account)
- 8.3.2 All money received by the school must be paid into this account.
- 8.3.3 Income can be deposited in a number of ways:
 - a) Via direct bank deposits, e.g. school fees paid directly into the school's account by a parent (recommended);
 - b) Via debit orders (Automated Clearing Bureau);
 - c) Via stop orders (recommended);
 - d) Via electronic fund transfers, e.g. Department allocations;
 - e) Via an Automated Teller Machine (ATM) [this practice is not recommended because of the inherent security risk and the time delay before the deposited funds become available]; or
 - f) Via over-the-counter deposits (recommended).
- 8.3.4 All income must be banked on a daily basis into the school's account. If this is not possible, the school must get written approval from the District Office concerned for other arrangements.

8.4 Completion of the deposit slip

- a) It is important that the deposit slip(s) is/are correctly completed when depositing income.
- b) With specific reference to the duplicate deposit slip as contained in the pre-printed deposit book provided by the banking school, the flip-side of the duplicate deposit slip must contain the following referencing:
 - (i) A breakdown of the nature of the income deposited with the respective amounts
 - (ii) The receipt series from which the deposited income was sourced

8.5 Safety and control measures with regards to depositing

- a) The person making the deposit should verify the deposit and sign the deposit slip.
- b) Do not establish a fixed banking procedure pattern, e.g. do not to the bank at the same time each day, or the same day in the week.
- c) Ensure segregation of duties when compiling the deposit, i.e. the person compiling the deposit should not be verifying the correctness thereof.

8.6 Cheques

- a) Use a non-erasable ballpoint pen and write clearly;
- b) Use the full names of the payee, spelling them correctly;
- c) Don't leave spaces between words. Draw a line through unused space;
- d) Write the amount in figures as close to the "R" as possible;
- e) Do not make any alterations to the cheque (not permissible);
- f) Keep your cheque books, cancelled cheques and statements in a safe place;
- g) Never sign a blank cheque;
- h) Report lost stolen or missing cheques to your bank immediately to effect stop payments against the affected cheque series;
- i) Make sure that your bank has up-to-date signatures of everyone who is entitled to sign cheques on the school's account;
- j) Check your statements every month and do a proper reconciliation; and
- k) Wherever possible, only delegated person/s should collect your new chequebooks.
- l) Ensure that the cheque:
 - (i) Is not post-dated;
 - (ii) is not stale (older than 6 months).

9. Procurement (purchases) and payments (Procurement, Payments & Petty Cash)

The figure below indicates the procurement cycle.

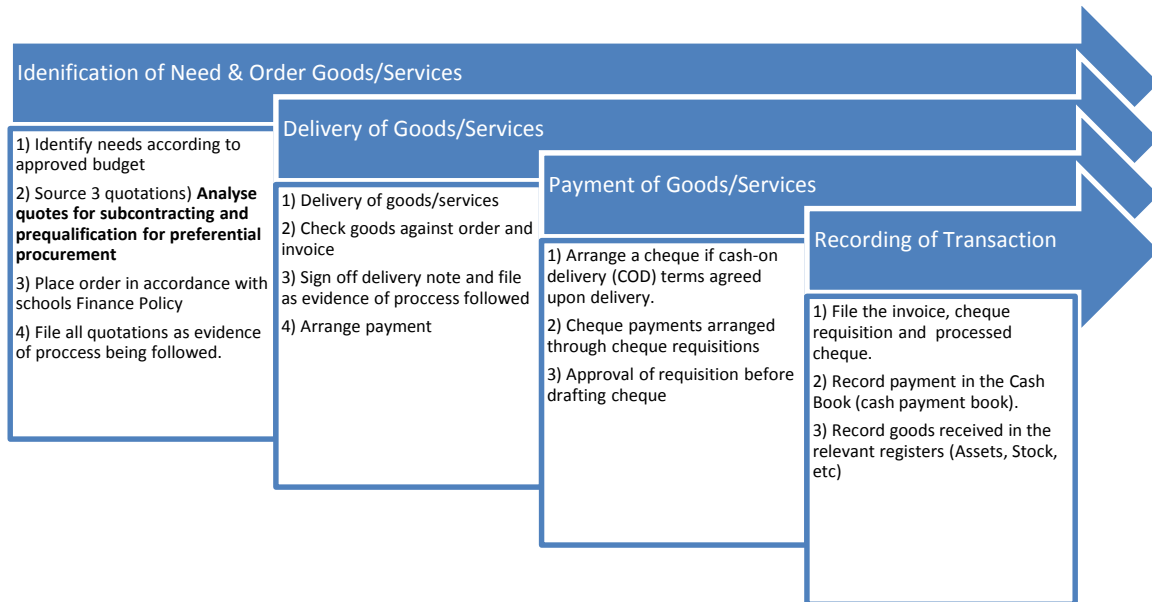


Figure 4: The procurement cycle

9.1 Identification of Needs & Ordering of Goods/Services

- a) The SGB's elected inventory control officer should carefully monitor all inventory levels at the school as maintained in the inventory, consumables and asset registers.
- b) Inventory is defined as all merchandise and consumable items, e.g. textbooks, stationery, items used in practical subjects, polish, etc.
- c) It is recommended that optimum inventory levels be determined by the SGB to ensure efficiency of use and timeous inventory replenishment.
- d) Once inventory levels reach the replenishment level, the inventory control officer must source quotations, in line with the approved budget and financial policy of the school. The school should obtain at least 3 quotations.
- e) The **financial policy** should clearly define the procedure for sourcing quotations.
- f) Once the quotations have been sourced, approval of the quotation that represents "best value" should be decided upon in accordance with the school's **financial policy**.
- g) After the necessary approval has been obtained, the order for the acquisition of goods or services can be processed or issued.
- h) File all quotations and copies of orders until delivery.

9.2 Delivery of Goods and Services

- 9.2.1 On delivery of the procured goods/services, the inventory control officer must verify the order placed with the contents/services received as prescribed on the delivery note or invoice. This process might entail actual counting of the items of inventory or a physical inspection to verify that the service was delivered.
- 9.2.2 Only once the inventory control officer is satisfied that the order as placed was delivered, must he/she "sign-off" the delivery note. In the case of a service delivered, the "sign-off" should only occur if the school is satisfied that all the agreed aspects of the service to be rendered have been fulfilled.
- 9.2.3 Agreement should first be reached between the parties concerned before any "sign-off" occurs. Under no circumstances should "sign-off" occur if a dispute exists between the order placed and the actual inventory delivered. This position also applies to services rendered as agreed upon or not rendered to the satisfaction of the school.
- 9.2.4 If the order delivered complies with the purchasing order, payment processes can be initiated. If "cash-on-delivery" terms were agreed upon, the necessary cheque requisition form should be in place and the cheque can be issued by the Finance Officer. Alternatively, the cash invoice, together with the delivery note, should be handed to the Finance Officer to effect immediate payment.
- 9.2.5 On taking delivery of goods, the inventory control officer should immediately record the new acquisitions in the appropriate register (Asset, inventory, etc).

9.3 Payment of Goods/ Services

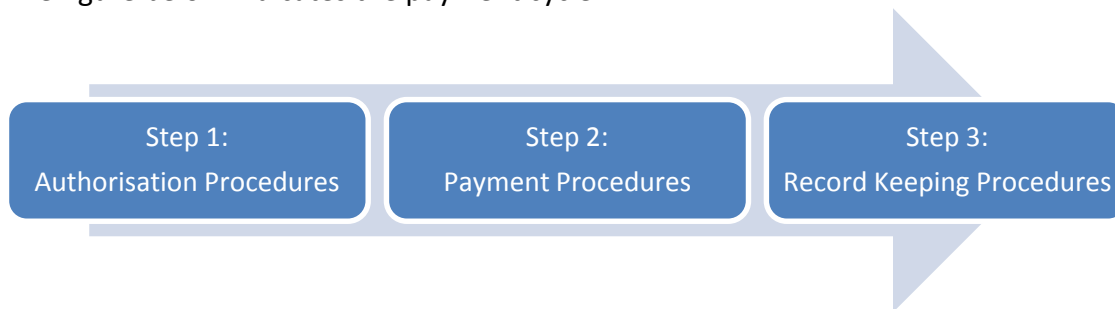
- a) The Finance Officer is responsible for completing a cheque requisition form to initiate payment.
- b) All original source documents must be attached, e.g. approved requisition, quotes, delivery note and invoice.
- c) Payments made should be done in accordance with the approved creditor payment schedule of the SGB as contained in the financial policy.
- d) Once the cheque requisition is approved and the cheque written out, the Finance Officer must ensure that the transaction is captured in the payments cash book of the school.
- e) Invoices may not be split in order to circumvent the procurement policy of the school.

9.4 Record Keeping

- The cheque requisition and all other supporting documentation, including the processed cheque (once received from the banking school), must be filed in chronological order and kept for audit purposes.
- Where the banking school does not return processed cheques, the cheque requisition form and support documentation will suffice.
- The inventory control officer should issue inventory on a first-in-first-out (FIFO) basis. The inventory control officer must also adhere to the internal control process as prescribed in the school's **financial policy** when issuing and recovering inventory.
- To ensure that optimum inventory levels are maintained, the inventory control officer must continuously monitor inventory levels.
- The inventory control officer must ensure that all inventories are updated on a regular basis and stocktaking is done annually.

9.5 The payment cycle

The figure below indicates the payment cycle.



9.5.1 Step 1: Authorisation Procedures

- All payments effected must be preceded by the completion of a cheque requisition form/electronic payment requisition. (Note: Requisition forms must be sequentially numbered).
- Once the Finance Officer has completed the requisition form, it must be submitted to the payment authoriser/s with the support documentation (e.g. delivery note, invoice).
- Payment authorisers must check the requisition form for correctness and completeness.
- Any requisition form that is submitted for authorising that does not have support documentation attached, must not be authorised.
- Payments should only be made against invoices /statements. This will remove the possibility of "double payments". Invoices/statements must only be paid if issued in the name of the school. To ensure invoices are not paid more than once the school may want to stamp documents with a "Paid" stamp.

- f) Incomplete requisition forms and/or the absence of attached support documentation must not be authorised and be referred back to the Finance Officer.

9.5.2 Step 2: Payment Procedures

- a) When the cheque requisition form/electronic payment requisition is "duly authorised", the payment can be processed via direct bank deposit, mail, telephone banking or Internet banking. Electronic payments made must have multiple authorisation levels. Electronic payment receipts or transaction confirmations must be printed once the payments are made. All recurring debit orders for payment of school expenses must be authorised annually by the SGB and minuted at a SGB meeting.
- b) Ensure that the words "Goods received" and "Paid" stamps or markings appear on all paid invoices.
- c) When using photocopies of invoices as support for payments, ensure they are stamped or marked "Not previously paid".
- d) Take advantage of discounts by paying accounts timeously.
- e) The payment must be recorded in the payments cash book and the bank statement monitored to ensure that the payment process was completed.
- f) School tours/excursions expenses should as far as possible be paid via cheque or electronic banking. Tours/excursions should be well planned to ensure that the cash required is kept to the absolute minimum.

9.5.3 Step 3: Record keeping procedures

- a) The processed cheque (if returned), the cheque requisition form/electronic payment requisition form and supporting documentation (e.g. invoice) must be filed for auditing purposes.
- b) In the case of electronic banking, the electronic receipt/ transaction confirmation must be attached to the electronic payment requisition form. Confirmation of payments made via telephone banking must be sent to the school's e-mail address.

10. Petty cash

The figure below indicates the petty cash process.

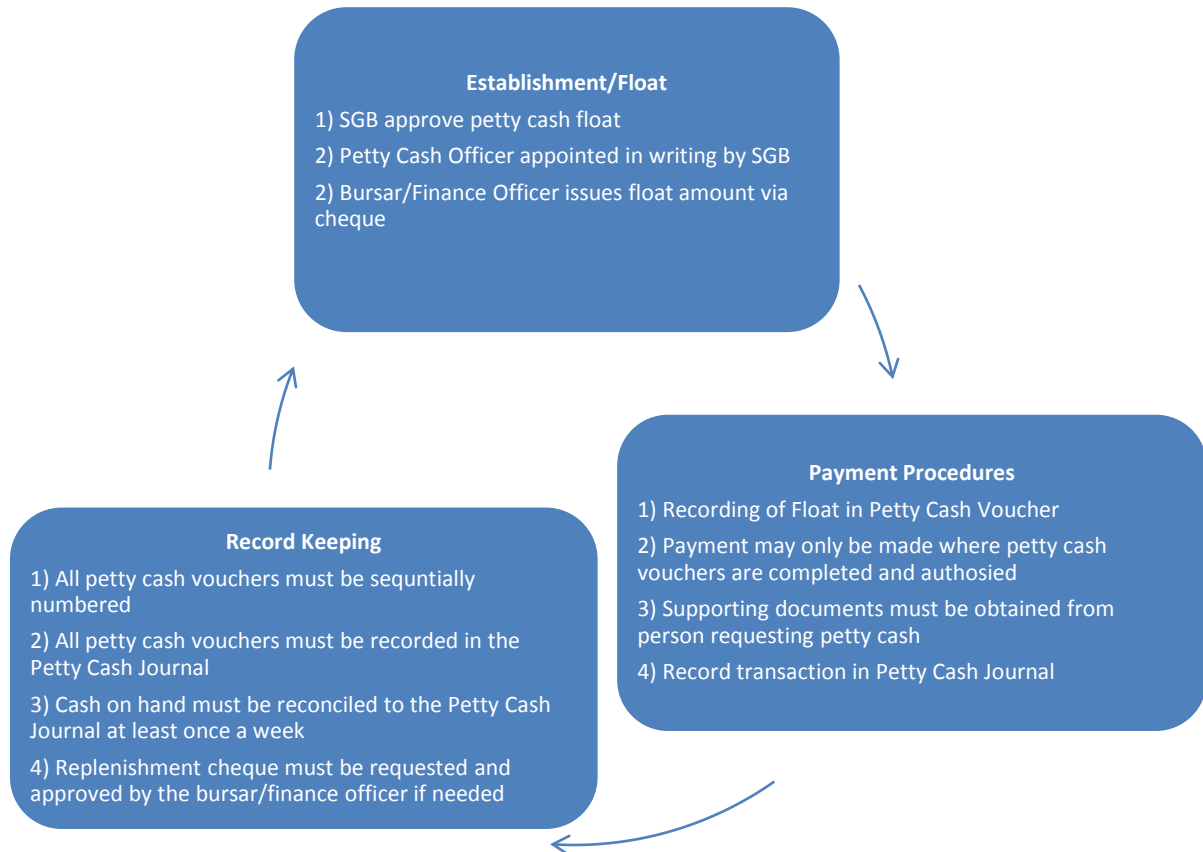


Figure 5: The Petty Cash Process

10.1 Establishing Petty Cash

- The SGB body must formally approve the establishment of petty cash, as well as a reasonable funding level (and the maximum amount allowed per payment), given the operational requirements of the school.
- Once formal approval has been received, a Petty Cash Officer (PCO) must be appointed in writing. This person must formally accept responsibility for this function.
- The Finance Officer issues the initial petty cash advance, via cheque, to the Petty Cash Officer.
- The Finance Officer and the Petty Cash Officer should not be the same person. This is to ensure there is segregation of duties between the person handling the petty cash and the person recording the all other cash movements.
- An initial amount should be made available for petty cash on the first day of the month (e.g. R1000). The SGB will determine the maximum amount of petty cash float from time to time. The amount should be sufficient to cover the normal daily petty cash requirements of the school.

