

PUBLIC SCHOOLS FINANCIAL STATEMENTS: PREPARATION AND AUDIT

Introduction

Some of the challenges faced by public schools in South Africa include the mismanagement of funds and a lack of skills. The South African Schools Act, 1996 (Act no. 84 of 1996) (SASA) places the responsibility for management of school funds and the reporting thereon on the School Governing Bodies (SGB). However in most cases the SGB does not have the necessary skills or knowledge to ensure that the school finances are properly managed and reported which results in misappropriation, fraud, theft and improper control of financial records. This is mainly the case in schools that are based in the previously disadvantaged communities where most of the SGB members do not have financial management knowledge or skills.

There is also a confusion around the preparation and audit or examination of financial statements which makes it difficult for the SGB to discharge their duties as required by the SASA. In terms of section 42(b) of the SASA the SGB 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 some cases the SGB is not aware of the MEC approved financial reporting guidelines that they should use to prepare the financial statements, resulting in different financial reporting frameworks being used in one province. This may have a negative effect on the comparability and consistency of school financial statements in the province.

The preparation of financial statements

The SGB can appoint a professional either on a permanent or contract basis to prepare the financial statements of the school. To comply with section 42(b), the Provincial Education Department (PED) must communicate the approved guidelines to the schools in their province. For the professional that has been appointed to prepare the financial statements, the first step would be to establish whether there are any approved guidelines to apply when preparing the financial statements by inquiry of the SGB or the relevant PED, to ensure that section 42(b) is complied with.

The following provincial education departments have approved financial reporting guidelines available on their websites:

- Kwa Zulu Natal
- Western Cape
- Northern Cape

For those provinces where the approved financial reporting guidelines are not available at the school or PED's website, the professional or the SGB should consult the district officials to determine which guidelines they should use to prepare the financial statements.

Who can audit or examine the financial statements of a public school?

In terms of section 43(1) of the SASA, the SGB 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 of the school. Section 43(2) of the SASA states that if the audit is not reasonably practicable, the SGB must appoint a person who

- is qualified to perform the duties of an accounting officer in terms of section 60 of the Close Corporation Act, 1984 (Act no. 69 of 1984) (CC Act) to examine and report on the financial statements; or

- is approved by the MEC for this purpose.

The first compulsory option for the SGB is to appoint a registered auditor in terms of section 43(1), this is also highlighted in Circular M3 of 2017 (Circular M3) that was issued by the Department of Basic Education. It is only when it is not reasonably practicable for the school to appoint a registered auditor that examination can be done. The words “not reasonably practicable” are not defined in the SASA, which causes confusion to the SGBs. Circular M3 interprets the words as the SGB having proper measures in place to determine whether an appointment of a registered auditor is not feasible therefore section 43(2) will be the next required alternative.

Circular M3 requires the school to provide the following documents to justify the appointment of an accounting officer instead of a Registered Auditor:

- Three quotations obtained from three different audit firms for comparison;
- A motivation letter signed by the SGB indicating that control measures were in place and a feasibility study was performed to appoint an accounting officer instead of a registered auditor; and
- Signed minutes of the SGB meeting regarding the appointment of the accounting officer.

Now the next question is: who is qualified to perform the duties of an accounting officer in terms of the CC Act,? Any person registered with any of the accounting bodies below which are recognized by the CIPC for purposes of appointment as accounting officers in terms of the CC Act:

- The South African Institute of Chartered Accountants (SAICA)
- Auditors registered in terms of the provisions of the Auditing Profession Act (2005)
- The Southern African Institute of Chartered Secretaries and Administrators (ICSA)
- The Chartered Institute of Management Accountants (CIMA)
- The South African Institute of Professional Accountants (SAIPA)
- The IAC who have obtained a Diploma in Accountancy (IAC)
- The Association of Chartered Certified Accountants (ACCA)
- The Chartered Institute of Business Management (MBCIBM)
- The South African Institute of Business Accountants (SAIBA)
- The South African Institute of Government Auditors (SAIGA)

Financial Management in schools affects the quality of education delivered to the learners which is a constitutional right. It is therefore imperative that the SGB is well equipped to perform their duties regarding financial management and reporting as per the SASA. Financial reporting guidelines which are clear, easy to understand and appropriate for a school environment must be available for the SGB to prepare financial statements. It is recommended that uniform financial reporting guidelines should be adopted to ensure comparability and consistency of public schools' financial statements across the country.