

**FINANCIAL ACCOUNTABILITY AND REPORTING BY GOVERNING BODIES
OF PUBLIC SCHOOLS IN SOUTH AFRICA**

By

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DECLARATION

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FINANCIAL ACCOUNTABILITY AND REPORTING BY GOVERNING BODIES OF PUBLIC SCHOOLS IN SOUTH AFRICA

I declare that the above thesis is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.



03/05/2019

SIGNATURE

DATE

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DEDICATION

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ABSTRACT

This study was about the lack of uniform financial reporting guidelines to be used by South African School Governing Bodies (SGBs) in preparing their financial statements and financial records, which resulted in the inconsistencies and the lack of comparability in the financial statements of section 21 schools. The researcher aimed to develop recommended practice guidelines to be used by SGBs of public schools in South Africa when preparing their financial statements.

The research was conducted through a qualitative approach using document analysis, supplemented by individual interviews. Provincial guidelines and selected schools' financial statements were analysed. Schools' principals, finance officers, auditors, School Governing Body treasurers, as well as districts officials were interviewed. The participants were selected using a purposive sampling method.

Without generalising, the findings revealed that the existing provincial guidelines as well as the financial statements of the selected schools, are not consistent. The inconsistencies affect the comparability of the financial information negatively and that may also have negative impact on the reliability of financial information. The findings from the interviews, supported by the literature review, revealed that there is a need for uniform guidelines in terms of preparation of schools' financial statements. The findings also revealed that the majority of SGBs opt for the examination of accounting records and financial statements instead of the audit thereof. Recommended practice guidelines were developed using information acquired through the literature review and the data acquired through document analysis and interviews. The study recommended amongst others that a further study be conducted on the effectiveness of financial management training in addressing the financial reporting challenges of South African public schools and whether the examination (instead of audit) of schools' financial records and financial statements should still be acceptable.

Key words: financial statements; accountability; guidelines; school governing bodies; audit; comparability; consistency; compliance; documents; accounting records; independence

TSHOBOKANYO

Thutopatlisiso eno e batlisisitse go tlhokagala ga kaedi e e tshwanang ya dipegelo tsa ditšhelete e e ka dirisiwang ke Makgotlataolo a Dikolo tsa Aforikaborwa (diSGB) fa a baakanya dikanego tsa ona tsa ditšhelete mmogo le direkoto tsa ditšhelete, e leng se se bakileng gore go se nne le go tsamaelana le tlhalelo mo ntlheng ya tshwantshanyego ya dikanego tsa ditšhelete tsa dikolo tsa Karolo 21. Maikaelelo a mmatlisisi e ne e le go tlhama kaedi e e tlaa atlenegisiwang ya tiriso e e tlaa dirisiwang ke diSGB tsa dikolo tsa setšhaba mo Aforikaborwa fa di baakanya dikanego tsa tsona tsa ditšhelete.

Thutopatlisiso e dirilwe ka mokgwatebo o o lebelelang mabaka go dirisiwa tshekatsheko ya dikwalo, e tshegediwa ke dipotsolotso tsa batho bongwe ka bongwe. Go sekasekilwe kaedi ya porofense le dikanego tsa ditšhelete tsa dikolo tse di tlhophilweng. Go botsoloditswe bagokgo ba dikolo, batlhankedi ba ditšhelete, baruni, batshwaratlotlo ba Makgotlataolo a Dikolo, gammogo le batlhankedi ba dikgaolo. Bannileseabe ba tlhophilwe ka go dirisa mokgwa wa go tlhopha sampole ka maikaelelo.

Kwa ntle ga go akaretsa, diphitlhelelo di bontshitse gore kaedi ya ga jaana ya porofense gammogo le dikanego tsa ditšhelete tsa dikolo tse di tlhophilweng, ga di tsamaelane. Go tlhoka go tsamaelana go ama go tshwantshanyega ga tshedimosetso ya ditšhelete ka tsela e e bosula mme seo se ka ama go ikanyega ga tshedimosetso ya ditšhelete. Diphitlhelelo go tswa mo dipotsolotsong, di tshegediwa ke tshekatsheko ya dikwalo, di senotse gore go na le tlhokego ya gore go nne le kaedi e e tshwanang malebana le go baakannwa ga dikanego tsa ditšhelete tsa dikolo. Gape bontsi jwa diSGB bo itlhophela gore go tlhatlhabiwe direkoto tsa palotlotlo le dikanego tsa ditšhelete go na le gore di runiwe. Go tlamilwe kaedi ya tiro e e atlenegisiwang go dirisiwa tshedimosetso e e bonweng ka tshekatsheko ya dikwalo le *data* e e bonweng mo tshekatshekong ya dikwalo le dipotsolotso. Thutopatlisiso e atlenegisitse, gareng ga tse dingwe, gore go nne le thutopatlisiso e nngwe ya nonofo ya katiso ya botsamaisi jwa ditšhelete malebana le go samagana le dikgwetlho tsa dipegelo tsa ditšhelete mo dikolong tsa setšhaba tsa Aforikaborwa gammogo le go bona gore a tlhatlhobo (go na le boruni) ya direkoto tsa ditšhelete le dikanego tsa ditšhelete tsa sekolo e sa ntse e tshwanetse go amogelesega.

Mafoko a bothokwa: dikanego tsa ditšhelete; go rwala maikarabelo; kaedi; makgotlataolo a dikolo; boruni; tshwantshanyego; go tsamaelana; kobamelo; dikwalo; direkoto tsa palotlotlo; go ikemela

NKOMISI LOWU NGA NA VUXOKOXOKO BYA NDZAVISISO WA DYONDZO

Ndzavisiso lowu wu lavisise hi makombandlela ya ndlela yo fanana yo endla xiviko xa swa timali leswi swi faneleke ku tirhisiwa hi va Tihuvo ta Vufambisi bya Swikolo eAfrika Dzonga ku nga *South African School Governing Bodies (SGBs)* ku lulamisela switatimende swa timali na tirhekhodo ta timali, leswi nga vangela leswaku ku va na mafambiselo yo ka ya nga fanani na ku va swilo swi nga pimanyiseki kahle eka switatimende swa timali eka swikolo swa Xiyenge 21. Muendli wa ndzavisiso u ve na xikongomelo xa ku endla xibumabumelo hi maendlelo na makombandlela lama ya faneleke ku tirhisiwa hi ti-SGB ta swikolo swa mfumo eAfrika Dzonga, loko swi lulamisa switatimende swa timali.

Ndzavisiso wu endliwe hi ku landza fambiselo ra *qualitative* hi ku xopaxopa tidokumente, ku tlhela ku endliwa na mimburisano ya ti-interview na vanhu hi wun'we-wun'we. Makombandlela ya xifundzhankulu na switatimende swa timali swa swikolo swi xopaxopiwile. Ku endliwe mimburisano ya ti-interview na tinhloko ta swikolo (vaprinsipala), vaofisara va swa timali, vakamberi va swa timali (ti-odithara), vatameri va minkwama ya Tihuvo ta Vufambisi bya Swikolo (School Governing Body treasurers) xikan'we na vaofisara va tidistriki na vona ku endliwe mimburisano ya ti-interview na vona. Vokhoma-xiave va hlawuriwe hi ku tirhisa fambiselo ra sampuli ya xikongomelo ku nga *purposive sampling method*.

Handle ko navisa vuyelo eka hinkwavo, vuyelo byi kume leswo makombandlela ya xifundzhankulu na switatimende swa timali eka swikolo swo karhi, a swi fanani. Ku hambana swi endla leswo ku nga vi na ku fambelana na ku pimanyiseka ka vutivi bya swa timali, na swona swi na vuyelo byo ka byi nga ri kahle na ku tshembeka eka vutivi bya swa timali. Vuyelo eka mimburisano ya ti-interview, hi ku seketeriwa hi ku hlayiwa ka matsalwa, swi kombise leswo ku na xilaveko xa makombandlela ya ku fanana hi ku landza ku lulamisiwa ka switatimende swa ta timali lomu swikoleni. Vunyingi bya ti-SGB byi endla na nkambelo kunene wa tirhekhodi ta timali na switatimende swa timali ku tlula ku lava leswo ku endliwa nxopanxopo lowu fambisanaka na ku xopaxopa vumbhoni bya swa matirhiselo ya timali ku nga auditing ya tibuku ta timali. Makombandlela lama ya bumabumeriwaka ya endliwe hi ku tirhisa vutivi lebyi nga kumeka eka ku hlayiwa ka matsalwa na data leyi nga kumeka hi ku xopaxopa tidokumente na mimburisano ya ti-interview. Ndzavisiso wu bumabumela, exikarhi ka swin'wana leswo ku endliwa ndzavisiso wun'wana hi ku tirheka ka vuleteri bya mafambiselo ya swa timali eka ku langutana na mintlhontlho leyi nga kona hi ku vika hi swa timali eswikolweni

swa mfumo eAfrika Dzonga, no kumisisa leswo xana nkambelo kunene (ku nga ri nxopanxopo lowu xopaxopaku na vumbhoni ku nga auditing) ya tirhekhodo ta timali na switatimende swa timali swa ha fanela ku amukeriwa xana.