10.2 Payment Procedures

- a) The original petty cash advance should be made in the form of an uncrossed cheque made out to the Petty Cash Officer.
- b) Thereafter, the petty cash should be reimbursed by cheque upon the presentation of appropriately authorized petty cash vouchers.
- c) No advances (*IOUs*) may be made out of petty cash, except where amount is authorized, for example, to be given to a person to purchase stamps or pay entrance fees for a class outing wherever possible, the amount due should be determined in advance and payments made by cheque.
- d) The petty cash box should be kept in a secure place when not in use.
- e) Petty cash payment should only be processed once the petty cash voucher has been authorized.
- f) Where petty cash is used to cover transport costs to attend workshops or sports events, a copy of the letter identifying this is to be attached to the petty cash voucher.
- g) The petty cash should be balanced and reconciled monthly.
- h) Should a cash surplus be found, the amount should immediately be accounted for through the issue of a receipt, and the reason for the surplus is thoroughly investigated.
- i) Should a cash shortage be found, the responsible person (Petty Cash Officer), should pay the amount and make an appropriately described entry in the receipt cash book.
- j) In the event of a shortage, the SGB may permit the responsible person to provide it with all relevant fact and, if the SGB is satisfied that the responsible person should not be held liable for the shortage, it may authorize the writing off of the shortage
- j) The petty cash officer (PCO) must record the cheque received to initiate the petty cash in the petty cash journal. The Finance Officer will reflect the contra entry in the payments cash book.
- k) Petty cash payments must only be processed once the petty cash request and petty cash voucher has been authorised by the person/s to whom this task has been delegated by the SGB.
- l) The PCO must ensure that he/she receives the supporting documentation from the person (s) who received the cash in advance.
- m) Each transaction must be recorded in the petty cash journal by the PCO.
- n) Where petty cash is utilised to cover transport costs to attend workshops or sport events, a copy of the letter identifying the workshop or sports fixture lists must be attached to the petty cash voucher.

10.3 Record Keeping Procedures

- a) The petty cash officer must reconcile cash-on-hand with the balance of the petty cash journal on a weekly basis.
- b) As required, the petty cash officer requests replenishment cheques for the petty cash, up to the approved monthly funding level.

11. Inventory and Assets

The figure below indicates the different components of Inventory and Asset management.

Asset Purchases	Safeguard of Assets	Maintain Asset Register	Useful Life of Asset	Asset Disposals
<ul style="list-style-type: none"> • Acquisition of Assets • Asset Finance 	<ul style="list-style-type: none"> • Cover/Insure Assets from damage and/or loss • Record movement of assets 	<ul style="list-style-type: none"> • Maintain a complete asset register 	<ul style="list-style-type: none"> • Consider the useful life of the schools assets on an annual basis 	<ul style="list-style-type: none"> • Disposal of assets • Scrapping of assets

Figure 6: Components of Inventory and Asset Management (“Assets”)

11.1 Appointment and duties of person responsible for assets

11.1.1 The SGB must appoint a person at the school in writing to be responsible for the custodianship of the school's assets. (Asset Officer)

- a) This person should ensure the following:
 - (i) Assets must be marked with permanent black ink.
 - (ii) Assets must be used only for the purpose intended.
 - (iii) Assets must be physically secured to prevent theft or misuse.
 - (iv) Insurance should be taken out for significant assets (e.g. computers).
 - (v) A fixed assets register must be maintained, containing the following details:
 - aa) Type and description of asset
 - bb) Custodian of the asset
 - cc) Date of purchase
 - dd) Date of donation
 - ee) Cost price/accumulated depreciation/ net book value
 - ff) Useful life
 - gg) Location of the asset
 - hh) Asset number (internally generated for control purposes)
 - ii) Serial numbers
 - jj) Loss control registers
- b) The custodian must report regularly (at least once a quarter) to the SGB with regard to losses, theft and record of assets (loss control registers).
- c) The school should appoint a disposal board to implement the procedure and policy regarding the disposal of fixed assets.
- d) The disposal board should have a member of the SGB as its chairperson.

- e) An effort should be made to share surplus assets and move unused items to a place where there is a need (other schools).
- f) The disposal board is responsible for establishing the price and negotiates the disposal with other schools.
- g) Once the asset has left the school, the asset register must be updated.
- h) When an asset is disposed of, it must be removed from the financial records.
- i) The SGB must approve the recommendations of the disposal of assets by the disposal board.
- j) The individual's name or the school that received the sale/donation must be recorded.
- k) The name of the purchasing school or individual is recorded, as well as the selling price.
- l) All funds received must be banked.

11.1.2 Assets under lease agreements (finance and operating leases) should also be identified and included on the asset register. They may include:

- a) School vehicles (finance lease)
- b) Photocopier and printing machines (operating leases)

11.2 Asset Register vs. Asset Listing

11.2.1 A significant number of schools do not maintain a complete and accurate asset register which is in compliance with SASA. Schools maintain what may be considered an asset listing rather than an asset register.

11.2.2 An asset register is a list of the assets owned by an institution. It contains pertinent details about each fixed asset to track their value and physical location. The register shows the quantity and value of things like office equipment, photocopier, furniture, computers, communications systems and equipment.

11.2.3 An Asset listing page loops through a section of the Asset Map and displays each asset in a list. It can be used to create staff directories, image libraries, document libraries and news listings. The Asset Listing page has several different functionalities that can be used when you are creating a list of assets.

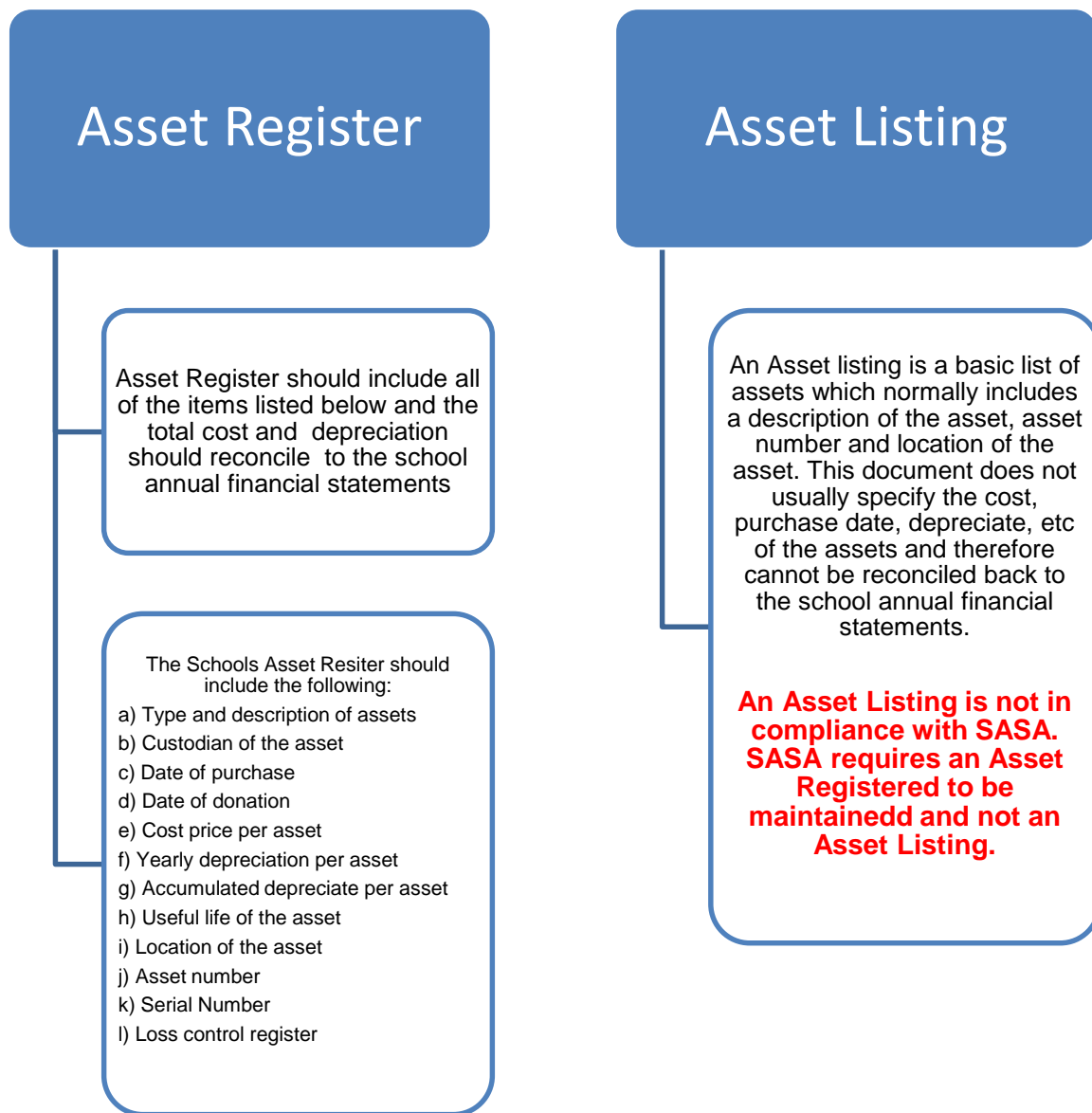


Figure 7: Asset Register vs Asset Listing

11.3 Inventory policy

- a) The Finance Committee is to delegate duties to persons to keep control of the various stock items of the school.
- b) Proper records of stock items will be kept by using tally cards or stock registers.
- c) All stock items, where possible, should be marked to indicate that it belongs to the school.
- d) Great care should be exercised in storing the school's stock and stock rooms should be locked and only authorized persons be allowed access.
- e) Stock take is to be done annually or when deemed necessary, by the person in charge of such stock.

- f) The school may undertake to repair any stock item if and when the need arises.
- g) If any stock item is irreparable, then it may be written off. The principal will inform the necessary authorities and follow appropriate procedures.
- h) Each year when deemed necessary, the principal will establish a board of survey to review the stock position in the school. The members of the board of survey will be to:
 - (i) Enquire about old and problematic items of stock
 - (ii) Dispose of any items that are unserviceable, damaged or obsolete.
 - (iii) Enquire about surpluses and shortages of stock items.
 - (iv) Prepare a report on findings and submit to the relevant authorities.

12. Other policy issues to be part of the finance policy

12.1 Subsistence allowance

12.1.1 The following procedures are the minimum requirements and must be part of the financial policy on travelling and subsistence reimbursement:

- a) The SGB (Finance Committee) should annually review and determine the rates of advances and reimbursements. A combination of the Automobile Association's rates and/or rates issued by the National Department of Transport and/or rates based on local circumstances can be used.
- b) All travel and subsistence costs must be properly authorised in writing before they are incurred. Retrospective approvals must not be allowed, unless there are exceptional circumstances that must be explained and noted in detail.
- c) Claimants must clearly understand/have access to the travel policy and applicable rates. It is advised that the travel policy be circulated every time the document is updated.
- d) Reimbursements for subsistence expenses (e.g. for meals) must be clearly stipulated, e.g. daily flat rate, or exact claims for expenses actually and necessarily incurred.
- e) The person(s) responsible for authorising the travelling and subsistence expenses must be appointed in writing by the SGB.
- f) The SGB must ensure that there are effective internal control measures in place to provide that only the official rates are paid for travel and subsistence expenses incurred on behalf of the school.
- g) The SGB and the school management team must agree on the following tariffs for transport claims;
- h) Transport claims will be determined by the number of kilometres travelled by the claimant and a rate determined by the Finance Committee.

12.2 Investment policy

- a) No investment of a speculative nature may be made using school funds or resources.
- b) Unless otherwise authorized by the SGB with consultation to the district Finance Officer, investments should be made only at a registered commercial bank.
- c) No agents should be used when placing deposits in an investment account, and no commission should be received by anyone for the placing of deposits.
- d) Unless otherwise authorized by the MEC, investments will be in one or more of the following forms:
 - (i) Current or cheque account

- (ii) Transmission of savings account
 - (iii) Call account
 - (iv) Notice deposit account
 - (v) Fixed deposit account
- e) Deposits can be moved between banks or types of investments based only on factors such as the interest rates offered and the cash flow requirements of the school.
- f) The composition of the school's investment portfolio will be reviewed monthly by the SGB.