Marito ya nkoka switatimende swa timali; vuviki bya matirhelo; makombandlela, tihuvo ta vufambisi bya swikolo; audit, ku pimanyisa; ku fanana; ku landzelela milawu na mafambiselo lama faneleke; tidokumente; tirhekhodo to hlamuselo matirhiselo ya timali; vutimiyeri

LIST OF ABBREVIATIONS AND ACRONYMS

| | |
|--------|----------------------------------------------------------|
| AGM | Annual General Meeting |
| AGSA | Auditor-General of South Africa |
| APIP | Academic Performance Improvement Plan |
| ASB | Accounting Standards Board |
| ASSC | Accounting Standards Steering Committee |
| CFO | Chief Financial Officer |
| DBE | Department of Basic Education |
| DoE | Department of Education |
| DTI | Department of Trade and Industry |
| EEA | Employment of Educators Act |
| EFT | Electronic Funds Transfer |
| EXRB | External Reporting Board |
| FEDSAS | Federation of Governing Bodies for South African Schools |
| GAAP | Generally Accepted Accounting Practice |
| GDE | Gauteng Department of Education |
| GRAP | Generally Recognised Accounting Practice |
| HOD | Head of Department |
| IAASB | International Audit and Assurance Standards Board |
| IAS | International Accounting Standards |
| IASB | International Accounting Standards Board |
| IDSO | Institutional Development and Support Official |
| IFAC | International Federation of Accountants |
| IFAC | International Federation of Accountants |
| IFAISA | Institute of Financial Accountability in Southern Africa |
| IFRS | International Financial Reporting Standards |

| | |
|---------|---------------------------------------------------------------|
| IoDSA | Institute of Directors in Southern Africa |
| IPSAS | International Public Sector Accounting Standards |
| IPSASB | International Public Sector Accounting Standards Board |
| IRBA | Independent Regulatory Board for Auditors |
| IRBA | Independent Regulatory Board for Auditors |
| LEAs | local education authorities |
| LSN | Learners with Special Needs |
| LTSM | learning and teaching support material |
| LURITS | Learner Unit Record Information and Tracking System |
| MCS | Modified Cash Standard |
| MEC | Member of the Executive Council |
| NEPA | National Education Policy Act |
| NSNP | National School Nutrition Programme |
| OPPAGA | Office of Program Policy Analysis & Government Accountability |
| PAJA | Promotion of Administrative Justice Act |
| PEDs | Provincial Education Departments |
| PFMA | Public Finance Management Act |
| PPE | Property, plant and equipment |
| RSA | Republic of South Africa |
| SA GAAP | South African Generally Accepted Accounting Practice |
| SAICA | South African Institute of Chartered Accountants |
| SASA | South African Schools Act |
| SA-SAMS | South African Schools Administration and Management System |
| SAT | School Assessment Team |
| SBST | School Based Support Team |
| SDP | School Development Plan |

| | |
|------|-----------------------------------|
| SDT | School Development Team |
| SGB | School Governing Body |
| SIP | School Improvement Plan |
| SMEs | Small and Medium-sized Entities |
| SMT | School Management Team |
| SOEs | State-Owned Entities |
| WCED | Western Cape Education Department |

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CHAPTER 1

ORIENTATION OF THE STUDY

1.1 INTRODUCTION

Prior to 1994, teachers did all administrative duties, including financial record-keeping and preparation of financial statements for schools (Mestry, 2006:28). According to an evaluation report on governance training (Matthew Goniwe School of Leadership and Governance, 2008:9), up until mid-1990s, South African schools were characterised by hierarchical, authoritarian cultures and structures. There were various educational departments that approached governance differently by establishing school committees, school boards or school management councils (Mbatsane, 2006:1). According to Thekiso (n.d.:26), these school boards and committees failed to bring democracy into the education of the black child. Financial management and accountability were also in question due to over-centralisation of control and legitimacy of political authorities (Mestry, 2006:27). During the apartheid era, some schools, particularly those that served non-Europeans were administered under the Bantu Education Act (No. 47 of 1953) (Thekiso, n.d.:3). Administration of schools rested with school committees, school boards and school councils (Thekiso, n.d.:3).

After the first democratic elections in 1994, the government was determined to change this by generating a new funding model for schools and creating a new local governance platform for the administration of schools (Mngoma, 2009:1). In 1996, with the intention to create job satisfaction, greater flexibility, speed up decision-making, less bureaucracy and more involvement of parents and school boards, financial management in South African schools was decentralised (Nyandoro, Mapfumo & Makoni, 2013:255). The South African government passed the South African Schools Act (SASA) (No. 84 of 1996), which makes provision for the establishment of school governing bodies (SGBs) (Republic of South Africa [RSA], 1996b). These SGBs comprise individuals from the following categories: parents of learners at the school, teachers at the school, non-teaching members of staff, and learners in the eighth grade or higher (Lewis & Naidoo, 2004:102; Shumane, 2009:19; Van Wyk, 2004:49). According to Mbatsane (2006:4) and Mathebula (2013:8), the idea of democratisation by including the public and other stakeholders in governance was to enhance accountability and transparency for the benefit of the learners as well as the community at large.

In the second chapter of the South African Constitution (Bill of Rights) under section 29, provision is made for a right to basic education, including adult basic education (RSA, 1996a). The Department of Basic Education (DBE), through its ministry, is therefore accountable to parliament in terms of the country's performance within the education sector. This means that the DoE must make available the resources to enable citizens to acquire education. Section 34 of the SASA makes provision for the state to provide funding to schools to ensure that this right to education may be exercised. According to this section, the state is also compelled to supply the schools with sufficient information regarding the funding to enable schools to prepare the budget. This information must be provided annually.

The SGBs are entrusted with the management of school funds. The SASA allocates some duties to the SGBs. These duties and functions include the opening of the school's bank account; keeping records on funds received and spent by the school; establishing budget priorities and preparation of a budget; preparation of financial statements and ensuring that these financial statements are audited. Other duties and functions are discussed in Chapter 3 of this study. South African SGBs are facing challenges and these challenges are discussed in section 1.3 below. These challenges are not peculiar to South Africa, for instance countries like Zimbabwe and Nigeria experience challenges in the management of school funds (Munge, Kimani & Ngugi, 2016:93). The researcher is of the opinion that these challenges may be preventing the SGBs from meeting their responsibilities to the stakeholders.

1.2 BACKGROUND OF THE STUDY

The current study was conducted in five South African public schools (see section 4.5.2 for sample selection). The researcher's interest in school governance emerged during the year 2010 when he was elected treasurer of the SGB at one of the schools situated in Hammanskraal. The researcher found that the school had not been keeping accounting records and had also not prepared financial statements for the 2008 and 2009 financial periods (i.e. since the appointment of a new principal). The researcher then decided to start the process of preparing the accounting records as well as the financial statements starting from 2008. He started by recording the transactions in the cashbook and then prepared the general ledger accounts, using an Excel spread sheet. During the preparation of financial statements, the researcher referred to section 42 of the SASA. This section requires the governing body of a public school to prepare financial statements using the guidelines developed by the Member of the Executive Council (MEC) for education. This means that the researcher had to use the guidelines from the Gauteng Department

of Education (GDE). Those guidelines were not yet developed.

In 2012, the researcher started with preliminary research and began to explore the area of schools' financial reporting. In 2013, the researcher identified a gap, which is the lack of uniform standards or guidelines for financial reporting to be used by governing bodies of public schools in South Africa. He also identified that the schools were experiencing various challenges, especially in financial management and reporting.

Towards the completion of this study, during 2017, the South African Institute of Chartered Accountants (SAICA) started the process of developing the financial reporting guidelines for South African public schools. SAICA organised two seminars on public schools' financial reporting guidelines and understanding the audit and examination of public school financial statements. These were held on 4 December 2017 and 8 February 2018 respectively. The researcher attended these seminars and contributed to the discussions during these seminars. The draft guidelines were developed by SAICA (SAICA. n.d.). The similarities and differences between the guidelines developed in this study and the SAICA guidelines are discussed in sections 6.4.1 and 6.4.2, respectively.

As indicated above, the governing bodies of the public schools are experiencing various challenges, some of which are being discussed in section 1.3 below.

1.3 CHALLENGES FACING THE SOUTH AFRICAN SGBs

As discussed in section 1.1 above, SGBs experience various challenges that affect the functioning and efficient delivery of services. Some of the challenges that SGBs are facing are the following:

- SGBs have difficulties in realising their main role, namely to promote the best interests of the schools (Xaba, 2011:202).
- A lack of the necessary financial knowledge and skills (Xaba, 2011:202). Mbatsane (2006:38) agrees by emphasising the importance of equipping members of the SGBs with financial management skills, such as analysis and interpretation of budgets and financial statements. She also highlights the difficulty that schools are facing in finding governors with the necessary skills and expertise. Ngidi (2004:263) concludes that there is a need to improve the efficiency of SGBs by providing training programmes in the form of seminars or workshops. Mngoma (2009:51) recommends that schools should have people with good understanding of finance to serve in the finance committees and that school principals should upgrade their existing financial knowledge.

- According to Botha (2012:266, 270), principals and other members of the SGB do not have a clear understanding of their roles and responsibilities and this has a negative effect on the financial decisions they take.

In addition to a lack of financial management skills as well as the low literacy of SGBs, Mestry and Hlongwane (2009:325) further identify the following challenges faced by the SGBs:

- a lack of preparation and professionalism on the part of trainers regarding school financial matters;
- a lack of confidence and trust in SGBs by other staff members;
- the power positions of the parent governors and the teaching staff, and conflicts arising from it; and
- no clear definitions regarding the financial functions of the governors.

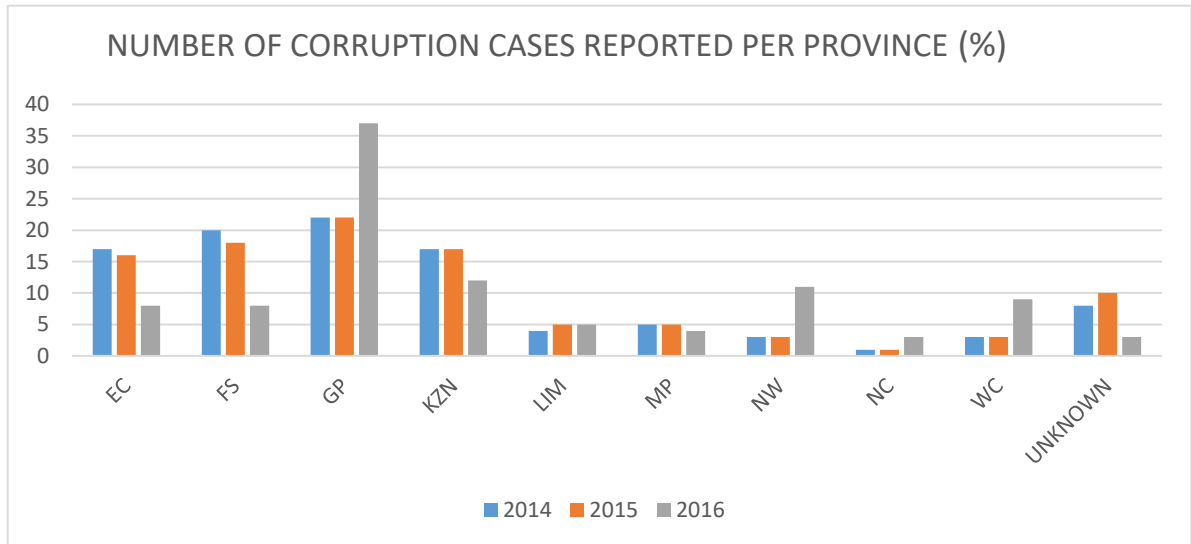
Mestry and Hlongwane (2009:325) also highlight the impotency of SGB training, especially in school financial matters as well as the demand for better-qualified governors.

The lack of financial knowledge and information has caused some principals and SGBs to be subjected to forensic audits by the DBE and other Chapter 9 institutions such as the Auditor General of South Africa (RSA, 1996a) due to mismanagement of funds through misappropriation, fraud, pilfering of cash, theft and improper control of financial records (Mestry, 2004:126; Mestry & Naidoo, 2009:107; Xaba, 2011:202).

The following information was highlighted in the 2014 and 2015 Corruption Watch reports:

- over 1 000 cases of corruption in schools had been reported since 2012; and
- Schools' corruption constituted 20% in 2014 and 16% in both 2015 and 2016, which was the highest number of all corruption cases reported.

The following information was taken from the 2014, 2015 and 2016 Corruption Watch annual reports:



Note: EC = Eastern Cape, FS = Free State, GP = Gauteng Province, KZN = Kwa Zulu Natal, LIM = Limpopo, NW = North West, NC = Northern Cape, WC = Western Cape

Figure 1.1 **School corruption across South Africa**

Source: Corruption Watch annual reports (2014; 2015; 2016)

According to the annual report released by Corruption Watch (see Figure 1.1), Gauteng had the highest number of corruption cases reported, where about 22% of corruption cases were reported in 2014 and 2015, and the percentage increased to 37% in 2016. The Northern Cape and North West had fewer cases reported.

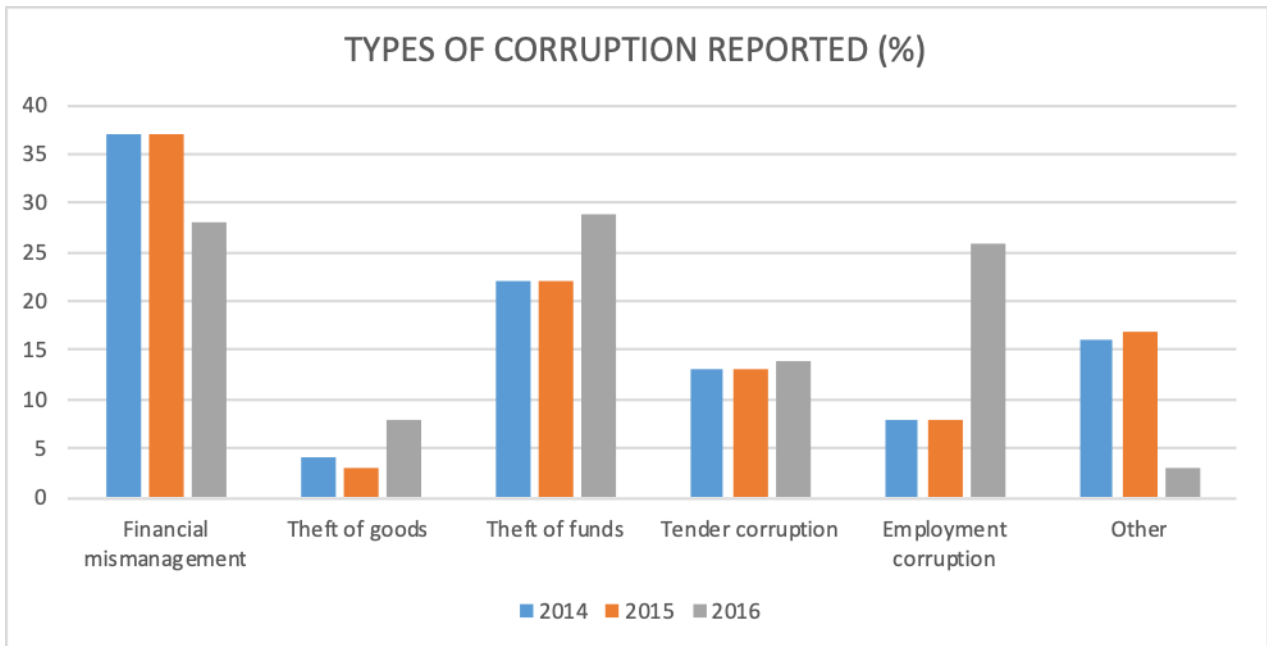


Figure 1.2 **Types of school corruption reported**

Source: Corruption Watch annual report (2014; 2015; 2016)

During August 2015, criminal and civil charges were laid by the Gauteng MEC for education, Mr Panyaza Lesufi against the former principal, chairperson of SGB and staff of Glenvista High School (Mail & Guardian, 2015). These charges were laid after an auditing firm, KPMG, released the forensic report (Mail & Guardian, 2015). The forensic report indicated, amongst others, the following findings (Mail & Guardian, 2015):

- the SGB abused section 38A of the Schools Act (SASA) by paying additional money to some teachers for rare skills;
- these payments were not approved by the DoE;
- the principal who was responsible for appointment of coaches, hired his daughter as one of the coaches at the school without the approval of the SGB;
- appointment of staff without following proper procedures;
- payment of levies for the personal home of the principal;
- installation of a carport at the principal's home paid by school funds;
- payment of personal flight tickets from school funds; and
- opening of eight bank accounts.

It is clear from the above reports that a lack of proper financial accountability may lead to corruption, fraud and mismanagement of funds. Figure 1.2 above indicates that the types of corruption with higher reported cases were financial mismanagement and theft of funds. In 2014 and 2015, 37% of cases on financial mismanagement were reported while 28% was reported in 2016. This may imply that there were no proper financial records and reports and that may have contributed to the highest theft of funds as shown in Figure 1.2. The figure shows that the theft of funds was also higher than other types of corruption, in 2014 and 2015 with 22% of cases reported in 2014 and 2015, which increased to 29% in 2016.

Uwizeyimana and Moabelo (2013:119) concluded that there were a number of important factors and challenges regarding adherence to the DBE prescripts in managing school funds by public schools in the Mamabolo circuit in Limpopo. They recommend that further research be conducted at national level in terms of public school adherence to the DbE prescripts.

As indicated in the reports above, it is clear that proper financial reporting may not be achieved unless proper reporting guidelines and standards are developed and adherence to those guidelines is enforced. In the next section, the need for and importance of uniform reporting standards or guidelines will be discussed.

1.4 THE NEED FOR UNIFORM ACCOUNTING AND REPORTING GUIDELINES

In this section, the researcher will discuss whether South African public schools should be using a common set of financial reporting guidelines in preparing their financial statements. The main argument is whether it is necessary to have uniform reporting guidelines for the South African public schools. The same question was asked by Coy, Fisher and Gordon (2001:22). Coy et al. (2001:22) raised an argument regarding the acceptability of using separate public and private sector standards instead of using one set of common standards. Bordoloi and Bordoloi (2013:25) define accounting as a language of business, and they refer to the accounting standards as the ideal and standardised practice of accounting, which aims to harmonise the accounting language. They further emphasise the need for uniform accounting standards for communication of the information, which will be understood by all the users of financial statements.

Section 42 of the SASA mandates the MECs for education in each province to determine or develop guidelines to be used by governing bodies of public schools in preparing their financial statements. As a result, the following guidelines were developed by the MECs for education in various provinces:

- school funding norms policy implementation manual for public schools (Kwa Zulu Natal Department of Education, for implementation on 1 January 2014);
- regulations for management of finances at public schools were therefore gazetted by the GDE on 18 August 2014 in the Provincial Gazette Extraordinary, No. 230 (Gauteng Provincial Government, 2014a);
- the financial management procedure manual: administration, management control revenue by the Eastern Cape DoE on 28 July 2015 (Eastern Cape Provincial Government, 2015);
- the Basic Financial Systems for Schools compiled by the Western Cape Department of Education (WCED) (Western Cape, 2013);
- the financial reporting framework for schools was issued by the Mpumalanga Department of Education on 23 January 2016; and
- the Financial Directives for Schools was issued by the Northern Cape Department of Education on 31 August 2015.

Guidelines could be obtained from only eight provinces (see section 4.3.1.1 for further discussion on the guidelines that were not obtained). According to section 4(e) of the Financial Directives for Schools, issued by the Northern Cape DoE, the head of DoE must prescribe the

financial framework and standard chart of accounts within which governing bodies of schools must conduct their financial management in an efficient, effective, transparent and accountable manner (Northern Cape DoE, 2015). However, development and issue of the guidelines as indicated above, suggest that different provinces may be using different guidelines in preparing financial statements for schools. Having each province developing its own financial guidelines or manual is an indication of having different reporting systems in the country. This, in the researcher's opinion contradicts the principal objective of providing a uniform system for the organisation, governance and funding of schools as aimed by implementation of the SASA on 1 January 1997 (RSA, 1996b). Doussy and Doussy (2014:34), in their research, found that schools in South Africa are held to different standards of financial reporting and auditing than commercial firms, and therefore it can be questioned whether assets are properly protected.