13. Financial Reporting Guidelines for Public Schools

13.1 Overview

- a) The Gauteng Department of Education adopts (with amendments) henceforth the Small and Medium-Sized Entities (SMEs) reporting practice to be used by its schools/entities as guidelines to prepare the Annual Financial Statements.
- b) The Gauteng Department of Education, other users of the public school's financial statements, who have interest on the performance of a school and its financial records are identified as active users of the Annual Financial Statements prepared in terms of these guidelines. These guidelines are appropriate for general purpose financial statements. General purpose financial statements are directed towards meeting the common information needs of a wide range of users

13.2 Purpose

These guidelines are issued to comply with Section 42 of the SASA when read with Section 38(1)(j) of the PFMA, Treasury Regulation 8.4.1 and 8.4.2 **and** :

- a. guides SGB's regarding the inherent requirements of a useful set of financial statements;
- b. guides the Auditors/Reviewers of schools Annual Financial Statements; and
- c. promotes uniformity in schools annual financial statements, thus enabling comparability and a reliable consolidation process.

13.3 Responsibilities

13.3.1 The following shall be required from the Principal and the Governing body of a public school under direct control of the Gauteng Department of Education, for purposes of **financial and compliance reporting**:

- a) For the purposes of preparing a reliable set of annual financial statements, a school must keep records of funds received and spent by the schools records of its assets, liabilities and financial transactions determined as a minimum by **Annexure A – Record of Documents**.
- b) In a period which is not later than six months after the end of each financial year, submit annual financial statements in accordance with the principles and guidelines as determined and outlined by this document to the Head of the

Gauteng Department of Education or Delegated official.

- c) The SGB should facilitate for the appointment of a person or a company which will audit/ review the Annual Financial Statement/ the accounting records as determined by **Annexure A – (Record of Document)**, in writing. The person/ company appointed should comply with all requirements of the South African Schools Act. The person/ company auditing/ reviewing the school should be independent of the school and cannot hold an accounting engagement as well as a review/ audit engagement at the same time. The standard terms of engagement for the review/ audit and accounting appointments to be considered and used by the SGB are specified on **Annexure B – Terms of Engagement**. *For engagements reference is made to the International Standard on Review Engagement (ISRE) 2400.*

13.4 Objective of the Guidelines

To develop a set of high quality, understandable and enforceable standards for Schools and other public organizations which receive funding from the Gauteng Department of Education. The resulting Financial Statements will be used as a yardstick for promoting good governance, accountability and further give assurance to the users, that funds were utilized for the purposes intended.

13.5 Concepts and Pervasive Principles

- a) The objective of a set of accounts prepared under these Guidelines is to provide information on the financial position, performance, cash flows and compliance guidelines of the schools.
- b) The following qualitative characteristics need to be met:
- (i) Understandability – The information provided in financial statements should be presented in a way that makes it comprehensible by users who have reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.
 - (ii) Relevance – The information provided in the financial statements must be relevant to the decision making needs of users.
 - (iii) Materiality - Information is material and therefore has relevance if its omission or misstatements could influence the economic decisions of users made on the basis of the financial statements.
 - (iv) Reliability – Information must be free from material error and bias and

represent faithfully that which it either purports to represent or could be reasonably be expected to represent.

- (v) Substance over form – Transactions and other events and conditions should be accounted for and presented in accordance with their substance and not merely their legal form.
 - (vi) Prudence – Is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty.
 - (vii) Completeness - The information in financial statements must be complete within the bounds of materiality and cost.
 - (viii) Comparability – Users must be able to compare the financial statements of an entity through time to identify trends in its financial position and performance.
 - (ix) Timeliness – Involves providing the information within the decision time frame.
 - (x) Balance between benefit and cost. – The benefits derived from information should exceed the cost of providing it.
- c) Recognition criteria for assets, liabilities, income, and expenses include the probability of a flow of economic benefits and the reliability of measurement.
 - d) Pervasive principles include basic guidance for initial and subsequent measurements of assets, liabilities, income, and expense.
 - e) Measurement at initial recognition is generally at historic cost, except where the standard requires fair value. Where fair value is not practical and Historic cost cannot be determined, measurement will be based on guidelines provided by the Department, through a written special request, which is approved by an official delegated by the Head of Department.

13.6 Financial Statement Presentation

- a) To describe a set of financial statements as compliant with these Guidelines, all the requirements contained within the Guidelines and its Annexures must be fully complied with.
- b) Financial statements must at least be presented annually, be consistent with prior years, include comparative prior-year information, and include all material items.
- c) A complete set of financial statements includes:

- (i) A statement of financial position.
 - (ii) A separate detailed statement of financial performance.
 - (iii) A statement of changes in surpluses and reserves.
 - (iv) A statement of cash flows; and
 - (v) Notes to the financial statements which should include (Reconciliation of the Paper Budget, NSNP and LTSM information and ratios as additional disclosure items)
- d) A declaration by the SGB and the principal on the annual report of the SGB as well as that of the Principal, that the school has implemented effective, efficient and Transparent financial management and Internal Control systems as specified on **Annexure C – Certificate of Written Assurance**.
- e) Comparative information should be presented on all statements and notes, except for when an official delegated by the Head of Department has given exception.
- f) In a complete set of financial statements, a school shall present each statement with equal prominence.

13.7 Statement of Financial Position

- a) A current/non-current distinction is normally required for presentation unless the liquidity basis is more reliable and relevant.
- b) The standard sets out minimum presentation requirements required in the statement of financial position.
- c) A liability should be disclosed when the paper budget is not spent in totality at year-end. The liability should be supported by a designated current asset as part of the bank balance, which shall be shown as a separate line item. This balance should be cumulative.
- d) The guidelines prescribe minimum presentation requirements in the respective part of the guidelines where that item of interest is set-out.

13.8 Statement of financial performance

- a) A detailed statement of profit and loss shall be presented.
- b) An analysis of expenses should be presented using a chart of accounts provided by the department in the paper budget; further details can be made to achieve fair presentation.

- c) Funds received as paper budget should be disclosed as other income to the extent that the funds are recognized as an expense in this statement.
- d) The guidelines prescribe minimum presentation requirements in the respective part of the guidelines where that item of interest is set-out.

13.9 Statement of Changes in Surpluses and Reserves

- a) The School is required to prepare a statement of changes in Surpluses or Reserves.
- b) Cash reserves which are not paper budget funding should be reconciled in this statement.

13.10 Statement of Cash Flows

- a) Cash flows provide information about the changes in cash and cash equivalent of an entity for a reporting period.
- b) Cash flows must be split into:
 - (i) Operating activities – principal revenue producing activities of the entity.
 - (ii) Investing activities – acquisition and disposal of long term Assets and other investments not included in cash equivalent.
 - (iii) Financing activities – are the results in changes in the size and composition of the contributed equity and borrowing of equity.
- c) Operating activities may be presented using either the direct or indirect approach.
- d) A note on unspent paper budget funding shall be presented, detailing any approvals to spend the funds as well as separation of paper budget funding from other funds in the closing balance of the bank account of the school.
- e) The school shall operate only one bank account except for instances where the SGB and the Member of Executive Council have agreed to operate an additional bank account.
- f) The guidelines prescribe minimum presentation requirements in the respective part of the guidelines where that item of interest is set-out.

13.11 Notes to the Financial Statements

- a) This information is provided to support the primary financial statements.
- b) It includes a summary of accounting policies, information about judgments, and

information about estimations and uncertainty.

- c) Annual paper budget funding shall not be accounted for as a government grants (Section 18).
- d) Paper budget funding shall be ring-fenced and spent as per requirements of the paper budget policy.
- e) A disclosure shall be made specifying all savings on all paper budget receipt for any financial year.
- f) A disclosure shall be made on the paper budget liability recognized resulting from unspent paper budget funds at year-end and specifically include the following:
 - (i) Reconciliation between the opening balance and the closing balance.
 - (ii) Reconciling items which should include all expenditure on approvals made by a person delegated by the Head of Department to shift paper budget funding to other objectives.
- g) A disclosure on National School Nutrition Programme (NSNP) and Learner Teaching Support Material (LTSM) as follows:
- h) **NSNP (National School Nutrition Programme)**
 - (i) The amount received from the department for the payment of stipends for food handlers.
 - (ii) The ratio of students per food handler.
 - (iii) The amount received for fuel
- i) **LTSM (Learner Teacher Support Material)**
 - (i) The number of learners per grade
 - (ii) The number of LTSM – requested per Grade
 - (iii) The number of LTSM – Delivered per Grade
 - (iv) Explanations on any material variances on number of learners per Grade to the number of LTSM-requested per Grade.
 - (v) Explanations on variances caused by changes in unexpected enrolment figures.
- j) The guidelines prescribe minimum presentation requirements in the respective part of the guidelines where that item of interest is set-out.

13.12 Accounting Policies, Estimates and Errors

- a) Provides guidance on the selection and application of accounting policies for the purpose of preparing annual financial statements.
- b) If the guidelines do not address a specific transaction, the SGB should take the following into account when determining an appropriate accounting policy for the purpose of preparing annual financial statements:
 - (i) Requirements and guidance in the IFRS for SMEs dealing with similar or related issues.
 - (ii) The definitions, recognition criteria and measurement concepts in the IFRS for SMEs.
- c) The SGB may consider the requirements of the full set of IFRS standards in determining an appropriate accounting policy. However, the SGB is not required to do so in contradiction of this document.
- d) Accounting policies should be consistent with prior years, a change in policy will be allowed once it has been endorsed by an official delegated by the Head of Department because it provides a more reliable outcome or is required by these guidelines. Voluntary changes in accounting policies are applied retrospectively.
- e) Changes in accounting estimates are accounted for prospectively. **Annexure E “Accounting Estimates”** will give guidelines on specific accounting estimates.
- f) Prior period errors are corrected retrospectively unless impracticable.

13.13 Basic Financial Instruments

- a) Basic financial instruments comprise of the less complex financial instruments, examples of basic financial instruments are cash, demand and fixed term deposits, trade debtors and trade creditors.
- b) A financial instrument is a contract that creates a financial asset for one entity and a financial liability or equity instrument for another.
- c) These two sections deal with the recognition, de-recognition, measurement and disclosure of all financial instruments. Each entity needs to assess whether its financial instruments falls under the scope of basic financial instruments only, or include other financial instruments.
- d) A policy choice exists in which the SGB may either apply the provisions of the sections within these guidelines or apply IAS 39 and IFRS 9 for Financial Instruments: Recognition and Measurement. If IAS 39 and IFRS 9 are adopted by the SGB, **The SGB does not have to comply with the disclosure requirements of IFRS 7, Financial Instruments Disclosure, but comply with the presentation and disclosure required by this section of the guidelines.**
- e) Please note that as this is an accounting policy choice, it is subject to the normal guidance in terms of these guidelines regarding changes in accounting

policies.

- f) Financial assets and liabilities are recognized when the parties become bound by the contractual provisions of the instrument.
- g) Derecognition of an asset occurs when:
 - the contractual rights to the cash flows from the financial asset expire or are settled;
 - i) the entity transfers to another party all of the significant risks and rewards relating to the financial asset; or
 - ii) the entity, despite having retained some significant risks and rewards relating to the financial asset, has transferred the ability to sell the asset in its entirety to an unrelated third party which is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.
- h) A liability is derecognized when the obligation is settled.
- i) The recognition model for basic financial instruments is the **amortized cost model**.
- j) Basic financial assets and financial liabilities are initially measured at the transaction price (including transaction costs except in the initial measurement of financial assets and liabilities that are measured at fair value through profit or loss) unless the arrangement constitutes, in effect, a financing transaction.
- k) A financing transaction may be indicated in relation to the sale of goods or services, for example, if payment is deferred beyond normal business terms or is financed at a rate of interest that is not a market rate.
- l) If the arrangement constitutes a financing transaction, the entity shall measure the financial asset or financial liability at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.
- m) subsequent measurement is as follows:
 - (i) Debt instruments at amortized cost using the effective interest method.
 - (ii) Debt instruments that are classified as current assets or current liabilities shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received (i.e. net of impairment) unless the arrangement constitutes, in effect, a financing transaction. If the arrangement constitutes a financing transaction, the entity shall measure the debt instrument at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.
- n) Investments in non-convertible preference shares and non-puttable ordinary or preference shares:
 - i) if the shares are publicly traded or their fair value can otherwise be

measured reliably, the investment shall be measured at fair value with changes in fair value recognized in profit or loss; and

- ii) All other such investments shall be measured at cost less impairment.
- o) Paper budget funding shall not be used to finance any type of share investment, except for when all the SASA requirements have been followed.
- p) At each reporting date, an entity shall assess financial assets for objective evidence of impairment, if they are not recognized at fair value. If an impairment indicator exists, an impairment test must be done. Reversals of impairments are required if they arise as a result of an event after the impairment was recognized.

13.14 Inventories

- a) Inventory is an asset held for use in the process of teaching, learning and development or for sale in the ordinary course of business, produced or to be consumed in production to be used or held within a period of 12 months.
- b) Measurement is at the lower of cost and selling price, less cost to complete and sell. (Where inventories are received for a value which is less than fair value, the initial measurement should be the lower of cost by the transferring party or fair value). If cost cannot be determined, the fair value should be used.
- c) Cost is determined using Weighted Average Costing Method.
- d) Included in the cost of inventory are costs to purchase, costs of conversion, and costs to bring the asset to its present location and condition.
- e) Where a production process creates joint products and/or by-products, the costs are allocated on a consistent and rational basis.
- f) Agricultural produce is measured on initial recognition as inventory at fair value less estimated costs to sell.
- g) Disclosures include the accounting policies, carrying amounts, amounts expensed during the year, impairments or reversals and any amounts pledged as security.
- h) Specific inclusions on inventories include: textbooks, exercise books, workbooks, exam booklets (LTSM)
- i) Administration fees must be excluded from the cost of inventories

13.15 Property, Plant and Equipment

- a) At recognition, property, plant and equipment (PPE) is measured at cost, which should include the purchase price and other costs to bring the asset to the location and condition necessary, as well as any future dismantling costs and site restoration costs, less any prime rate or rebates.
- b) Assets should be measured at their cost as per the inventory received from the transferring party as determined by the requirements of section 42 of the

Public Finance Management Act (PFMA).

- c) If payment is to occur over a period of time, cost is the present value of all future payments.
- d) Where property, plant and equipment (PPE) are received for a value which is less than fair value, the initial measurement should be the lower of cost by the transferring party or fair value. If cost is not.
- e) Fair discount rate will be deemed to be the Prime rate at year-end. (any changes on the present value of future payments caused by changes in the prime rate shall be recognized in the statement of profit and loss).
- f) The following costs are excluded and should be expensed when incurred: new facility opening costs, new product or service launches, and administration and overhead expenditure.
- g) Major spare parts and stand-by equipment are included as part of PPE when an entity expects to use them during more than one period.
- h) If parts are replaced, the cost will be added to the carrying value of the asset if it is expected to provide incremental economic benefit. If not, then the repairs should be expensed.
- i) Subsequent to acquisition, the entity shall measure PPE at cost less accumulated depreciation and accumulated impairment losses.
- j) Assets shall be depreciated over the anticipated useful life after taking into consideration the residual value at the end of the asset's life, see **Annexure D – Estimated useful lives of assets.**
- k) The method of depreciation shall be the straight-line method.
- l) Clearly identified significant components should be depreciated separately.
- m) The residual values of assets shall be the estimated fair value of the asset as on the date when it is expected to be fully depreciated and should be reviewed annually.
- n) Such changes shall be accounted for as changes in an accounting estimate.
- o) Impairment must be assessed at each reporting date and recognized as a current period expense. Indicators of impairment must be considered at each reporting date and, if they exist, the recoverable amount should be determined. Any impairment is recognized in profit or loss.
- p) Reversal of impairment should be limited to the original cost, implying that the impairment loss has never occurred.
- q) Plans to dispose of an asset before the previously expected date is an indicator of impairment and an impairment test shall be performed to determine the extent, if any, of impairment.
- r) Derecognition shall occur on disposal or when no future economic benefits are expected from the asset.
 - (i) This may result in gains or losses to be recognized in profit and loss for

that period.

- (ii) Disposal shall also specifically include transfers, donations and the sale of an asset which are authorised by the SGB.
- s) The measurement basis, depreciation methods, useful lives, gross carrying amounts and accumulated depreciation, reconciliation showing additions, disposals, acquisitions, impairments, depreciation, and other changes, shall all be disclosed on the notes to the Annual Financial Statement

13.16 Intangible Assets other than Goodwill

- a) An identifiable non-monetary asset, without physical substance is recognized as an asset when it is probable that future economic benefits will result and the cost and can be measured reliably.
- b) Measurement: initial recognition is at cost, which may include its actual cost, costs to bring it to use, less any discounts.
- c) Measured at fair value in the event of an exchange of assets, as a result, in certain instances of section 42 transfers of the PFMA.
- d) All research and development expenditures shall be recognized as an expense, however an exception is provided for circumstances which are approved by an official delegated by the Head of Department.
- e) Items that are always recognized as expenses include: internally generated brands/masthead and others, start-up costs, training costs, advertising, and relocating a division or entity.
- f) After initial recognition an entity shall measure intangible assets at cost less any accumulated amortization and any accumulated impairment losses.
- g) All intangibles are considered to have a finite useful life. For intangible assets arising from contractual or other legal rights the useful life shall not exceed the period of the contractual or legal rights, but may be shorter depending on the period over which the entity expects to use the assets.
- h) If an entity cannot reliably estimate the expected useful life of an intangible asset, the life shall be presumed to be 10 years.
- i) Factors such as a change in how an intangible asset is used, technological advancement, and changes in market prices may indicate that the residual value or useful life of an intangible asset has changed since the most recent annual reporting date. If such indicators are present an entity shall review its previous estimates and amend the residual value, amortization method or useful life where appropriate. The

entity shall account for any such changes as changes in accounting estimates.

- j) The measurement basis, amortization methods, useful life, gross carrying amounts and accumulated amortization, reconciliation showing additions, disposals, acquisitions, impairments, amortization, and other changes shall all be disclosed on the annual financial Statement.

13.17 Leases

13.17.1 Leases are either finance or operating leases.

13.17.2 Finance leases result in substantially all the risks and rewards incidental to ownership being transferred to the lessee, whilst operating leases do not.

13.17.3 Indicators of a finance lease include: ownership transferring to the lessee; bargain purchase option; the lease is for the major part of the economic life of the asset; leased assets are of a specialized nature; the present value of the minimum lease payments amounts to substantially all of the fair value of the asset; the lessee bears the lessor losses if cancelled; a secondary rental period at below market rates; and the residual value risk borne by the lessee.

13.17.4 Lessees – finance leases:

- a) The rights and obligations are to be recognized as assets and liabilities at fair value or, if lower, the present value of the minimum lease payments.
- b) Any direct costs of the lessee are added to the asset amount recognized.
- c) Subsequently, payments are to be split between a finance charge and reduction of the liability.
- d) The asset should be depreciated either over the useful life or the lease term, whichever is longer.

13.17.5 Lessees – operating leases:

- a) Payments are to be recognized as an expense on a straight line basis, unless payments are structured to increase in line with expected general inflation or another systematic basis which is a better representative of the time pattern of the user's benefit.

13.17.6 Lessors – finance leases:

- a) The rights are to be recognized as assets held, i.e. as a receivable at an amount equal to the net investment in the lease. The net investment in a lease is the lessor's gross investment in the lease (including unguaranteed residual value) discounted at the interest rate implicit in the lease.
- b) For finance leases other than those involving manufacturer or dealer lessors, initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term.

- c) If there is an indication that the estimated unguaranteed residual value used in computing the lessor's gross investment in the lease has changed significantly, the income allocation over the lease term is revised, and any reduction in respect of amounts accrued is recognized immediately in profit or loss.
- d) All leased assets for no consideration shall be disclosed on the notes to the annual financial statement as follows: Description, Condition of the asset and the Lease period.

13.17.7 Lessors – operating leases:

- a) Lessors retain the assets on their balance sheet and payments are to be recognized as lease income on the straight line basis, unless payments are structured to increase in line with expected general inflation or another systematic basis which is a better representative of the time pattern of the user's benefit.

13.18 Provisions and Contingencies

- a) **Provisions:** Provisions are recognized when there is a present obligation as a result of a past event; it is probable that the entity will be required to transfer economic benefits; and the amount can be estimated reliably.
- b) The obligation may arise from a contract or from law or when there is a constructive obligation due to valid expectations having been created from past events. However, these do not include any future actions. Nor can expected future losses be recognized as provisions.
- c) These are initially recognized at the best possible estimate at the reporting date. This value should take into account, if material, the time value of money.
- d) When the provision has a reimburse condition from a third party, the reimbursement asset is to be recognized separately only when it is virtually certain payment will be received.
- e) Subsequently, provisions are to be reviewed at each reporting date and adjusted to meet the best current estimate. Any adjustments are recognized in profit and loss, while any unwinding of discounting shall be treated as a finance cost.
- f) **Contingent liabilities:** These are not recognized as liabilities on the balance sheet. Unless remote, disclose an estimate of the financial effect, indications of the uncertainties relating to timing or amount and the possibility of reimbursement. These should only be disclosed in the notes to the Annual Financial Statements.
- g) **Contingent assets:** These are not recognized as assets on the balance sheet, disclosure requirements of this section require a description of the nature and the financial

effect. These should only be disclosed in the notes to the Annual Financial Statements.

- h) Prejudicial disclosure:** In extremely rare cases, where the disclosure of information required for provisions, contingent liabilities or contingent assets can be expected to seriously prejudice the position of the entity in a dispute with other parties, the standard allows an exception. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

13.19 Revenue

- a) Revenue results from the sale of goods, services being rendered, construction contracts by the contractor and the use by others of the school's assets, yielding interest, royalties or dividends.
- b) The following are excluded from this section and dealt with elsewhere: leases (section 20), dividends from equity accounted entities (section 14 and 15) changes in fair value of financial instruments (section 11 and 12), initial recognition and subsequent re-measurement of biological assets (section 34) and initial recognition of agricultural produce (section 34).
- c) Measurement of revenue shall be the fair value of the consideration received, taking into account any possible trade discounts or rebates, including volume rebates and prompt settlement discounts.
- d) Deferred payment terms result in a financing transaction where the fair value of the consideration is the Present value of all future receipts. The difference is recognized as interest revenue.
- e) Sale of goods is recognized when: the significant risks and rewards have passed; no managerial involvement remains; the amount of revenue and costs can be measured reliably; it is probable that benefits will flow to the entity; and costs can be measured reliably.
- f) Rendering of services is recognized based on the stage of completion basis when: the amount can be estimated reliably; there is a probable inflow of benefits; the stage of completion can be measured; and costs incurred and that will be incurred can be reliably estimated. If the outcome is unreliable, then revenue should be recognized to the extent of the expenses incurred.
- g) Award credits or other customer loyalty plan awards need to be accounted for separately, and therefore reduce the amount of revenue that is recognized upfront. The revenue related to the award credits is deferred and recognized when the awards are redeemed.
- h) Interest, royalties and dividends are recognized when it is probable that an inflow of economic benefits will occur and it can be reliably measured. Interest is recognized using the effective interest method, royalties on an accrual basis per the agreement and dividends when the right to receive the dividend is established.

- i) Construction contracts result in revenue when it can be reliably estimated and an inflow of economic benefits is probable. Revenue is then recognized based on the stage of completion. An estimation of the stage of completion requires estimates of future costs, billings and time frames to completion.
- j) For construction contracts, revenue recognition is usually applied to each contract, but it may be necessary to apply it to each separately identifiable component of a contract, or group of contracts collectively.
- k) Fees received should be disclosed as revenue when accrued together with all corresponding accruals.

13.20 Grants, Excluding Paper Budget

- a) Grants are measured at the fair value of the assets received or receivable.
- b) Grant assets are immediately recognized in the statement of financial position regardless of any conditions, and de-recognized when conditions are not met. This fact should be further disclosed in the notes to the financial statements, regardless of the existence of any Grant assets in the carrying amounts at year-end.
- c) All other treatment on Grant Assets should be consistent with Section 10, 11, 12 and 13.
- d) Grant revenue without future performance conditions should be recognized when proceeds are receivable.
- e) Grants revenue with future conditions, should only be recognized when the conditions are met otherwise a liability should be recognized in the statement of financial position.

13.21 Borrowing Costs

- a) Borrowing costs shall be expensed.
- b) Schools are discouraged to source financing and the provisions of South African Schools Act (SASA) on financing should be followed. .

13.22 Impairment of Assets

- a) **Inventories:**
 - (i) At each reporting date, the carrying amount of the inventory should be compared to the selling price less costs to complete and sell. If the item is impaired, the amount shall be recognized immediately in profit and loss for the period.
 - (ii) When the circumstances that led to the impairment no longer exist, the impairment may be reversed.
- b) **Other non-financial assets:**

- (i) An entity shall assess, at each reporting date, whether there is an indicator of impairment. If there is, the carrying amount of the assets should be compared to the recoverable amount, and any resulting impairment recognized.
- (ii) The recoverable amount is the higher of the fair value less costs to sell and the value-in-use.
- (iii) If an impairment indicator exists, the entity should review the useful life and the depreciation methods even though an impairment loss may not be recognized.
- (iv) When the circumstances that led to the impairment no longer exist, the impairment may be reversed.
- (v) If it is not possible to estimate the recoverable amount of an individual asset, the cash-generating unit to which the asset belongs needs to be identified and tested for impairment.

13.23 Events after the end of the Reporting Period

a) Adjusting events:

An entity should adjust amounts recognized in the financial statements to reflect events that provide evidence of conditions that existed at the reporting date.

b) Non-adjusting events:

- (i) No adjustment is made for events that are indicative of events that arose after the reporting date. The entity shall disclose the nature of the event and an estimate of its financial effect.
- (ii) Non-adjusting event should be disclosed if they are of such important that non-disclosed would affect the ability of users to make proper evaluation and decisions.

13.24 Related Party Disclosures

- a) Relationships between parent entities and subsidiaries shall always be disclosed, including the ultimate controlling party.
- b) Paper budget transactions shall not be regarded as Related Party transactions.
- c) For transactions between related parties, an entity must disclose:
 - (i) Nature of the relationship.

- (ii) Information about the transactions and outstanding balances necessary to understand the potential impact on the financial statements.
 - (iii) Amount of the transaction.
 - (iv) Provisions for uncollectible receivables.
 - (v) Any expense recognized during the period in respect of an amount owed by a related party.
- d) All related party disclosed will take into account the provisions of S38A of the SASA.
- e) Non-compliances to S38A should be disclosed separately in the related party disclosure as follows:
- (i) Nature of transaction
 - (ii) The nature of non-compliance
 - (iii) The amount paid/ committed
 - (iv) Status of disciplinary proceedings

13.25 Transition to the Guidelines

- a) This section is to be applied by first time adopters of the guidelines, regardless of whether their previous reporting was under full IFRS or another GAAP, including the Exposure Draft of IFRS for SMEs which was adopted as a Statement of Generally Accepted Accounting Practice for Small and Medium-sized Entities in South Africa.
- b) The opening balance sheet for the comparative period shall be adjusted for:
 - (i) Recognition of assets and liabilities required under these guidelines.
 - (ii) Derecognition of assets and liabilities not permitted under these guidelines.
 - (iii) Reclassification of assets, liabilities or equity under these guidelines.
 - (iv) Any adjustments to the measurement of any assets and liabilities arising from application of these guidelines.
- b) An entity's date of transition to these guidelines is the beginning of the earliest period for which the entity presents full comparative information in accordance with this standard in its first financial statements that conform to these guidelines.
- c) Optional exemptions shall be allowed only if specific approval is granted by an official delegated by the Head of Department to do so.
- d) Disclosure of the impact of the transition on the financial position, financial

performance and cash flows is required. In addition, reconciliations of profit and loss as previously reported must be given. Any errors in the application of the previous reporting guidelines must be separately disclosed.