The use of different reporting standards or guidelines results in deficiencies in the financial statements, which may put the reliability of financial information in question. According to Doussy and Doussy (2014:34), the results of their analysis revealed clearly that there are inconsistencies in the financial reporting by schools. Therefore, for transactions to be accurately, completely and correctly recorded and classified, the use of accounting standards and best practice is required (Colditz, Van Rooyen, Mellet, Van der Merwe, Swemmer & Van der Bergh, 2017:175). Doussy and Doussy (2014:34) agree with the statement above, and conclude by saying:

Schools do not always comply with SASA or with International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Practice (GAAP) in preparing their annual financial statements. It is therefore concluded that a more comprehensive and representative study of the contents of the financial statements of South African schools is urgently needed to establish the extent of compliance and non-compliance with regulatory frameworks.

Doussy and Doussy (2014:33) also found that of the four schools that they researched, two did not disclose the item of property, plant and equipment (PPE) in the statement of financial position. Instead, they fully depreciated the assets in the financial year in which they were purchased while the other two depreciated the assets over a specific period. This is evidence that there was no consistency in schools reporting at that stage. The issue of comparability and consistency of a school's financial statements raises concerns regarding its reliability. It may be argued from the above information that these inconsistencies and non-comparable information result from the use of different reporting guidelines.

Mestry (2006:31) found that there were no guiding principles in terms of financial reporting as every school that he interviewed had unique ways of managing their school funds. He concluded that, although his study focused on schools in Gauteng, principles for sound financial management highlighted in his study should be valid for all schools as problems studied were not limited to schools in Gauteng only.

Mbatsane (2006:92), in her research on financial accountability of SGBs, concluded that the financial accountability of SGBs in Mpumalanga was at a lower level than desired. She also pointed out that the most challenging area for SGB members was to be able to compile, clearly understand and interpret financial reports. This may suggest that there is non-compliance in terms of keeping records of cash received and spent, reconciliations and annual financial statements as required by the SASA. This may also raise some concerns on the quality of the financial statements being prepared.

It is generally known that companies in the private sector use the International Financial Reporting Standards (IFRSs) while public sector entities comply with Generally Recognised Accounting Practice (GRAP). Compliance to and use of uniform reporting standards make it possible to compare information of companies and entities within the same industry. Therefore, it is important that financial information of schools from different provinces should be comparable. The use of uniform standards across the country will assist in achieving consistency and comparability.

Riahi-Belkaoui (2007:99) emphasises the essentiality of comparability of financial statements as the effective functioning of the language in accounting. In preparing financial statements, emphasis is on the quality of financial information to be given to users of financial statements. Although various users of financial information rely on basic assumptions about quality of information produced by accountants, in practice, the accounting profession has failed to give reliable information to investors (Yadagiri & Ragender, 2013:12). Accounting standards are devised to furnish useful information to different users of financial statements, such as shareholders, creditors, lenders, management, investors, suppliers, competitors, researchers, regulatory bodies and society at large (Kumar & Singh, 2013:35). Such accounting standards are designed and prescribed to improve and benchmark the quality of financial reporting with a view to eliminate possible non-comparability of financial statements and improve reliability thereon (Kumar & Singh, 2013:35).

International Accounting Standard 1 (IAS 1) refers to enhancing qualitative characteristics of

financial statements (IASB, 2016b). One of these enhancing qualitative characteristics is comparability. Users of financial statements need information, which is comparable to the previous financial years' as well as the financial information of other entities in the same industry, in order to identify trends over time and between similar companies (Koppeschaar et al., 2018:12–13). According to IAS 1, presentation and classification of items in the financial statements should be retained from one period to the next, unless there has been a significant change in operations or when a change in presentation or classification is necessary.

In order for government to achieve its main objective of providing a uniform system, it should drive the use of uniform reporting standards or guidelines by schools. This is clear as countries are adopting uniform standards. The use of uniform standards enables users to appropriately analyse the financial statements of different but similar entities' performance relative to performance of its peers (Koppeschaar et al., 2018:12).

Sunder (2010) argues that when transactions have multiple attributes whose similarities as well as dissimilarities are of interest, a uniform scheme of classification is not feasible. He further argues that the pursuit of uniform written standards at the expense of social norms diminishes the effectiveness of financial reporting in stewardship and governance, and in keeping the security markets informed. However, Yadagiri and Ragender (2013:15) emphasise that the use of different accounting frameworks in different countries leads to inconsistent treatment, and presentation of the same underlying economic transaction creates confusion for users of financial statements.

The researcher agrees with Koppeschaar et al. (2018:12) that alternative accounting methods and treatment for the same transactions or events should not be permitted, even in the case of schools. Using different accounting and reporting guidelines may diminish comparability and other desirable qualities, such as faithful representation and understandability (Koppeschaar et al., 2018:12). The researcher therefore concludes that, like other entities, schools should have uniform accounting and reporting guidelines throughout the country as these will enhance relevance and reliability of financial information and therefore increase comparability amongst schools.

Bordoloi and Bordoloi (2013:26) emphasise that uniformity in accounting terminology, approach and presentation is essential because financial statements prepared in one nation must be understood, accepted and relied on by other nations of the world. Ding, Hope, Jeanjean and Stolowy (2007:1–8) argue:

Although accounting standards are important determinants of financial reporting quality, they differ across countries. A commonly held brief is that such differences reduce the quality and relevance of accounting information. Proponents of harmonised international standards claim that if all firms follow the same set of accounting standards, external financial reports of firms would provide more uniform disclosures and more useful accounting information to investors.

The researcher suggests that the use of uniform reporting standards or guidelines by South African public schools will enhance performance and efficient use of resources by the SGBs and that accountability, responsibility and transparency will also be promoted. Coy et al. (2001:22) question the use of separate public and private sets of standards by institutions of higher learning. They conclude that there should be only one set of reporting standards for all institutions of higher education, both public and private. They also recommend that there should be reporting guidelines for these institutions.

1.5 PROBLEM STATEMENT

Significant research was done in financial management and accountability of SGBs of South African public schools (Maile, 2002; Mbatsane 2006; Mestry 2006; Mestry & Naidoo 2009). Very little research has been conducted in terms of schools' financial reporting as compared to financial management. In terms of this study, the problem identified was a lack of uniform financial reporting guidelines to be used by South African SGBs in preparing their financial statements and financial records. This is evidenced by the fact that currently every province has to develop guidelines to be used by governing bodies in preparing financial statements. A guideline is defined as a recommended practice that allows some discretion or leeway in its interpretation, implementation or use (Colditz et al., 2017:76).

Colditz et al. (2017:76) suspect that there might be a possibility of other provinces not having these guidelines or their guidelines being outdated. Colditz et al. (2017:77) advise that in the situation where the MEC in a specific province has not determined such guidelines, the SGB and the auditor concerned should discuss the framework in terms of which the financial statements should be drawn up.

As pointed out in section 1.4 above, various provinces developed guidelines. The lack of uniform reporting guidelines results in inconsistencies in reporting by SGBs in the various provinces. The guidelines developed by individual provinces may be ineffective and the SGBs may not comply with prescribed policies and regulations. The effectiveness of these guidelines, extent of

inconsistencies and non-compliance to the policies and regulations are still to be investigated.

1.6 RESEARCH QUESTIONS

To address the above issues, this research was designed to answer the following questions:

1. What are legislative requirements for preparation of financial records and financial statements by South African SGBs?
2. To what extent do inconsistencies exist?
3. To what extent do SGBs comply with the guidelines and legislation in terms of financial reporting?
4. How effective are these guidelines in terms of addressing challenges relating to financial reporting?
5. Which information would stakeholders or users expect to find in the school's annual financial reports?

1.7 RESEARCH OBJECTIVES

The aim of the current study was to establish the nature of reporting and the extent of non-compliance by different schools in various provinces in order to develop recommended practice guidelines to assist SGBs to prepare accounting records and annual financial statements.

The following objectives were formulated to answer the above questions in order to address the research problem:

1. to establish the existence of any accounting standards, legislation and guidelines in terms of financial record-keeping and reporting in various provinces;
2. to compare available financial reporting guidelines from various provinces in South Africa, to establish whether they are consistent and comparable with each other, and whether they are in line with best practice;
3. to examine financial statements of selected schools for consistency and comparability with each other;
4. to examine the financial statements of selected schools for compliance with provincial guidelines; and
5. to develop recommended practice guidelines or to contribute to improving existing guidelines to be used by SGBs in order to improve compliance, comparability and consistency in financial reporting.

1.8 SUMMARY OF THE RESEARCH PROCESS

The researcher summarises the process in Table 1.1 below. The summary indicates the research question, the research objective, the data collected as well as the research method used to collect the data.

Table 1.1 Summary of the research process

| Research question | Objective | Relevant data | Research method applied |
|------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| What are the legislative requirements for the preparation of financial records and financial statements by the South African SGBs? | To establish the existence of any accounting standards, legislation and guidelines in terms of financial record-keeping and reporting in various provinces. | Secondary literature (Chapters 2 and 3) | Literature review |
| To what extent do SGBs comply with the guidelines and legislation in terms of financial reporting? | To examine the financial statements of selected schools for compliance with provincial guidelines. | <ul style="list-style-type: none"> • Data from documents (schools' financial statements and financial reporting guidelines from Gauteng); and • Data from individuals interviews | <ul style="list-style-type: none"> • Document analysis • Content analysis of qualitative data gathered from individual interviews |
| How effective are these guidelines in terms of addressing challenges related to financial reporting? | To examine the financial statements of selected schools for compliance with provincial guidelines. | <ul style="list-style-type: none"> • Data from documents (schools' financial statements and financial reporting guidelines from Gauteng); and • Data from individuals interviews | <ul style="list-style-type: none"> • Document analysis; • Content analysis of qualitative data gathered from individual interviews |

Table 1.1 Summary of the research process (continued)

| Research question | Objective | Relevant data | Research method applied |
|--------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| To what extent do inconsistencies exist? | <p>To compare available financial reporting guidelines from various provinces in South Africa, and to establish whether they are consistent and comparable with each other.</p> <p>To examine financial statements of selected schools for consistency and comparability with each other.</p> | <ul style="list-style-type: none"> • Data from guidelines obtained from various provinces • Data from financial statements of selected schools; • Data from individual interviews | <ul style="list-style-type: none"> • Document analysis • Document analysis • Content analysis of qualitative data gathered from individual interviews |
| Which information would stakeholders or users expect to find in the school's annual financial reports? | To develop recommended practice guidelines or contribute to improving existing guidelines to be used by SGBs in order to improve compliance, comparability and consistency in financial reporting. | <ul style="list-style-type: none"> • Data from documents (schools' financial statements and financial reporting guidelines from Gauteng); • Data from individual interviews; and • Secondary literature (Chapters 2 and 3) | <ul style="list-style-type: none"> • Document analysis; • Content analysis of qualitative data gathered from individual interviews; and • Literature review |

Source: Author's own compilation

1.9 DELINEATION AND LIMITATIONS

In this section, the researcher discusses what the study was about and indicates the limitations to the study.

1.9.1 DELINEATIONS OF THE STUDY

The study was about financial accountability and reporting by SGBs. In this study, 'financial reporting' refers mainly to the preparation of accounting records, annual financial statements and the audit of these. It should also be noted that this study only focused on the annual financial statements of section 21 schools (Mbatsane, 2006:19). These schools are given powers by section 21 of the SASA to control their funds.

1.9.2 LIMITATIONS OF THE STUDY

As indicated in section 1.8 and Table 1.1 above, the researcher examined the provincial guidelines developed by MECs for education, as well as the annual audited financial statements of the schools. The first limitation was that, in terms of the interviews, the study was conducted only in public schools in Gauteng. Therefore, the findings from the interviews cannot be generalised but were regarded as valuable information in achieving the aims of the research. The second limitation relates to access of information from the schools. A request for access of information at schools by way of a prescribed form was forwarded to the DoE. Permission to conduct research at the schools was granted by both the head and district offices. Of the six schools that the researcher had selected only four schools were able to cooperate. At one of the participating schools, the treasurer could not be interviewed as she could not be reached on her phone. Doussy and Doussy (2014:34) also report experiencing some challenges in obtaining financial statements from schools. Mbatsane (2006:14) conducted research on SGBs and encountered challenges in accessing some members of governing bodies.

1.10 SIGNIFICANCE OF STUDY

This study will benefit the government as the consistency of financial reporting by South African schools across the provinces might improve as a result. The government will also be able to determine the effectiveness of the guidelines developed by provinces. SGBs will also benefit as the reporting guidelines might lead to improved reporting. This will assist both government and SGBs in terms of comparison with other provinces and compliance to set guidelines and legislation. The communities in which the schools are situated will also benefit as they will now receive improved sets of financial reports. The researcher will also benefit from the knowledge acquired during the research process. The results of the current research will also add to the pool of knowledge in the subject of accounting.

1.11 DEFINITION OF TERMS AND CONCEPTS

In this section, the researcher defines some of the terms that were used in the study.

1.11.1 PUBLIC SCHOOLS

Public schools are schools contemplated in Chapter 3 of the SASA (RSA, 1996b). Section 12(3) of the SASA (RSA, 1996b) defines a public school as:

- an ordinary school;
- a school for learners with special education needs; or

- a school that provides education with a specialised focus on talent, including sports, performing arts or creative arts.

1.11.2 CHARTER SCHOOLS

The idea of charter schools came about during the 1980s (Shober, Manna & Witte, 2006:567). The first charter school law was enacted by Minnesota in 1991 and in 2005. The United States had 3 617 charter schools (Shober et al., 2006:567). Charter schools are public schools that come into existence through a contract with either a state agency or a local school board. This charter or contract establishes the framework within which the school operates, and provides public support for the school for a specified period of time (Nelson et al., 2000:7).

1.11.3 ACCOUNTING RECORDS

According to the SASA, the SGB of a public school must keep records of funds received and spent and of the assets, liabilities and financial transactions of a public school. Section 2(9) of the Financial Regulations, Framework and Standard Chart of Accounts for Public Schools refers to the following as accounting records (Gauteng Provincial Government, 2014b):

- cash receipts journal;
- cash payments journal;
- receipts and payment statements;
- bank reconciliation statements;
- petty cash journals; and
- tuck shop trading statements.

1.11.4 ANNUAL FINANCIAL STATEMENTS

According to the Generally Recognised Accounting Practice (GRAP), the following are the components of financial statements (Deloitte & Touche, 2012:15; ASB, 2010:10):

- statement of financial position (balance sheet);
- statement of financial performance (income statement);
- statement of changes in net assets;
- cash flow statements; and
- notes or schedules comprising a summary of significant accounting policies and other explanatory notes.

1.11.5 STANDARD CHART OF ACCOUNTS

The standard chart of accounts means the listing of the names of the accounts that the DBE has identified and made available for recording transactions in the school's general ledger (Gauteng Provincial Government, 2014b).

1.11.6 NO-FEE SCHOOLS

The MEC for education gives a school a ranking in terms of quintile, determined by 'need' or 'poverty' (RSA, 1996c: section 101). According to this section, these quintiles are determined by taking into account the physical condition, facilities and crowding of the school, as well as the relative poverty of the community around the school. There are five quintiles. Quintile 1 refers to 'poor' schools while quintile 5 refers to 'rich' schools. The DBE budget is also allocated and differs according to quintiles, with the neediest and largest schools (quintile 1) getting more funds than quintile 5 schools (Mbatsane, 2006:51–53; RSA, 1996c: section 102). The 'poor' schools are declared no-fee schools by the MEC for education in each province. A school which has been declared a no-fee school is not allowed to charge school fees. This type of school derives its income mainly from government grants. The school also gets income from donations and other fundraising activities. The MEC for education in Gauteng released a list of schools which were declared no-fee schools. This list was released in the 2014 and 2015 academic years.

1.11.7 CONSISTENCY OF PRESENTATION

Consistency (of presentation) refers to both classifications of like items within each accounting period and from one accounting period to the next (Koppeschaar et al., 2018:36).

Consistency (of presentation) consists of two aspects: consistency over time and consistency of disclosure of similar items (Koppeschaar et al., 2018:36).

1.11.8 RECOGNITION

The process of capturing the elements of financial statements that meet the definition criteria, in the statement of financial position or statement of financial performance is referred to as recognition (Koppeschaar et al., 2018:17; National Treasury, 2015:17)

1.12 BRIEF CHAPTER OVERVIEW

The remainder of the thesis comprises the following chapters:

1.12.1 CHAPTER 2: LITERATURE REVIEW: THEORETICAL PERSPECTIVES

This chapter will discuss the theories from literature on which this study was based. There are two main theoretical perspectives from which this study drew, namely the accountability theory (Tower, 1993:68 and Tooley & Guthrie, 2007:353) and the stakeholder theory (Samkin & Schneider, 2007:12). Since the study involved public schools, the discussion will be extended to cover the schools' stakeholders. The study also drew some knowledge on school governance from a discussion of the international perspectives on school governance.

1.12.2 CHAPTER 3: LITERATURE REVIEW: LEGISLATIVE FRAMEWORK AND FINANCIAL MANAGEMENT

In this chapter, literature related to legislation is discussed. Financial management and reporting is one of the duties with which SGBs are entrusted. The study will first discuss the legislative framework of SGBs in which the background on composition and functions of SGBs is given. Secondly, the financial accountability for schools will be discussed, and thirdly, the financial management of schools with specific reference to the finance policy, budgeting, management of school funds, financial record-keeping and reporting, the South African Schools Administration and Management System (SA-SAMS) and the audit or examination of financial statements will be discussed. The chapter will then discuss the kind of information required by the schools' stakeholders, followed by a discussion on the International Financial Reporting Standards (IFRS), the Generally Recognised Accounting Practice (GRAP), the IFRS for small or medium-sized enterprises (SMEs) and the International Public Sector Accounting Standards (IPSAS). Lastly, the chapter discusses the financial reporting by schools in other countries.

1.12.3 CHAPTER 4: RESEARCH METHODOLOGY

In this chapter, the focus will be on research design and methodology. This will include the discussion of data collection methods, population, sampling methods and sample selection, reliability and validity of data, limitations of the study, data analysis and interpretation, ethical considerations and the development of recommended practice guidelines.

1.12.4 CHAPTER 5: PRESENTATION, ANALYSIS AND INTERPRETATION OF RESEARCH FINDINGS

Findings on data collected from documents and interviews will be presented and discussed in this chapter and the results of the analysis will be reported. The study will present and discuss data collected from the financial reporting guidelines obtained from various provinces, the financial statements of selected schools as well as data obtained from interviews.

1.12.5 CHAPTER 6: DEVELOPMENT OF RECOMMENDED PRACTICE GUIDELINES

Based on the information gathered through the literature review reported in Chapters 2 and 3 and the findings reported in Chapter 5, the researcher developed the best practice financial reporting guidelines. The similarities and differences between the guidelines developed in this study and the draft guidelines developed by SAICA will be discussed.

1.12.6 CHAPTER 7: SUMMARY, CONCLUSION AND RECOMMENDATIONS

A summary of the chapters, a summary of how the research objectives were addressed, as well as the contribution of the study are discussed in this chapter. The researcher will make some recommendations for future research and then present the conclusions based on the entire study.

1.13 SUMMARY AND CONCLUSION

In this chapter, the researcher gave a background on the establishment of SGBs. The challenges facing SGBs were also discussed.

The study identified the main problem as a lack of uniform accounting reporting standards or guidelines by public schools in South Africa. Each MEC from the various provinces in South Africa has to determine or develop the financial reporting guidelines to be used by SGBs when preparing the financial statements and accounting records. The study discussed the need for using uniform accounting standards or guidelines. The study also highlighted the importance of providing users with reliable financial information. The reliability of the information may be distorted if financial statements are not consistent and comparable. Just as Koppeschaar et al. (2018:12) support the use of uniform accounting standards, the use of uniform reporting standards and guidelines by South African public schools is also supported by, amongst others, Mestry (2006:31,37) and Doussy and Doussy (2014:34). Coy et al. (2001:22) also argue that all public and private institutions of higher education should apply one set of reporting standards. The researcher therefore also argues that, if private companies and public institutions are

applying one set of reporting standards, it is necessary to call for South African public schools to apply one set of financial accounting and reporting guidelines.