14. Audit and examination of financial statements

- a) In terms of Section 43(1) of SASA, the SGB must:
- (i) appoint a person registered as an accountant and auditor in terms of the Auditing Professions Act, 2005 (Act 26 of 2005) to audit the records and financial statements of a public school, in terms of Schedule 5 of the Audit Guidelines;
 - (ii) if it is not reasonably practicable (**DBE Circular M1 of 2018 and Circular M3 of 2017-Annexure G**) to appoint an auditor appoint a person who is qualified to perform the duties of an accounting officer in terms of section 60 of the Close Corporations Act, 1984 (Act 69 of 1984) If this is not practical, the SGB must appoint a person who is qualified to act as an accounting officer of what was previously known as a Close Corporation (Sect 43(2) (a) of SASA). The list of organisations with which accounting officers can be associated is as follows:
 - The South African Institute of Chartered Accountants (SAICA)
 - Institute of Administration and Commerce of South Africa (IAC)
 - The Chartered Association of Certified Accountants (CACA)
 - The Chartered Institute of Management Accountants (CIMA)
 - The Institute of Commercial and Financial Accountants of South Africa ((CFA)(SA))
 - The South African Institute for Business Accountants (SAIBA)
 - The South African Institute of Chartered Secretaries and Administrators (CIS)
 - (iii) If this is not practical, the SGB must appoint a competent person, but the approval of the Member of the Executive Council (MEC) is needed for such an appointment (Section 43(2) (b) of SASA) (Refer to Chapter I). An application form must be completed and sent, together with the applicable information, directly to the relevant District Office.
 - (iv) The SGB may not appoint a person who has a financial interest in the affairs of the public school to audit or examine the financial statements as stipulated in section ~~SASA~~. 43(3) of SASA, or has any business dealings with the school other than ~~the~~ conditions provided for in section 43 (2) (a) and (b)

- b) The auditor's report must include the following:
- (i) A declaration:
 - (aa) of the auditor's qualifications in terms of Section 43 of the Act;
 - (bb) that he or she is acting in an independent capacity and has no financial interest in matters pertaining to the school;
 - (cc) that the financial statements give a reasonable account of the financial affairs of the school as at 31 December and of the school's financial activities for the period 1 January to 31 December; and
 - (dd) Comments on the following aspects:
 - I. management of funds;
 - II. irregularities; and
 - III. Internal control measures.
- c) A person or any member of his or her family or business associate who conducts business with a school may not be appointed as its auditor.
- d) The Governing Body must submit the audit report, which forms part of the school's Annual Financial Statements to the Head of Department by no later than six months after the end of financial year and made that report available to parents upon request.
- e) An auditor must immediately report material irregularities in a school's financial management to the Head of Department; if the MEC deems it necessary, may request the Auditor-General to undertake an audit of the records deemed irregular.

.....
HON. MR. ANDREK PANYAZA LESUFI (MPL)
MEMBER OF EXECUTIVE COUNCIL-EDUCATION
DATE: _____

The Financial Reporting Guidelines for Public Schools

Gauteng Department of Education Annexures

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Annexure A: Record of Documents

1. Bank statements
2. General ledgers
3. Trial balance
4. Asset register
5. Stock reports
6. Paper budget
7. Receipt register
8. Receipts of donation and fund raising
9. Register of all expenses/ Cash Payment Journal
10. Approvals by the School Governing Body (SGB) for all expenditure
11. All invoices

Annexure B: Terms of Engagement

Audit Engagement Letter

Our Ref :

Date :

The School Governing Body of
(Name of School)

Dear Sirs,

AUDIT ENGAGEMENT LETTER

The purpose of this letter is to set out the basis on which we are to act as auditors of the SGB and the respective areas of responsibility of the School Governing Body ("SGB") and of ourselves.

RESPONSIBILITIES OF THE SCHOOL GOVERNING BODY AND REVIEWERS/AUDITORS

- 1.1 As the SGB of the School, you are responsible under the South African Schools Act (SASA) for maintaining proper books or records of accounts and other financial records. You are also responsible for preparing accounts which present fairly (see Note) the financial transactions and financial position of the school and for ensuring that the SGB has complied with the relevant provisions of the Financial Reporting Guidelines For Schools (FRGFS), the relevant letters, circulars and guidelines issued to the SGB by the department.
- 1.2 You are responsible for ensuring that the SGB has complied with laws and regulations, which are relevant to the operations of the SGB.
- 1.3 You are responsible for procuring your principal and all other officials to give us full co-operation to facilitate our review/audit work and for making available to us, as and when required, all the SGB's books of account and all other relevant records and related information, including minutes of all meetings of the SGB.
- 1.4 We have a statutory responsibility under the South African School Act to report to the Gauteng Department of Education whether in our opinion the accounts present fairly the financial transactions and financial position of the school. In arriving at our opinion, we are required to consider the following matters, and to report on any in respect of which we are not satisfied:
 - (a) Whether proper books or records of account and other financial records have been maintained;
 - (b) Whether the SGB's income and expenditure account and balance sheet are in

- agreement with the books of accounts; and
- (c) Whether we have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- 1.5 We have a professional responsibility to report if the accounts do not comply in any material respect with applicable accounting standards, unless in our opinion the non-compliance is justified in the circumstances. In determining whether or not the departure is justified, we consider:
- (a) Whether the departure is required in order for the accounts to present fairly; and
- (b) Whether adequate disclosure and approval has been made and obtained respectively concerning the departure.

SCOPE OF AUDIT

- 2.1 Our audit/review will be conducted in accordance with ISA/ISRE 2400 in case of a review, and will include such tests of transactions and of the existence, rights and obligations and valuation of assets and liabilities as we consider necessary. We shall obtain an understanding of the accounting systems and internal control systems in order to assess their adequacy as a basis for the preparation of the accounts and to establish whether proper books of accounts have been maintained by the SGB. We shall expect to obtain such appropriate evidence as we consider sufficient to enable us to draw reasonable conclusions there from.
- 2.2 The nature and extent of our procedures will vary according to our assessment of the SGB's accounting system and, where we wish to place reliance on it, the internal control systems, and may cover any aspect of the SGB's operations that we consider appropriate. Our audit is not designed to identify all significant weaknesses in the SGB's systems but, if such weaknesses come to our notice during the course of our audit, which we think should be brought to your attention; we shall report them to you.
- 2.3 As part of our normal audit/review procedures, we may request the SGB or the principal to provide written confirmation of certain oral representations which we have received from SGB and all other officials during the course of the audit on matters having a material effect on the accounts.
- 2.4 In order to assist us with the examination of the accounts, we shall request sight of all documents or statements, including the annual budget, operating and financial review, SGB's and principal's report, which may be issued with the accounts. We are also entitled to attend all general meetings of the SGB and to receive notice of all such meetings.
- 2.5 The responsibility for safeguarding the assets of the school and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with the SGB. However, we shall endeavor to plan our audit so that we have a reasonable expectation of detecting material misstatements in the accounts or books of accounts (including

those resulting from fraud, error or non-compliance with law or regulations), but our examination should not be relied upon to disclose all such material misstatements or frauds, errors or instances of non-compliance as may exist.

- 2.6 Once we have issued our report we have no further direct responsibility in relation to the accounts for that period. However, we expect that you will inform us of any material event occurring between the date of our report and that of submission of accounts to the Gauteng Department of Education.
- 2.7 The officer(s) of the Gauteng Department of Education has the rights to communicate with us on matters concerning the accounts and the supporting statements.

FEES

3. Our fees are computed on the basis of a combination of time spent on your affairs by the partners and our staff and on the levels of skill and responsibility involved. Review and fixed fee agreed before commencement of audit/review. Unless otherwise agreed, our fees will be billed at appropriate intervals during the course of the review and will be due on presentation.

AGREEMENT OF TERMS

4. Once it has been agreed, this letter will remain effective, from one audit appointment to another, until it is replaced arising from changes in audit/review scope or other circumstances. We shall be grateful if you could confirm in writing your agreement to these terms by signing and returning the enclosed copy of this letter, or let us know if they are not in accordance with your understanding of our terms of engagement.

Yours faithfully,

.....
South African Institutes of Chartered Accountants (SAICA), South African Institute of Professional Accountants (SAIPA), South African Institutes of Government Auditors (SAIGA), Institute of Certified Secretaries and Administrators (ICSA), Southern African Institute for Business Accountants (SAIBA), Chartered Institute of Business Management (MCIBM) and Institute of Accounting and Commerce (IAC).

We agree to the terms of this letter.

Principal:

Date:

Chairperson of SGB:

Date:

Annexure C: Certificate of written assurance

This certificate of written assurance is issued to comply with the requirements of Section 38(1)(j) of the Public Finance Management Act (PFMA), read with part 8.4.1 and 8.4.2 of the Treasury Regulations (TR) for the departments, trading entities, constitutional institutions and public entities.

Section 38(1)(j) of the PFMA requires that before transferring any funds (other than grants in terms of the annual Division of Revenue Act or to a constitutional institution), the accounting officer must obtain a written assurance from the entity that the entity implements effective, efficient and transparent financial management and internal control systems, or if such written assurance is not or cannot be given, render the transfer of the funds subject to conditions and remedial measures requiring the entity to establish and implement effective, efficient and transparent financial management and internal control systems.

TR 8.4.1 Accounting Officer must maintain appropriate measures to ensure that transfers and subsidies to entities are applied for the intended purposes. Such measures may include:

- a) Regular reporting procedures
- b) Internal and external audit requirements and, where appropriate, submission of audited statements.
- c) Regular monitoring procedures
- d) Schedule and unscheduled inspection visits or reviews of performance; and
- e) Any other control measure deemed necessary

TR 8.4.2 An Accounting Officer may withhold transfers and subsidies to an entity if he/she is satisfied that:

- a) Conditions attached to the transfers and subsidies have not been complied with;
- b) Financial assistance is no longer required;
- c) The agreed objectives have not been attained; and
- d) The transfer and subsidy does not provide value for money in relation to its purpose or objectives.

I , Chairperson of the SGB at confirm that the following has been implemented at the above institution:

- An effective, efficient and transparent financial management system
- Internal control systems and
- Funds received were applied for the intended purpose as follows:
 1. Amount received R.....
 2. Amount spent R.....
 3. Remaining R.....

Signed at: on this day of:

Signature:
Chairperson SGB

Date:

I , Principal at agree/ disagree that the following has been implemented at the above institution:

- An effective, efficient and transparent financial management system
- Internal control systems and
- Funds received were applied for the intended purpose as follows:
 4. Amount received R.....
 5. Amount spent R.....
 6. Remaining R.....

Signed at: on this day of:

Signature:
Principal

Date:

Note: Please attach bank statement showing the availability of the remaining amount.

Annexure D: Accounting estimates/Estimated useful life

Classes of Assets

	USEFUL LIFE IN YEARS		
	MIN	-	MAX
PROPERTY, PLANT AND EQUIPMENT			
LAND			
Developed land	N/A		
Undeveloped land	N/A		
BUILDINGS			
<i>Dwellings</i>			
Caravans	5	-	10
Children's home	25	-	30
Foreign mission dwellings	25	-	30
Hostels	25	-	30
Mobile homes	5	-	10
Places of safety (children)	25	-	30
Residences (personnel) include garages and parking	25	-	30
Secure care centers	25	-	30
<i>Non Residential Dwellings</i>			
Community centers and public entertainment building	25	-	30
Laboratories	25	-	30
Libraries	25	-	30
Museums and art galleries	25	-	30
Office building	25	-	30
Public parking	25	-	30
Research facilities	25	-	30
Stadiums	25	-	30
Warehouses	25	-	30
OTHER MACHINERY AND EQUIPMENT			
Audiovisual equipment	5	-	10
Building air conditioning system	10	-	5
Cellular phones	0	-	2
Cellular routers	3	-	5
Domestic equipment (non-kitchen appliances)	3	-	5
Electric wire and power distribution equipment (compressors, generators and allied equipment)	5	-	7
Emergency/rescue equipment	5	-	10
Elevators systems	15	-	20
Farm/Agricultural equipment	5	-	15

Fire Fighting equipment	3	-	5
Gardening equipment	2	-	4
Irrigation equipment	10	-	15
Kitchen appliances	5	-	10
Laboratory equipment – Agricultural	5	-	7
- Medical testing	5	-	7
- Roads and transport	5	-	7
Laundry equipment and industrial sewing machines	10	-	15
Learning, training support and library material (curriculum equipment)	5	-	10
Machines for metallurgy	5	-	10
Machines for textile production	10	-	15
Medical and allied equipment	5	-	10
Music instruments	10	-	15
Photographic equipment	5	-	7
Pumps, plumbing, purification and sanitation equipment	5	-	10
Radio equipment	5	-	7
Sport and recreational equipment	5	-	10
Survey equipment	5	-	7
Telecommunication equipment	3	-	5
Tents, flags and accessories	5	-	10
Woodworking machinery and equipment	5	-	10
Workshop equipment and loose tools – Fixed	5	-	10
-Movable	3	-	5
FURNITURE AND OFFICE EQUIPMENT			
Advertising boards	3	-	5
Air conditioners (individual fixed & portable)	3	-	5
Cutlery and crockery	5	-	10
Domestic and hostel furniture	10	-	15
Linen and soft furnishings	5	-	10
Office equipment (including fax machines)	5	-	7
Office equipment	5	-	7
Paintings, sculptures, ornaments (home and office)	5	-	10
COMPUTER EQUIPMENT			
Computer and Hardware including operating systems	3	-	5
Networks	5	-	10
TRANSPORT ASSETS			
Busses	10	-	15
Cycles	4	-	7
Emergency vehicles(Ambulances and fire engines)	5	-	10
Mobile clinics	10	-	15

Motor vehicles	4	-	7
Railway rolling stock	10	-	15
Ships	15	-	20
Ships engines	5	-	7
Trailers and accessories	5	-	10
Trucks	5	-	15
INTANGIBLE ASSETS			
Computer software	2	-	5

These values were adopted from the Local Government Capital Assets Management Guideline, published by the National Treasury (ISBN: 978-0-621-38093-4).