A lack of proper reporting guidelines or standards may result in mismanagement of funds, fraud and corruption. These were also discussed as some of the challenges facing the public schools in South Africa.

In the next chapter, the researcher will discuss the two theories from which this study was drawn. These theories are the accountability and stakeholder theories. The schools' stakeholders as well as the international perspectives on school governance will also be discussed.

CHAPTER 2

LITERATURE REVIEW: THEORETICAL PERSPECTIVES

2.1 INTRODUCTION

The South African business sector is characterised by different forms of ownership structures. These ownership structures are sole proprietorships, partnerships, close corporations, companies (for profit, not for profit and state-owned entities [SOEs]), corporations and government entities. All these entities are expected to report to their respective stakeholders. These reports should include amongst others the financial information disclosure. The question is who the stakeholders are and who is accountable to these stakeholders. The Federation of Associations of Governing Bodies of South African Schools (FEDSAS) shows the following comparison between the school and company stakeholders (IoDSA, 2015:4):

Table 2.1 **Comparing schools with companies**

| Company | School |
|------------------------------------------|--------------------------------------------|
| Manager or chief financial officer (CFO) | Principal and school management team (SMT) |
| Board of directors | SGB |
| Shareholders | Parents, donors, the state |

Source: Author's own compilation

There are different users of financial statements for companies, close corporations and other forms of enterprises with various needs (Koppeschaar et al., 2018:10). In order to explore the accountability and disclosure of information in the financial statements of schools, information for this research was drawn from two theoretical perspectives: the stakeholder theory and accountability theory.

The researcher deemed it important to discuss these theories as they had direct effect on the study. The SGBs, who are also part of the school's stakeholders, are given the responsibility to govern and run the activities of the school. They therefore become answerable to other stakeholders. The researcher therefore discusses who the schools' stakeholders are. In order to gain a better understanding of what governance is, the researcher concludes this chapter by a discussion on the international perspectives on school governance, which will refer to the composition of the SGBs, the main responsibilities of SGBs, as well as their challenges.

2.2 STAKEHOLDER THEORY

In 1975, the UK Accounting Standards Steering Committee (ASSC) released the corporate report, which contained the objectives of financial reporting (Ryan, Scapens & Theobald, 2002:98). According to the report, the objective of financial reporting should be to assist users of financial statements in making their decisions (Ryan, Scapens & Theobald, 2002:98). There might be different views on who exactly the users of financial statements are. In the United States, investors and creditors were identified as main users of financial statements while in the United Kingdom, employees, government, customers, suppliers and the general public were identified as legitimate users of financial statements (Ryan et al., 2002:98). The issue of stakeholders also comes into the picture. Who are the stakeholders? According to Roberts (1992:597), stakeholders are stockholders, creditors, employees, customers, suppliers, public interest groups and government bodies. Jones (1995:407) argues that, although the term 'stakeholders' includes shareholders, it is not limited to shareholders but also includes subgroups of customers and employees who may have distinct interests.

According to Samkin and Schneider (2007:12), the stakeholder theory is derived from the political economy of accounting, which considers society as a whole. They emphasise that the stakeholder theory considers the influences that particular stakeholder groups have on the behaviour of a reporting entity. There are various stakeholders with different demands, which are sometimes in conflict with each other. Therefore, for an entity to survive, the needs of stakeholders should be satisfied (Samkin & Schneider, 2007:12). Both Jensen (2001:8) and Roberts (1992) agree that managers should make decisions that take into account all the stakeholders in the firm, and that stakeholders include individuals or groups who can substantially affect or be affected by the welfare of the firm. Samkin and Schneider (2007:12) add to this by saying, "stakeholder theory attaches organisational accountability which extends beyond financial and economic performance and assumes that environmental and social information is material to the users of annual reports".

The researcher agrees with Samkin and Schneider (2007:13), and considers the stakeholder theory to be very important as it could assist in identifying the type of information and disclosure in the financial report of the public schools.

Coy et al. (2001:15) discuss stakeholders for colleges and universities by comparing two models. These models are the decision usefulness model (see Engstrom & Fountain, 1989) and public accountability model (see Coy et al., 1997) and are summarised by means of Table 2.2 below, as

adapted (Coy et al., 2001:15).

Table 2.2 College and university stakeholders' comparison model

| | Decision Usefulness Model (Engstrom and Fountain, 1989) | Public Accountability Model (Coy et al., 1997) |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Higher education executive officers | 1. <i>Internal campus-based citizens</i> Senior managers, support staff, academics, Service recipients students |
| 2. | State budget officers | |
| 3. | State auditors | |
| 4. | State comptroller | |
| 5. | State legislative fiscal analysts | 2. <i>Sister organizations/competitors</i> Employees of other tertiary education Institutions |
| 6. | State governors' Aides | |
| 7. | Federal government | |
| 8. | Accreditation agencies | |
| 9. | Board members | 3. <i>Elected & appointed representatives</i> Parliamentarians, institution council trustee board members, Government and regulators, advisory committee members |
| 10. | Financial community (Insurers, bankers, analysts, etc.) | |
| 11. | Major donors (Charitable trusts, etc.) | |
| 12. | Faculty | 4. <i>Resource providers</i> Suppliers and lenders, donors and sponsors, investors and partners, professional associations |
| 13. | General public, alumni, parents and spouses of students, etc. (League of women voters, National Civic League used as surrogates in research) | 5. <i>External citizens</i> Voters and taxpayers, other pressure groups, non-student service recipients, advisers and consultants, alumni |
| | | 6. <i>Analysts & media</i> researchers, journalists, librarians |

Source: Coy et al. (2001:15)

In the 2016 King IV report (Institute of Directors in Southern Africa [IoDSA], 2016:26) the stakeholder-inclusive model is explained. According to this report, in the stakeholder-inclusive model other stakeholders are considered not merely as instruments to serve the shareholders' interests but also as having intrinsic value for decision-making by the board in the interests of the company (IoDSA, 2016:26). As opposed to the consideration of interests and expectations of other stakeholders only if and when it is in the best interests of the shareholders to do so (IoDSA, 2016:26).

2.3 ACCOUNTABILITY THEORY

In the second chapter of the South African Constitution (section 29), provision is made for a right to basic education, including adult basic education (RSA, 1996a). The DoE, through its ministry, is therefore accountable to parliament in terms of the country's performance within the education sector. This means that the DoE must make available the resources to enable the citizens of the country to acquire education. In the case of *Economic Freedom Fighters vs Speaker of the*

National Assembly and Others; Democratic Alliance v Speaker of the National Assembly and Others (Constitutional Court of South Africa, 2016) ZACC 11, Chief Justice Mogoeng Mogoeng, in his judgement on the Nkandla matter, referred to the National Assembly and Parliament as the voice of all South Africans, the watchdog of state resources, the enforcer of fiscal discipline, and cost-effectiveness for common good of all people. He continued by stating that the National Assembly and the Parliament are responsible to playing an oversight role over executive and state organs and ensuring that constitutional and statutory obligations are properly executed. The researcher is also of the opinion that the role of the SGB can be regarded as similar to that of the National Assembly as the SGB plays an oversight role over school management. In other words, the SGB is accountable for the running of the school. The Auditor-General of South Africa (AGSA) categorises accountability into accountability to improve service delivery; financial accountability; performance accountability and compliance accountability (AGSA, 2015). Accountability in service delivery means that the accountant should explain what public resources have been used for, and that performance should be measured in relation to agreed performance targets within the agreed time frames to improve service delivery (AGSA, 2015). According to AGSA (2015), the accountant is responsible to ensure that:

- the financial statements fairly present the financial position at financial year end and the results of their operations for that financial year;
- the reported performance information is valid, accurate and complete; and
- there is compliance with key laws and regulations relevant to financial management within the sector.

In the report of King IV (IoDSA, 2016:43–44) on Corporate Governance responsibility accountability, fairness and transparency were explained as components of ethical leadership, as follows:

Responsibility

This involves the assumption of ultimate responsibility for the organisation by the governing body as well as protection of the financial, manufactured, human, social and intellectual and natural resources of the organisation (IoDSA, 2016:43). Samkin and Schneider (2007:11) view responsibility as a holistic concept that is transcended by accountability. According to Farrell and Law (1999:6), responsibility and accountability cannot be separated because those who have been given responsibility are also expected to give account of their performance.

Accountability

Accountability follows from the assumption or designation of responsibility and it means that the governing body should be held responsible for its decisions and actions by stakeholders. Therefore, accountability and responsibility are connected (IoDSA, 2016:43).

Fairness

Fairness involves keeping balance in the organisation's legitimate and reasonable needs, interest and stakeholder's expectations by the governing body in the interest of the organisation (IoDSA, 2016:44).

Transparency

The governing body should ensure that reports and disclosure enable stakeholders to make an informed assessment of performance, including the effect of the organisation's activities and its ability to sustain the creation of value (IoDSA, 2016:44).

The governing body should therefore ensure clear and public disclosure of information, rules, plans and processes (Ntsele, 2014:9). Coy and Dixon (2004:81) agree and they discuss three reporting paradigms, namely stewardship, decision usefulness and public accountability. According to these authors, public sector reports should be produced with public accountability as an important and main objective of reporting. They further mention that reports should include comprehensive information about matters such as objectives, achievements and service performance rather than including only financial matters. Tooley and Guthrie (2007:352) support this by emphasising the importance of disclosing sufficient and meaningful financial and non-financial information in the school's annual reports that will enable stakeholders to obtain a comprehensive understanding of the performance of the school. Tooley and Guthrie (2007:353) state, "Public accountability refers to the reporting of comprehensive information about the condition, performance, activities and progress to all those with social, economic and political interests".