Annexure E: Delegated Officials

PAR NO		RESPONSIBLE PERSON	DELEGATION
11.3	Schools must submit their annual financial statements not later than six months after the end of each financial year, to the Head of the Gauteng Department of Education or Delegated official.	Head: Education	<ul style="list-style-type: none"> • Director: School Financial Management and Governance • District Director
11.3	Updating the Database for Auditors/ Reviewers, issuing practical guidelines or illustrations of the FRGFS on the website of the Department.	Head: Education	Director: School Financial Management and Governance
11.5	Measurement at initial recognition is generally at historic cost, except where the standard requires fair value. Where fair value is not practical and Historic cost cannot be determined, measurement will be based on guideline provided by the Department, through a written special request, which is approved by an official delegated by the Head of Department.	Head: Education	Director: School Financial Management and Governance
11.6	Comparative information should be presented on all statements and notes, except for when an official delegated by the Head of Department has given exception.	Head: Education	Director: School Financial Management and Governance
11.12	Accounting policies should be consistent with prior years, a change in policy will be allowed once it has been endorsed by an official delegated by the Head of Department because it provides a more reliable outcome or is required by the Guideline. Voluntary changes in accounting policies are applied retrospectively.	Head: Education	Director: School Financial Management and Governance

11.16	All research and development expenditures shall be recognized as an expense, how-ever an exception is provided for circumstances which are approved by an official delegated by the Head of Department.	Head: Education	Director: School Financial Management and Governance
11.25	Optional exemptions shall be allowed only if specific approval is granted by an official delegated by the Head of Department to do so.	Head: Education	Director: School Financial Management and Governance

Annexure F: Procedures for Paper Budget Funding

1. Procedures for full disclosure of Paper Budget Funding transferred by the Department to schools by the Gauteng Department of Education
2. Because Treasury Regulation 8.4.1 requires the Accounting Officer to maintain appropriate measures to ensure that transfers and subsidies are applied for their intended purposes, the following accounting treatment is prescribed by the Financial Reporting Guidelines for Schools:
 - Paper budget funding is granted with specific conditions such conditions have reporting implications. A liability thus needs to be recognized by the SGB, as funds have not yet been applied for the purposes intended on the transfer letter or paper budget letter. A receivable is also recorded against the liability as the funds become due to the school.
 - See example 1
3. When the Department pays the paper budget funds to the school, the receivable is reduced to the extent of the amount received
 - See example 2
4. Revenue is recognized when all paper budget requirements are met
 - All expenditure which is in-line with the paper budget requirements is then recognized against the relevant amount of revenue in the Statement of Financial Performance
 - Revenue recognized is limited to the expenditure which is in-line with the paper-budget requirements.
 - See example 3

Illustration of Paper-Budget Allocation

Scenario

Allocation from the Department	R 40,000
First Payment	R 20,000
Second Payment	R 20,000
Amount Spent on paper budget	R 7,500

Example 1

When Allocation letter is made available:

Dr	Receivable	R40000	
Cr	Paper Budget Funding-Payable		R40000

Recording of the Paper-budget allocation by the Department.

Example 2

When the Funds are received:

Dr	Bank	R20000	
Cr	Receivable		R20000

Recording amount received, and reducing the receivable recorded.

Example 3

When Funds are Spent

Dr	Expenditure	R7500	
Dr	Paper Budget Funding-Payable	R7500	
Cr	Revenue - Paper Budget		R7500
Cr	Bank		R7500

Recording Expenditure incurred by the school from the Paper Budget transaction

Annexure G: Template Financial Statement and National Department of Education Circulars

Report by the SGB and Approval Statements (Example)

GDE Example School

Annual Financial Statement for Year Ended 31 December 20xx

Report by the SGB

The School Governing Body submits this report to the stakeholders. This report forms part of the financial statements for the year ended 31 December 20xx

Nature of School

The school is a high school and is a non-fee paying school.

Review of the school financial position and results:

	20xx	20xx
Income – GDE Subsidy	R xxx	R xxx
Net surplus (deficit) for the year	R xxx	(R xxx)

Brief explanation as to the reason for the surplus or deficit

Listing of SGB Members:

Mr X (Chairman)	Ms A (SGB Member)
Mr Y (Secretary)	Mr B (SGB Member)
Ms Z (Treasurer)	Ms C (SGB Member)

Significant events during the period:

The school has achieved a 99% Grade 12 pass rate for the 20xx year.

Chairman
Mr X

SGB Approval Statement (Example)

GDE Example School

Annual Financial Statement for Year Ended 31 December 20xx

SGB Approval Statement

The School Governing Body Members (SGB) are responsible for the maintenance of adequate accounting records and for the preparation of the annual financial statements and related information. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS)/ South African Generally Accepted Accounting Practices (SA GAAP) and in the manner required by the South African Companies Act and South African Schools Act

The SGB are also responsible for the company's system of internal financial control. These controls are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements and to adequately safeguard, verify and maintain accountability for assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the members to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the period under review.

The financial statements have been prepared on the going concern basis, since the SGB believe that the school has adequate resources in place to continue in operation for the foreseeable future.

Chairman

Mr X

Statement of Assets and Liabilities (Balance Sheet) (Example)

GDE Example School		
Annual Financial Statement for Year Ended 31 December 20xx		
Statement of Assets and liabilities at 31 December 20xx		
	20xx	20xx
	R	R
Non-Current Assets	xxx	xxx
Furniture & Fittings	xxx	xxx
Vehicles	xxx	xxx
Computer Equipment	xxx	xxx
Investments	xxx	xxx
Current Assets	xxx	xxx
Investments	xxx	xxx
Accounts Receivable	xxx	xxx
Inventory	xxx	xxx
Cash & Cash Equivalents	xxx	xxx
Total Assets	xxx	xxx
School Funds	xxx	xxx
Surplus (Deficit) funds	xxx	xxx
Non-Current Liabilities	xxx	xxx
Interest-bearing borrowings	xxx	xxx
Current Liabilities	xxx	xxx
Interest-bearing borrowing	xxx	xxx
Accounts & Other Payables	xxx	xxx
Provisions	xxx	xxx
Bank Overdraft	xxx	xxx
Income Tax Liability	xxx	xxx
Total School Funds and Liabilities	xxx	xxx

Statement of Income and Expenditure (Income Statement) (Example)

GDE Example School		
Annual Financial Statement for Year Ended 31 December 20xx		
Statement of Comprehensive Income		
	20xx	20xx
	R	R
Income	xxx	xxx
- School Fees		
- Donations		
- Fundraising		
- Tuck Shop Sales		
- Etc		
Operating Expenses	(xxx)	(xxx)
- Learning Support Material		
- Repairs & Maintenance		
- Tuck Shop Stock Purchases		
- Salaries and Wages [Educators Not funded by GDE]		
- Etc		
Administration Expenses	(xxx)	(xxx)
- Salaries and Wages [Non-Educators Not funded by GDE]		
- Bank Charges		
- Stationery and Printing		
- Etc		
Operating Surplus (Deficit)	xxx	xxx
Finance Income	xxx	xxx
Finance Costs	(xxx)	(xxx)
Surplus (Deficit) for the year	xxx	xxx

Annexure H: Financial Policy Guidelines

Components of a financial policy

A financial policy should have the following items covered as sub-policies:

- Budget policy
- Revenue/income policy
- Debtors management policy
- Procurement (purchases) and payment policy
- Creditors policy
- Bank and cash policy
- Petty cash policy
- Inventory policy
- Asset policy
- Others (Investment, Travel and subsistence, etc.)
- Financial reporting

Budget policy

- The annual budget should be drawn up by the governing body or persons duly appointed by the governing body to perform task; and should be tabled at the Annual General Meeting for approval by parents.
- An annual budget should contain a detailed financial plan of activities which are scheduled to take place during the school year. It should provide information about expected income and anticipated expenditure.
- An annual budget should have a strategic/development plan.
- An annual budget should be used as a measure according to which income and expenditure can be compared with each other.
- The budget should also be used as a control mechanism to monitor whether or not the school is meeting its goals and objectives as outlined in the budget.
- The budget should be used as an instrument to determine corrective measures, on a monthly basis, which may need to be made to the school's financial plan.
- The budget must be realistic.
- All available sources must be considered.
- Proper motivations shall be prepared and presented to the SGB for all cost centres.
- All possible expenses, capital, maintenance and revenue must be considered.
- A separate preparatory form must be completed by committees for each items of income or expenditure.
- The budget must take into account aspects such as changes in legislation, price increases and changes in interest rates, as well as the short, medium and long term goals of the school.
- All interested parties must be considered to make inputs in the budgeting process, e.g. parents of learners at school.
- There should be a clear link between the mission statement and the budget of the school.

- All activities of the school should be related to one or more goals of the school indicated in the mission statement. The budget should be drawn up only after the goals of the school for the relevant year have been determined.
- A combination of three budgeting methods, namely; incremental, zero-based and activity-based budgeting will be used to determine allocations to different items in the budget.
- Incremental budgeting will be used to allocate to stable cost centres such as established extra-curricular activities. Zero-based budgeting will be used to make allocations to new items and activities.
- Payments requiring urgent authorization between governing body meetings should be discussed with the chairperson or treasurer of the governing body responsible for that particular cost centre or activity.

Revenue/income policy

Public ordinary schools primarily generate income from the following sources:

- School fees (where applicable)
 - Department transfers
 - The proceeds of tuck shop sales
 - Cash donations received
 - Proceeds from asset disposals
 - Fundraising proceeds
 - Interest income from investments made
 - Rentals
- Etc.

Formal acknowledgement, in the form of a receipt issued, must be made by the school for all income received.

Where electronic fund transfers (EFT) or direct deposits are made, it is not necessary to issue a receipt, since such income will be reflected and referenced on the school's bank statement, however it is considered good business to issue receipts for all funds received.

Schools must ensure, when issuing receipts, that the following minimum requirements are met:

- All receipts must reflect the date.
- All receipts must reflect the name of the person or school from whom the money is received.
- The nature of the income must be reflected.
- The receipt must reflect the amount received in both words and figures.
- The receipt issued must be sequentially and uniquely numbered. (Receipts must be pre-numbered.)
- Receipt should differentiate between cheques or cash received.
- The duplicate receipt must reflect all the details as indicated on the original receipt.
- The name of the school must be stamped on the receipt if the receipt is not from a pre-printed receipt book.
- The receipt must reflect the signature of the person who issued the receipt.
- Should a receipt be incorrectly completed, such receipt must be cancelled and a new receipt issued.

- If a receipt is cancelled, the original must be attached to the duplicate, either via stapling or glue.
- Under no circumstances must information be altered, e.g. "tippex".

Notwithstanding the aforementioned procedure, income derived from minor fundraising events, e.g. Civvies days, Valentine's Days, Computer classes, etc, can be recorded on class lists by the class teacher. The finance officer/bursar then issues a covering receipt for the money reflected on the class list. The receipt must be attached to the class list and kept on file. The covering receipt must be referenced.

Debtor management policy

The SASA imposes a responsibility on all public ordinary school governing bodies to do their utmost to improve the quality of education in their schools by raising additional funds to supplement those which the state provides from public funds (Section 36).

A public ordinary school (fee paying school) has the right to take legal action against a parent, who does not pay school fees, but only after the exemption criteria have been applied and the parent is still liable to pay such fees. The learner must remain in school while the case is on.

The exemption from payment of school fees is a mechanism government has put in place to assist parents to access quality education for their children, irrespective of their background or financial constraints. Exemptions must be calculated retrospectively from the beginning of the year, if the parent qualifies.

Parents who cannot afford to pay school fees must apply to the SGB for conditional, partial or full exemption from paying school fees. Application forms can be obtained from the SGB through the principal of a school. Public ordinary schools must inform parents of the criteria and procedures and assist them in applying for exemption from paying school fees. The SGB must inform the applicant of the outcome of the application in writing within 7 days after assessing the application for exemption.

If a parent is not satisfied with the SGB decision related to full or partial exemption, he/she may appeal to the Head of Department against the decision of the school within 30 days after receiving the school's decision. It is the responsibility of every public school to assist the parents in lodging appeals.

Bank and cash policy

- A current bank account shall be opened in the name of the school with the Principal, Treasurer and the Chairperson of the governing body as signatories.
- Deposit shall be made on the date on which the money has been received or not later than five days of receipt of such money.
- The School Governing body will be responsible for the receipt and recording of all money received and spent by the school.
- The School Governing Body will appoint in writing the member of the teaching staff of the school to act as the School Finance Officer and to look after the day to day receipt and recording of money.
- The name and signature of the person receiving the money and issuing the receipt must be clearly indicated in the receipt.

- The person issuing the receipt should ensure that only one receipt is issued for each amount of money received.
- No alterations may be made on any receipt. If a mistake is made, the receipt should be cancelled by writing "CANCELLED" in clear large letters in ink across the original receipt as well as its duplicate copy. The cancelled original and duplicate receipts should not be removed from the receipt book.
- The treasurer shall sign all receipts.
- The receipt book shall be ruled of in red ink at a point when the money is banked.
- Monies payable to the school will be received only during hours by the Financial Officer, the Principal or Class Teachers.
- Immediately after receipt, the money should be locked in the cash box together with the receipt book. (The school has no safe)
- Money for which no receipt has been issued should not be kept in the cash box. In order to reduce the risk of loss through theft or robbery, a minimum amount of money should be kept in the cash box.
- Deposit slips should be properly completed, and the deposit slip totals should be balanced with the receipt cash book totals prior to the banking of the money.
- Where a person other than the Finance Officer or Principal accepts responsibility to deposit money at the bank, that person should check the money to be deposited against the deposit slip details, and should co-sign the deposit slip as evidence thereof.
- Arrangements for depositing money must be varied to reduce the risk of loss through robbery. The principal or finance officer must transport money to be banked accompanied by a different member of staff on each occasion.