Accountability was derived from the term 'to account', which means to be responsible, required to account for one's conduct (Tower, 1993:68). Tooley and Guthrie (2007:353) define accountability as the obligation to give an account of one's performance and/or actions. It is also an onus, requirement or responsibility to provide an account or reckoning of the actions for which one is held responsible. Accountability is made up of two parts; the "element of account" and "the holding to account" (Doussy & Doussy, 2014:29; Farrell & Law, 1999:6).

Accountability has also been described by Samkin and Schneider (2007:9) as the duty to provide an account or reckoning of actions for which one is held responsible. Doussy and Doussy (2014:28) refer to the term ‘accountability’ as commonly found in modern public administration theory and practice, and they define it as the fact and condition of being accountable. They also refer to the Institute for Financial Accountability in Southern Africa (IFAISA), which defines accountability as the obligation of those with power to explain their performance and justify their decisions (Doussy & Doussy, 2014:28).

Sections 16 and 16A of the SASA make provision for both governance and professional management of public schools. This section stipulates that the governing body, which is a statutory body of elected people responsible for governing the school, whilst the principal, under authority of the head of the DoE, is responsible for the professional management of the school (Ngidi, 2004:260). Ngidi (2004:260) is of the opinion that changes in legislation were to put governing bodies and principals under pressure of public accountability. He further emphasises that the governing body is placed in a position of trust towards a school, and that it is expected to act in good faith, to carry out all duties and functions on behalf of the school and be accountable for its actions. According to the researcher, accountability is applicable everywhere, including in Parliament. The researcher relates this to Parliament, where according to Chief Justice Mogoeng Mogoeng, the executive is accountable in fulfilling its promises through the State of Nation Address, budget speeches, policies, legislation and the Constitution (Constitutional Court of South Africa, 2016). The governing body must therefore adhere to legal duties of acting with due care, skill and due diligence, and have a fiduciary duty to act in good faith in the best interest of the entity (IoDSA, 2016:4). Ntsele (2014:9) adds that the governing body is responsible for preventing the occurrence of unauthorised, irregular, fruitless and wasteful expenditure.

Joubert (2000:15) emphasises that it is apparent that SGBs in South Africa have statutory responsibility for many critical functions within the school, which could make a valuable contribution in ensuring effectiveness and continuing improvements. According to Doussy and Doussy (2014), increased school autonomy places a stronger demand on accountability as schools with more decision-making powers are required to account for their decisions and the effect of these.

Multiple stakeholders have an interest in the accountability of a public benefit entity. They are more concerned with the way in which public resources are being utilised than in making economic decisions, and this ensures that public representatives are able to be held to account

(Samkin & Schneider, 2007:9). This may be referred to as ‘external accountability’, which states that individuals feel responsible and obliged to perform certain behaviours because they are expected by others to do so (Erdogan, Sparrowe, Linden & Dunegan, 2004:21).

2.4 WHO ARE THE SCHOOLS’ STAKEHOLDERS?

Section 2.2 above indicates how different authors describe stakeholders, which differs from entity to entity. This section also differs from country to country. The SASA further makes provision for South African SGBs to be legally responsible to the district (government), parents and teachers. Provision is made for learners who are in Grade 8 and above to become members of the SGBs. Section 18 of the SASA requires that meetings be held with parents, teachers and learners at least once a year, and that report be given in these meetings, while section 42 requires the governing body to submit the audited financial statements to the DoE.

The users of schools’ financial statements may therefore be divided into two categories, namely primary users and other users. Primary users of financial statements of the school are identified in terms of the SASA as government, donors, parents of the learners registered at the school, learners registered at the school, teaching and non-teaching staff at the school, the principal and auditors of the school. Table 2.3 below summarises the primary users of the schools’ financial information as well as their information needs.

Table 2.3 **Primary users of school’s financial information and their information needs**

| PRIMARY USERS | INFORMATION NEEDS OF THE PRIMARY USERS |
|------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Government | Government needs financial information of the schools in order to make decisions on how much grant to be allocated to the school. Decisions include whether to give the school a section 21 status or keep it as section 20. |
| Donors | They need the financial information in order to establish how their donation has been used. This will enable the donors to decide on future donations. |
| Parents | Parents need the financial information of the school in order to assess whether the school’s resources are utilised effectively. This will assist parents in making decisions in important matters such as approving the budget. |
| Learners | Learners are concerned about the continuation of the school to give them education. A school that does not do well in managing its finances may compromise the infrastructure development and maintenance of the school as well as provision of learner material. |
| The principal, teachers and non-teaching staff | They are concerned with their employment. Should the school’s finances not be well managed, the school’s learner enrolment may decline and some employees may lose their jobs or may be transferred to other places which they do not prefer. |
| Auditors | They need the financial statements, accounting records as well as supporting documents in order to be able to express an opinion on the fair presentation of the financial performance, financial position as well as the changes in the financial position of the school. |

Source: Author’s own compilation

According to the accountability model discussed by Coy et al. (2001:15), supported by the External Reporting Board (New Zealand Accounting Standards Board, 2014:5), other users of a school’s financial information may be feeder schools or competitors, suppliers, donors, sponsors, professional associations, unions, alumni, taxpayers, other community members, researchers, media and auditors. Even if the SASA does not make provision for the governing body to be legally accountable to these groups, they also need information from the school’s reports. FEDSAS emphasises that stakeholders are not only shareholders or those who fund the school through grant or fees and donations and that stakeholders include the broader community in which the school is located (IoDSA, 2015:8).

2.5 INTERNATIONAL PERSPECTIVES ON SCHOOL GOVERNANCE

In the twentieth century, there has been a major shift to self-governance for schools with the aim of giving schools greater powers to manage their affairs within clearly defined national frameworks (Bush & Gamage, 2001:39). This shift resulted in changes in the structure of governing bodies. Nyandoro et al. (2013:255) identified countries such as Australia, the United Kingdom, the United States of America, Canada and New Zealand who decentralised the

financial management in their schools. According to Nyandoro et al. (2013:256), Zimbabwe adopted centralisation of education after its independence, which created considerable challenges for the country until they also decided to decentralise the education system in 1992.

Governing bodies in most countries comprise parents, teachers, community representatives, teaching and non-teaching staff as well as principals of schools (Bush & Heystek, 2003:131). This composition matches governing bodies in South African schools. Bush and Heystek (2003:131) identified the following four major differences between the South African education system and systems in other countries:

- South Africa provides for learner membership in secondary schools;
- just like in South Africa, parents constitute a majority in Australian school councils (Bush & Gamage, 2001:42). In Lesotho, a school board consists of nine members (Lesotho, 2010:180): two members nominated by a proprietor, three members nominated by parents, one teacher, a chief under whose jurisdiction the school falls, a member of a local council under whose jurisdiction the school falls, and the principal of the school (Lesotho Government, 2010:180);
- the governing body chair must be a parent governor in South Africa while in Lesotho, the school board is chaired by a member nominated by a proprietor, and a parent nominee may serve as a deputy chairperson (Lesotho Government, 2010:180); and
- Co-opted members have voting rights in England but not in South Africa.

SGBs in England and Wales are entrusted with responsibilities, some of which are to provide a statement of curriculum aims; modifications or exemptions to curriculum policies; giving a detailed report on educational needs, sex education and arrangements by the school for collective worship; providing a prospectus and an annual report; financial responsibility for decisions relating to school expenditure, and keeping appropriate accounts (Farrell & Law, 1999:6). According to Farrell and Law (1999:6), governing bodies in England and Wales have legal responsibilities to the local education authorities (LEAs), inspection authorities, the public and the parents. The SGBs in England, as in South Africa and other countries, are representatives of various stakeholders, who include staff, parents, the local authority, the local community and religious affiliations (James, Brammer, Connolly, Spicer, James & Jones, 2013:84).

According to the responsibilities listed above, it is clear that SGBs of most countries are entrusted with financial responsibilities, which include financial management and reporting on behalf of the schools. In Lesotho, however, the financial responsibilities are given to the

principal of the school. According to section, 21 of Lesotho Government's education act (Act Number 3 of 2010), other financial responsibilities of the principal include control and use of school funds, maintenance of records of income and expenditure, and preparation of a budget and submission of financial statements to the school board for approval. It is clear that the financial responsibilities of the school boards in Lesotho are only approval of budget, approval of financial statements, and auditing of financial statements (Lesotho Government, 2010:180).

According to James, Brammer, Connolly, Fertig, James and Jones (2010:14), at the time of their research, 83% of governors in England were in professional and managerial occupations; one third were graduates; one in eight had higher degrees and about a quarter of chairpersons were professionally qualified. They also found that the schools in England were effectively governed. People were appointed to the governing body only if it was believed that they had skills to contribute to the effective governance and success of the school (England, 2016:8). Decisions to appoint members of the SGBs are informed by interviews and references.

As mentioned in Chapter 1 of this thesis, South African SGBs have challenges such as illiteracy of SGB members and their lack of skills. Furthermore, when electing members of the SGB, skills are not considered. Consideration is only made to section 23 of the SASA, that an elected member must be parent of a learner, educator at the school, member of staff who are not educators, and learners in the eighth grade or higher. James et al. (2010:56) mentioned in their study that in England, one primary school had recruited an accountant who also served as the chair of the finance committee. The researcher is of the opinion that schools in South Africa should also appoint skilled people in order to enhance and improve the financial management of the schools. The researcher is also of the opinion that lack of skills might be the cause of ineffective functioning of the South African SGBs (see section 1.3, above).

The term of office of the governors in England is four years (see England, 2016:16) as opposed to three years in South Africa (RSA, 1996c: section, 31). In New Zealand, like other countries, transformation also took place, which affected different sectors of the economy. Prior to the transformation taking place, schools in New Zealand were classified as SOEs (also known as 'crown entities') and they had to comply with the State Sector Act, 1988, the State Owned Enterprises Act, 1986, and the Public Finance Act, 1989 (Broadbent, Jacobs & Laughlin, 1999:346). In terms of the Public Finance Act (1989), each department and crown entity were required to prepare audited annual and half-yearly financial and non-financial performance reports to be presented to parliament and also be released to the general public. Schools were

then decentralised, and the Education Act, 1989 as well as the Education Amendment Act (2015) were revised.