Procurement (purchases) and payments policy

- All payments made by the school, except petty cash reimbursement cheques, should be made with a crossed cheque.
- No money held for receipts may be used to make payments.
- Where it is not practical to pay supplier by cheque (e.g. when buying postal stamps) such purchase should be paid for using the petty cash.
- Goods are to be ordered in accordance to the approved budget.
- Three quotations should be sourced from different suppliers with the best quote accepted.
- When goods are delivered the delivery note is to be checked against the invoice
- The payment vouchers are to be authorized by all signatories with all the supporting documents attached.
- There must be three signatories to the school bank account, and they will include the finance officer and the principal.
- The use of pre-signed cheques should be avoided at all times.
- All cheques should be crossed*NOT TRANSFERABLE* and signed by two of the three signatories authorized by the School Governing Body. Cash cheques may not be issued under any circumstances.
- Any alteration on a cheque should be counter-signed by both cheque signatories.
- Where a cheque is cancelled, the *CANCELLED* should be written in ink across the cheque and on the cheque stub. The cancelled cheques should be filed in sequence together with the cheques which the bank returns after payments have been made.
- In the event of the appropriate cheque signatories not being available, telephonic approval for deviating from the above requirements should be obtained from the treasurer of the governing body.
- Only one cheque book may be in use at any one time.

- Payments should be made only when supported by properly authorized payment vouchers.
- Only the School Governing Body may authorize payments in excess of R1000 for any item, including items in the budget.
- Third party, personnel or school cheques may not be cashed in the petty cash.
- Payments should not be made for items not included in the budget or where the budget will be exceeded unless prior approval of the governing body has been obtained.
- Requests for payments must be made on a properly completed cheque requisition.
- The requisition form will be approved only if accompanied by authorization to purchase (where possible, in the form of an order form) and a detailed invoice, signed as evidence of the receipt of goods or services being paid for.
- Two or three signatories should check the invoice details prior to approving the requisition form or signing the cheque used for the payments of goods or services.
- Quotations must be considered and approved by the school governing body or an appropriately constituted sub-committee of the governing body at a meeting specially convened for this purpose.
- A short list of possible suppliers should be compiled and appropriate enquiries made regarding their ability to provide the goods or services required.
- Unless valid reasons or concerns exist especially in terms of quality services delivery, the lowest quotation should be accepted.
- As per directive of the Head of Department, the signatories will be the Chairperson; the Treasurer and the Principal.
- All payment vouchers, cheque requisitions, bank statements and paid cheques should be properly filed for audit and reference purposes.
- Cheque requisitions and payment vouchers should be filed in sequence according to cheque numbers, together with their respective returned paid cheques.
- Order forms should be printed in triplicate and be pre-numbered.
- Order books should be recorded in the controlled stationery register.
- When order books are required, they must be signed out by the finance officer, principal or any other person authorized by the governing body.
- The school stamp must be affixed on both the original and duplicate copies of the order books.

Petty cash policy

- An initial amount of R1000 will be made available for petty cash on the first day of the month. The governing body will determine the maximum amount of petty cash float from time to time. The amount should be sufficient to cover the normal daily petty cash requirements of the school.
- The original petty cash advance should be made in the form of an uncrossed cheque made out to the Finance Officer or Principal.
- Thereafter, the petty cash should be reimbursed by cheque upon the presentation of appropriately authorized petty cash vouchers.
- No advances (*IOUs*) may be made out of petty cash, except where amount is authorized, for example, to be given to a person to purchase stamps or pay entrance fees for a class outing wherever possible, the amount due should be determined in advance and payments made by cheque.
- The petty cash box should be kept in a secure place when not in use.
- Petty cash payment should only be processed once the petty cash voucher has been authorized.

- Where petty cash is used to cover transport costs to attend workshops or sports events, a copy of the letter identifying this is to be attached to the petty cash voucher.
- Only the finance officer, principal or other persons duly authorized by the governing body may have access to the petty cash box
- The petty cash should be balanced and reconciled monthly.
- Should a cash surplus be found, the amount should immediately be accounted for through the issue of a receipt, and the reason for the surplus is thoroughly investigated.
- Should a cash shortage be found, the responsible person (SGB Treasurer Finance Officer, Principal, Class teacher or duly designated person), should pay the amount and make an appropriately described entry in the receipt cash book.
- In the event of a shortage, the school governing body may permit the responsible person to provide it with all relevant facts and, if the governing body is satisfied that the responsible person should not be held liable for the shortage, it may authorize the writing off of the shortage.

Inventory policy

- The finance committee is to delegate duties to persons to keep control of the various stock items of the school.
- Proper records of stock items will be kept by using tally cards or stock registers.
- All stock items, where possible, should be marked to indicate that it belongs to the school.
- Great care should be exercised in storing the school's stock and stock rooms should be locked and only authorized persons be allowed access.
- Stock take is to be done annually or when deemed necessary, by the person in charge of such stock.
- The school may undertake to repair any stock item if and when the need arises.
- If any stock item is irreparable, then it may be written off. The principal will inform the necessary authorities and follow appropriate procedures.
- Each year when deemed necessary, the principal will establish a lead of survey to review the stock position in the school. The members of the board of survey will be to:
 - Enquire about old and problematic items of stock
 - Dispose of any items that are unserviceable, damaged or obsolete.
 - Enquire about surpluses and shortages of stock items.
 - Prepare a report on findings and submit to the relevant authorities.

Asset policy

The SGB must appoint a person at the school in writing to be responsible for the custodianship of the school's assets (Asset Officer). This person should ensure the following:

- Assets must be marked with permanent black ink.
- Assets must be used only for the purpose intended.
- Assets must be physically secured to prevent theft or misuse.
- Insurance should be taken out for significant assets (e.g. computers).
- A fixed assets register must be maintained, containing the following details:
 - Type and description of asset
 - Custodian of the asset
 - Date of purchase
 - Date of donation
 - Cost price/accumulated depreciation/ net book value
 - Useful life

- Location of the asset
- Asset number (internally generated for control purposes)
- Serial numbers
- Loss control registers

The custodian must report regularly (at least once a quarter) to the SGB with regard to losses, theft and record of assets (loss control registers).

- The school should appoint a disposal board to implement the procedure and policy regarding the disposal of fixed assets.
- The disposal board should have a member of the SGB as its chairperson.
- An effort should be made to share surplus assets and move unused items to a place where there is a need (other schools).
- The disposal board is responsible for establishing the price and negotiates the disposal with other schools.
- Once the asset has left the school, the asset register must be updated.
- When an asset is disposed of, it must be removed from the financial records.
- The SGB must approve the recommendations of the disposal of assets by the disposal board.
- The individual's name or the school that received the sale/donation must be recorded.
- The name of the purchasing school or individual is recorded, as well as the selling price.
- All funds received must be banked.

Assets under lease agreements (finance and operating leases) should also be identified and included on the asset register. They may include:

- School vehicles (finance lease)
- Photocopier and printing machines (operating leases)

Other policies

Subsistence allowance

The following procedures are the minimum requirements and must be part of the financial policy on travelling and subsistence reimbursement:

- The SGB (Finance Committee) should annually review and determine the rates of advances and reimbursements. A combination of the Automobile Association's rates and/or rates issued by the National Department of Transport and/or rates based on local circumstances can be used.
- All travel and subsistence costs must be properly authorised in writing before they are incurred. Retrospective approvals must not be allowed, unless there are exceptional circumstances that must be explained and noted in detail.
- Claimants must clearly understand/have access to the travel policy and applicable rates. It is advised that the travel policy be circulated every time the document is updated.
- Reimbursements for subsistence expenses (e.g. for meals) must be clearly stipulated, e.g. daily flat rate, or exact claims for expenses actually and necessarily incurred.
- The person(s) responsible for authorising the travelling and subsistence expenses must be appointed in writing by the SGB.
- The SGB must ensure that there are effective internal control measures in place to provide that only the official rates are paid for travel and subsistence expenses incurred on behalf of the school.

- The school governing body and the school management team must agree on the following tariffs for transport claims;
- Transport claims will be determined by the number of kilometres travelled by the claimant and a rate determined by the finance committee.

Investment policy

- No investment of a speculative nature may be made using school funds or resources.
- No agents should be used when placing deposits in an investment account, and no commission should be received by anyone for the placing of deposits.
- Unless otherwise authorized by the MEC, investments will be in one or more of the following forms:
 - Current or cheque account
 - Transmission of savings account
 - Call account
 - Notice deposit account
 - Fixed deposit account
- Deposits can be moved between banks or types of investments based only on factors such as the interest rates offered and the cash flow requirements of the school.
- The composition of the school's investment portfolio will be reviewed monthly by the governing body.

Financial reporting policy

- The financial year of the school runs from January to 1 December.
- The financial statement should be prepared for submission to the governing body or persons appointed by it for reporting purposes. The statement should be disturbed at least three days before the monthly meetings of the governing body.
- Monthly statements should provide information on the following:
 - Income and expenditure for the month and for the year to date.
 - Comparisons of amounts with in budgeted amounts and an analysis of any variance.
 - Projected income and expenditure for the year.
 - Status of all projects (both major and minor)
 - Details of money in the bank and funds invested.
- The school is to submit income and expenditure quarterly reports to the department.
- Unaudited Annual Financial Statements should be presented to the governing body for consideration within 1 month after the end of each financial year.
- The audited Annual Financial Statements should be submitted to the Head of Education within 6 months after the end of each financial year as required by the South African Schools Act (30 June yearly).
- Annual financial statements are to be compiled in accordance to Generally Accepted Accounting Practice (GAAP)
- The financial statements are to include the following:
 - Balance sheet
 - Income statement
 - Notes to financial statements
 - Cash flow statement
- The Annual Financial Statements should be audited by a person appointed by the governing body, who is registered as a public accountant and auditor in terms of the

Public Accountant's and Auditor's Acts of 1991 or authorized by the Head of Education to act as such.

- The auditor may not be a member of the governing body.
- The SGB is to appoint the registered accountant and auditor CA (SA) in terms of section 43(1) of SASA.
- Upon the appointment of the accountant or auditor an appointment and engagement letter should be available and stored in a safe place.

Summary Procedures/Checklist – Financial Policy

No	Procedure / Checklist Item	Yes	No	N/A
	Schools Financial Policy			
	Does the school have written finance policy that has been approved by the SGB			
	Does the finance policy clearly outline procedures and rules for handling money?			
	Does the finance policy provide a clear understanding of the duties/roles & responsibility of the Treasurer			
	Does the finance policy provide a clear understanding of the duties/roles & responsibility of the finance officer			
	Does the finance policy provide a clear understanding of the duties/roles & responsibility of the Principal			
	Does the finance policy provide a clear understanding of the duties/roles & responsibility for each of the other appointed financial delegates			
	Does the schools finance policy include detail over the schools procurement process			
	Does the schools finance policy include detail over the schools petty cash process			
	Does the schools finance policy include detail over the schools traveling and subsistence allowances			
	Does the schools finance policy include detail over the schools asset management process			
	Does the schools finance policy include detail over the schools inventory management process			
	Does the schools finance policy include detail over the schools debtor management process			
	Does the schools finance policy include detail over the schools donations and fund raising process			

Legend:

	One of the options of Yes or No or N/A is not available as a response to the question.
	A red highlighted block indicates that if this option is chosen as a response to the question then the school would be in non-compliance with some aspects of SASA.
	A response in an empty block would indicate that the school would still be in compliance with SASA.

National Department of Education Circulars

DBE Circular M3 of 2017



basic education

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Basic Education
REPUBLIC OF SOUTH AFRICA

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To: Heads of Provincial Education Departments
CC: Heads of Provincial Institutional Management and Governance
Chief Financial Officers
District and Circuit Managers
School Principals and School Governing Bodies

CIRCULAR M3 OF 2017

MEASURES TO STRENGTHEN COMPLIANCE TO SECTION 42 AND 43 OF THE SOUTH AFRICAN SCHOOLS ACT (SASA)

In accordance with Section 4 of the National Education Policy Act, No 27 of 1996, the Department of Basic Education (DBE) is legislated to develop national policies for the planning, provision, financing, co-ordination, management, governance and monitoring of the education sector. Monitoring also includes compliance with education laws such as the South African Schools Act (SASA).

Corruption Watch and various other investigation organisations issued a number of reports on the state of financial management in the schooling system. The Corruption Watch Report titled, *“Loss of Principle: New Schools Report”* indicated that a total of thirty seven per cent (37%) of the allegations were related to financial mismanagement.

Some of the root causes for mismanagement in schools were as follows:

- (a) Insufficient documentation;
- (b) Inaccurate financial statements prepared and examined by Accounting Officers;
- (c) Theft of assets;
- (d) Collusion between Principals, School Governing Bodies and Auditors;
- (e) Poor internal controls for compliance with SASA;
- (f) No accounting manuals in place;
- (g) Lack of segregation of duties between bookkeepers and auditors; and
- (h) Changing of audit opinions.

Therefore, this circular is aimed at providing guidance on the implementation of Section 42 and 43 of the South African Schools Act to relevant stakeholders to improve the state of affairs of financial management in schools and adherence to the South African Schools Act.

Basic Education • Basiese Onderwys • Imfundo Lesisekelo • Ifundosisekelo • IMfundo Eyisisekelo • IMfundo esiSiseko • Dyondzo ya le Hansi
Pfunzo ya Mutho • Thuto ya Motheo • Thuto ya Motheo • Thuto e Potlana

The following measures are recommended to be implemented by Provincial Education Departments (PEDs), School Governing Bodies and Principals:

1. Implementation of Section 42 of SASA relating to guidelines on development of financial statements and segregation of duties between bookkeepers and auditors

The South African Schools Act came into effect in 1996 and was amended by BELA, No.15 of 2011. Section 42 (b) of the South African Schools Act requires that a governing body of a public school must as soon as practicable, but not later than three months after the end of each financial year, draw up annual financial statements in accordance with the guidelines determined by the Member of the Executive Council (MEC). In this regard, all Provinces to date were required to provide to the school governing bodies a copy of guidelines to be used in the development of annual financial statements.

Control measure 1 - The DBE requested Provinces to submit guidelines during the course of this financial year. However, only three (3) Provinces responded by submitting draft copies of the guidelines. In order to provide a uniform means of developing annual financial statements, the DBE is currently in discussion with the South African Institute of Chartered Accountants (SAICA) to develop an accounting manual template for the schooling system. The copy of the guidelines will be made available for public comment on the DBE's website.

Control measure 2 - The DBE, in consultation and agreement with SAICA, will provide capacity to Provinces by entering into a transversal contract with regard to allocating graduates from Technical and Vocational Education and Training (TVET) colleges to assist schools in preparing annual financial statements. The DBE will request Heads of PEDs to participate in this agreement through a formal letter. PEDs will be required to fund the graduates through the Skills Development Levy with a stipend per graduate. This measure should also remediate the findings raised on inadequate segregation of duties between bookkeepers and auditors and reduce the cost of auditing of the financial statements when utilising registered auditors.

2. Implementation of Section 43 of SASA relating to the compulsory appointment of registered auditors

Section 43 of the SASA requires that the governing body of a public school must appoint a person registered as an auditor in terms of the Auditing Profession Act, 2005 (Act No. 26 of 2005), to audit the records and financial statements. The interpretation of this clause is that the first compulsory option for auditing or examining the financial records and statements vests with a registered auditor. Paragraph 96 (vi) of the National Norms and Standards for School Funding also regulates the allocation of audit fees for schools to appoint auditors to audit the financial statements. The following is recommended with regard to audit or examination of financial records and statements:

Control measure 3 - It is recommended that PEDs should allocate an amount for audit fees in the allocation letters that are submitted to schools on an annual basis.

Section 43 (2) further states that if the audit referred to in subsection (1) is not reasonably practicable, the governing body of a public school must appoint a person to examine and report on the records and financial statements referred to in section 42, who—

- (a) is qualified to perform the duties of an accounting officer in terms of Section 60 of the Close Corporations Act, 1984 (Act No. 69 of 1984); or
- (b) is approved by the Member of the Executive Council for this purpose.

In this instance, the words “is not reasonably practicable” can be interpreted as follows;

“the school governing body has proper measures implemented to determine whether an appointment of a registered auditor is not feasible to implement and therefore compliance to Section 43 (2) (a) and (2) (b) will be the next required alternative to appoint a person to examine the records”.

Control measure 4 - In order to implement Section 43 (2) (a), the schools should provide the following:

- (a) Three (3) quotations obtained from different audit firms for comparison. These quotations should be kept safely in the event that the National Department or Provincial Department requests them for monitoring and evaluation or audit purposes;
- (b) A motivation letter to be attached and signed by the School Governing Body as an indication that control measures were in place and a feasibility study was performed to appoint an Accounting Officer instead of a registered auditor; and
- (c) The minutes of the School Governing Body meeting regarding the appointment of the Accounting Officer must be signed and kept by schools for record keeping purposes.

Control measure 5 – In an event Section 43 (2) (b) is required, the schools are required to implement the following:

- (a) A letter of approval from the MEC must be kept by the School and the PED. It is the responsibility of the PED to ensure that qualified individuals are appointed to book keep and examine the records. Appointing unqualified or unskilled individuals to perform an examination of the books of schools will pose a risk of fruitless and wasteful expenditure. Fruitless and wasteful expenditure may result from inaccurate or incorrect financial statements being prepared which may consist of material misstatements in the financial statements.

Section 43 (3) (4) of the SASA states that, no person who has a financial interest in the affairs of the public school may be appointed under this section, and if the Member of the Executive Council deems it necessary, he or she may request the Auditor-General to undertake an audit of the records and financial statements of a public school.

Control measure 6 – In an event Section 43 (3) (4) is required, the schools are required to implement the following:

- (a) A letter of approval from the MEC must be kept by the School and the PED for the appointment of the Accounting Officer; and
- (b) Regarding financial disclosure, validations must be performed on CIPC to determine whether any conflict of interest exists.

3. Reporting on compliance with Section 42 and 43 of SASA

In terms of Section 4 of NEPA, the DBE is regulated to perform evaluation and monitoring exercises to determine compliance with SASA.

Control measure 7 - In this regard, the DBE will require the following to be implemented by the PEDs:

- (a) PEDs should report to the DBE on 30 August of every year on all schools who have submitted and not submitted their audited financial statements; and
- (b) Proof that the PED has reviewed the financial statements.

A reporting template that is recommended for utilisation will be uploaded on the National website under:

<https://www.education.gov.za/Programmes/SectorAuditOutcomes.aspx>.

The following items are included in the reporting template, however, not limited to the following:

- (a) School Name;
- (b) Submission date;
- (c) Submitted by;
- (d) Audited/Reviewed by;
- (e) Improvement Plan;
- (f) Database of schools with auditors names and practice numbers; and
- (g) Analysis of audited/Reviewed financial statements.

For the 2016/17 school financial year, PEDs are required to submit the compliance report referred to in (c) above no later than 30 November 2017. Should the PEDs fail to submit the report to the DBE within the specified time period, a non-compliance certificate will be issued to the respective PEDs in the following week after the due date.

4. Validation of Registered Auditors and Accounting Officers

Schools and Provinces should ensure that Accounting Officers appointed belong to an Accounting Body recognised by the Companies and Intellectual Property Commission (CIPC) in terms of the Close Corporations Act, 1984 and Registered Auditors are registered with the Independent Regulatory Board of Auditors. In this regard, the following measures are required to be implemented:

Control measure 8 - Validation of Registered Auditors –

- Step 1 - Visit the webpage www.irba.co.za
- Step 2 - Click on "Find an RA"
- Step 3 - Search for "Registered auditor/firm".

The above steps are also included in the Department of Basic Education webpage under <https://www.education.gov.za/Programmes/SectorAuditOutcomes.aspx>.

Control measure 9 - Validation of Accounting Officers – Circular M4 of 2017 for free access to CIPC for validation purposes can be used in this instance. The following are the Accounting Bodies recognised by the CIPC for purposes of appointment as Accounting Officers in terms of the Close Corporations Act, 1984:

- 4.1 The South African Institute of Chartered Accountants (SAICA);
- 4.2 Auditors registered in terms of the provisions of the Auditing Profession Act, 2005(CA);
- 4.3 The Southern African Institute of Chartered Secretaries and Administrators (ICSA);
- 4.4 The Chartered Institute of Management Accountants (CIMA);
- 4.5 The South African Institute of Professional Accountants (SAIPA);
- 4.6 The IAC who have obtained the Diploma in Accountancy (IAC);
- 4.7 The Association of Chartered Certified Accountants (ACCA);
- 4.8 The Chartered Institute of Business Management (MCIBM);
- 4.9 The South African Institute of Business Accountants (SAIBA); and
- 4.10 The South African Institute of Government Auditors (SAIGA).

The following steps should be followed in order to verify if the prospective Accounting Officer is registered with a professional body:

4.1.1 The South African Institute of Chartered Accountants verification steps:

- Step 1 – Visit the webpage <https://www.saica.co.za>
- Step 2 – Click on "Members"
- Step 3- Then select "Verify a Member"

4.1.2 The Southern African Institute of Chartered Secretaries and Administrators (ICSA) verification steps:

- Step 1 – Visit the webpage <https://www.icsa.org.uk/directory-of-members>
- Step 2 – Punch in the member details

4.1.3 The Chartered Institute of Management Accountants (CIMA) verification steps:

- Step 1 – Visit the webpage <https://www.cimaglobal.com>
- Step 2 - Scroll down to "Useful links"
- Step 3 – Select "find a CIMA Accountant"
- Step 4– To verify if the member is qualified, email the request to the following address cima.contact@cimaglobal.com.

4.1.4 The South African Institute of Professional Accountants (SAIPA) verification steps:

- Step 1 – Visit the webpage <https://www.saipa.co.za/member-verification/>
- Step 2 – Enter the SAIPA Nr, ID or passport Nr
- Step 3 – If the membership number starts with “PRAC” and “ATC”, verification can only be done by contacting SAIPA, at 011 207 7840.

4.1.5 The IAC who have obtained the Diploma in Accountancy (IAC) verification steps:

- Step 1 – Visit the webpage <http://www.iacsa.co.za>
- Step 2 – Select “Members”
- Step 3 – Click on “List of Members”
- Step 4 – Select “List of Accounting Officers”

4.1.6 The Association of Chartered Certified Accountants (ACCA) verification steps:

- Step 1 – Visit the webpage <http://www.accaglobal.com/sg/en.html>
- Step 2 – Select “Members”
- Step 3 – Click on “Find an Accountant”
- Step 4 – Click on either “Directory of ACCA members or “Find an ACCA accounting firm”.
- Step 5 – Enter details of company or individual

4.1.7 The Chartered Institute of Business Management (MCIBM)

Membership to CIBM is NOT compulsory.

https://www.chartsec.co.za/index.php?option=com_content&view=article&id=66&Itemid=76

4.1.8 The South African Institute of Business Accountants (SAIBA) verification steps:

- Step 1 – Visit the webpage <https://saiba.org.za/verify>
- Step 2 – Select “Search Member”
- Step 3 – Type in the member number

4.1.9 The South African Institute of Government Auditors (SAIGA) verification steps:

- Step 1 – Visit the webpage www.saiga.co.za
- Step 2 – Go to “Quick Links”
- Step 3 – Click on “Verify a Member”

5. Measures to be implemented on integrity of Audited Annual Financial Statements

Schools are encouraged to appoint registered auditors to audit their annual financial statements. Auditors who are registered with the Independent Regulatory Board of Auditors (IRBA) who are regulated by the Auditing Profession Act, are regulated to express an opinion regarding the financial state of an entity. Accounting Officers are not allowed to perform an audit or to express an opinion on the financial statements of an entity. Accounting Officers can only examine the financial records of an entity and may provide a book keeping service for the school. However, risks associated with the appointment of Accounting Officers will be remediated when an agreement is entered into by the Provincial Department through the transversal contract with SAICA.

Section 47(1) (a) of the Auditing Profession Act states that the Regulatory Board, or any person authorised by it, may at any time inspect or review the practice of a registered auditor and the effective implementation of any training contracts and may for these purposes inspect and make copies of any information, including but not limited to, any working papers, statements, correspondence, books or other documents, in the possession or under the control of a registered auditor.

Control measure 10 -The Department of Basic Education will utilise the judgemental sampling method to select Registered Auditors who audited the annual financial statements for schools and request an inspection of the audit work performed by IRBA.

It is the responsibility of the IRBA to promote integrity of the auditing profession as stipulated in Section 4(1) of the APA by conducting the following:

- (a) Investigating alleged improper conduct;
- (b) Conducting disciplinary hearings;
- (c) Imposing sanctions for improper conduct; and
- (d) Conducting practice reviews or inspections.

Control measure 11 – In the event an Accounting Officer is appointed, the Professional Bodies that the Accounting Officers are registered with, will also undergo an inspection of the work performed by their respective professional bodies. It is also the responsibility of the Accounting Officers who are appointed in accordance with the Close Corporations Act to promote integrity and accuracy of the work performed by the Professional Bodies that they belong to.

Control measure 12 – In the event a body is appointed by the MEC, the DBE will utilise internal processes to inspect the records and financial statements.

You are kindly requested to bring Circular M3 of 2017 to the attention of all District Directors, Heads of Provincial Institutional Management and Governance, Chief Financial Officers, School Principals and School Governing Bodies.



All enquiries related to this circular should be directed to the contact details as indicated above. Circular M3 of 2017 is effective immediately upon the date of signature by the Director-General of the DBE.

Yours sincerely

MR HM MWELI
DIRECTOR-GENERAL
DATE: 07/11/2017

DBE Circular M1 of 2018



basic education

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To: **Heads of Provincial Education Departments**
CC: **Heads of Provincial Institutional Management and Governance**
Chief Financial Officers
District and Circuit Managers
School Principals and School Governing Bodies

CIRCULAR M1 OF 2018

LEGAL INTERPRETATION FOR SECTION 43 (2) OF SASA REGARDING "IS NOT REASONABLY PRACTICABLE"

The Department of Basic Education (DBE) sought a legal interpretation from Senior Counsel regarding Section 43 (2) of the South African Schools Act which reads as follows:

Section 43(2) of the SASA states that, "If the audit referred to in subsection (1) is **not reasonably practicable**, the governing body of a public school must appoint a person to examine and report on the records and financial statements referred to in section 42".

Based on the number of enquires received relating to the interpretation of the phrase "is not reasonably practicable", the Department of Basic Education has developed Circular M1 of 2018 to provide a legal opinion on this matter.

The legal opinion received by Senior Counsel is as follows:

"Reasonable practicality is a phrase that can only be interpreted on the basis of the circumstances of a particular case. For instance, in **Afriforum & another vs University of the Free State**, the Constitutional Court dealt with the interpretation of the phrase 'reasonable practicability' in the context of Section 29 (2) of the Constitution. A contextual approach was applied in terms of which consideration was given to other sub-sections, sections and/or chapters. It was further held that factors to be taken into account in determining reasonable practicability includes feasibility, fairness, and the need for inclusivity and measure to make education progressively available and accessible."

"Reasonable practicability referred to in Section 42 (2) of SASA includes the financial resources of the school, the values of the assets of the school and all other relevant matters. Whether or not it is reasonable practicable to perform an audit through a

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registered auditor as contemplated in sub-section (1) will be determined on the basis of facts of each case. What is clear however is that sub-section (2) makes provision for further two options in relation to the inspection of financial statements and records of schools", which may be followed should all factors considered be against the appointment of a registered auditor".

"Section 43 of SASA makes provision for three (3) options to a school in relation to its records and annual financial statements, namely to appoint a registered auditor to perform an audit on such records and financial statements, to appoint an Accounting Officer as contemplated in section 60 of the Closed Corporations Act the list of which has been determined by the Companies and Intellectual Property Commission (CIPC) or seek approval from the relevant Member of the Executive Council (MEC) for the appointments if a particular person to examine and report on the records and financial statements of that school. **The last two options can only be exercised if it is not reasonable practicable to appoint a registered auditor to perform an audit in terms of sub-section (1).** Reasonable practicability depends on the circumstances of the school which may differ from one school to another".

You are kindly requested to bring Circular M1 of 2018 to the attention of all District Directors, Heads of Provincial Institutional Management and Governance, Chief Financial Officers, School Principals and School Governing Bodies.

All enquiries related to this circular should be directed to the contact details indicated above. Circular M1 of 2018 is effective immediately upon the date of signature by the Director-General of the Department of Basic Education.

Yours sincerely


MR HM MWELI
DIRECTOR-GENERAL
DATE: 04/09/2018