Broadbent et al. (1999:347) established that, at the time of their research, the schools in New Zealand had to comply with the Education Act 1989 as well as the Public Finance Act, 1989. In terms of these Acts, the schools are required to prepare annual financial statements which, together with the school financial management systems were subject to audit by Audit New Zealand at the time. According to Broadbent et al. (1999:347), in England, it was not different. Management of English schools was delegated to the governing bodies.

In Florida, in the United States, additional financial reporting requirements were introduced in 2006 to help financially struggling charter schools. This was done by strengthening financial auditing and reporting standards (Office of Program Policy Analysis & Government Accountability [OPPAGA], 2008).

In section 1.3, challenges facing South African SGBs were discussed. As is the case in South Africa, schools in Kenya and Zimbabwe also experience challenges regarding financial mismanagement. According to Mobegi (2015:215), about 47 cases of financial mismanagement were reported in Gucha District (Kenya) between 2008 and 2010. School principals (referred to as schools' heads in Zimbabwe) in Mashonaland East Province in Zimbabwe were also accused of financial mismanagement as well as abuse of teacher incentives (Munge et al., 2016:93) which, according to Nyandoro et al. (2013:265), were caused by the lack of knowledge and understanding of their roles as outlined in the statutory instrument.

2.6 SUMMARY AND CONCLUSION

In this chapter, the researcher indicated how important the stakeholders are and that their information needs should be satisfied. The researcher emphasised the importance of the reliability of financial information given to stakeholders. The King Code of Corporate Governance (2016) was referred to when discussing different kinds of stakeholders and from whom to claim accountability. The argument also involved who the schools' stakeholders are. It is clear from the FEDSAS point of view that schools should also adhere to the code of corporate governance. Although the SASA and other school legislations do not prescribe the King Code of Corporate Governance, the researcher agrees with FEDSAS in this regard. In the introductory section, a clear comparison between companies and schools was made. It is clear that the composition of schools' stakeholders fits the one discussed by FEDSAS based on the King Code of Corporate Governance.

Accountability was also discussed. The discussion included the definitions of accountability by various researchers. The researcher agrees with the King Code of Corporate Governance that accountability includes transparency and responsibility. It is also clear that the separation of management of the entity from shareholders and other stakeholders is to enforce accountability. From the schools' point of view, the SASA has entrusted the SGBs with the management and running of schools. This therefore makes the SGBs accountable to the stakeholders. The SGBs should therefore be able to supply the government, learners, donors, parents, researchers and other interested parties with relevant and reliable information, whether financial or non-financial.

A comparison with other countries, such as England, New Zealand, Australia, the United States (specifically Florida), Lesotho, Kenya and Zimbabwe was made. The researcher identified similarities in terms of the composition of the SGBs which included all stakeholders, such as parents, state representatives, teachers, non-teaching staff, principals and learners. In all these countries, school functions were decentralised and decisions are taken at school level with most taken by the governing bodies. Even though the composition of governing bodies is similar in some of the above-mentioned countries, governing bodies in other countries, such as England, perform much better compared to governing bodies in countries such as South Africa. This is caused by the fact that in England, skills and educational background are considered when choosing members of the governing body, especially in terms of the parents component, while in South Africa, the only qualifying criterion for a parent to be in the SGB is that such parent must have a child attending that school. The skills and education consideration make it easy for SGBs in England to function more effectively. It also contributes to good financial management and reporting. Most schools in England recruit accountants to serve as treasurers in their governing bodies. This promotes good accountability and transparency by SGBs to the various stakeholders.

Composition and financial responsibilities of governing bodies in Lesotho, Zimbabwe and Kenya are not similar to those of South African SGBs. However, the researcher identified similarities in terms of challenges between these countries. All these countries experienced considerable challenges in terms of mismanagement of school funds.

In the next chapter, the researcher will discuss the legislative framework, financial accountability for schools, financial management for schools, various accounting standards, the type of information required by schools' stakeholders, as well as the financial reporting by schools in other countries.

CHAPTER 3

LITERATURE REVIEW: LEGISLATIVE FRAMEWORK AND FINANCIAL MANAGEMENT

3.1 INTRODUCTION

In South Africa, the management and ownership of companies as well as SOEs are separated (RSA, 2014:20). Ownership belongs to the shareholders while management is allocated to the board of directors (RSA, 2014:20). The Companies Act (No. 71 of 2008) (RSA, 2014) makes provision for companies to appoint the board of directors. According to the King IV report on Corporate Governance (2016) the governing body of a company must comprise a mix of executive, non-executive as well as independent members (IoDSA, 2016:50). The majority of these should be non-executive with the majority being independent (IoDSA, 2016:50). Diversity in terms of academic qualifications, expertise, skills, experience, nationality, age, race and gender should also be considered when appointing the members of the governing body of a company (IoDSA, 2016:50).

According to the King IV report on Corporate Governance, the following should be disclosed with regard to the governing body of a company (IoDSA, 2016:52):

- its composition;
- classification of each member as executive or non-executive and also whether independent;
- qualifications and experience of members;
- the mix of skills, experience, diversity, independence and knowledge of the organisation and its sector;
- length of service and age of members;
- other significant positions of each member;
- where a member has been serving for more than nine years, details of the assessment and findings regarding independence;
- reasons for removal, resignation or retirement of members from the governing body; and
- the number of meetings held, and attendance at those meetings.

Section 30(4) of the Companies Act (No. 71 of 2008) also requires disclosure in the annual financial statements, of any remuneration and benefits received by each director. However,

section 38A of the SASA (1996) prohibits payments of unauthorised remuneration or giving of financial benefits or benefits in kind to certain employees. Remuneration of members of the SGBs is also prohibited by section 27(2) of the SASA, since their services are on a voluntary basis. The DBE is in a process of amending this section to include prohibition of payment to SGBs for attending meetings or any school activity (Department of Basic Education [DBE], 2017a:40). However, section 27(1) of the SASA makes provision for the reimbursement of expenses incurred by a member of a governing body in performance of his or her duties. The researcher is of the opinion that, in order to promote transparency, consideration should be given to the disclosure of the information relating to payments made to members of the SGBs when preparing the financial statements of the school. This disclosure will be in line with the disclosure of director's fees as required by King IV report on Corporate Governance (IoDSA, 2016).

In this chapter, the researcher will discuss:

- the legislative framework of SGBs with specific reference to the Constitution of the Republic of South Africa, the SASA and the Public Finance Management Act (PFMA) (No. 1 of 1999) (RSA, 1999);
- financial accountability for schools;
- financial management of schools with specific reference to the financial policy, budgeting, management of school funds, financial record-keeping and reporting, the South African Schools Administration and Management System (SA-SAMS), audit or examination of financial records, and annual financial statements;
- the kind of information required by the school's stakeholders;
- the International Financial Reporting Standards (IFRS);
- the Generally Recognised Accounting Practice (GRAP);
- the Modified Cash Standard (MCS);
- the IFRS for small and medium-sized entities (SMEs); and
- International Public Sector Accounting Standards (IPSAS); and
- financial reporting by schools in other countries.

3.2 LEGISLATIVE FRAMEWORK

The following legislative frameworks are prescribed by the Department of Basic Education (DBE) for South African schools:

- the Constitution of the Republic of South Africa, No. 108 of 1996 (RSA, 1996a);

- the National Education Policy Act (NEPA), No. 27 of 1996 (RSA, 1996c);
- the South African Schools Act (SASA), No. 84 of 1996 as amended (RSA, 1996b);
- the Promotion of Administrative Justice Act (PAJA), No. 3 of 2000 (RSA, 2000);
- the Public Finance Management Act (PFMA), No. 1 of 1999 (RSA, 1999); and
- the Employment of Educators Act (EEA), No. 76 of 1998 (RSA, 1998).

For the purpose of this study, the discussion mainly focused on the Constitution of the Republic of South Africa, SASA and the PFMA, as these Acts have a direct effect on the topic discussed.

3.2.1 THE CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA

The Constitution of the Republic of South Africa (the Constitution) is regarded as the supreme law of the country. All Acts, regulations, legislations and policies must be developed in such a way that they do not contradict the Constitution. Various rights are addressed in the Bill of Rights reflected in the Constitution. In section 2.3 above, reference was made to the second chapter of the Constitution, which provides for a right to basic and adult basic education. Section 32(a) of the Constitution provides for the right to access any information held by the state. SGBs therefore need to consider the information provided for in the Bill of Rights when developing the constitution and policies of schools. The SGB should make provision in the school's constitution, for allowing access of information by the school's stakeholders. The information may include the school's financial statements, minutes of the meetings of the SGB as well as the minutes of the meetings of the SGB's finance committee.

As discussed in section 3.2.2.2, the administrative function of the schools is delegated to the SGBs. The researcher regards the SGB as a sphere of government as provided for in section 195 of the Constitution. According to this section, every sphere of the government, organs of the state and public enterprises should apply basic values and principles governing public administration (RSA, 1996a). These values and principles amongst others, are (RSA, 1996a):

- promotion and maintenance of a high standard of professional ethics;
- promotion of efficient, economic and effective use of resources;
- provision of services impartially, fairly, equitably and without bias;
- responding to people's needs and encouragement of public participation in policymaking;
- accountability; and
- fostering transparency by providing the public with timely, accessible and accurate information.

Procurement of goods and services by an organ of state or local sphere of government must take place in accordance with a system which is fair, equitable, transparent competitive and cost-effective (RSA, 1996a [section 217]). This section of the Constitution should be considered by SGBs when developing the procurement policy, which forms part of the finance policy of the school.

3.2.2 THE SOUTH AFRICAN SCHOOLS ACT (SASA)

As mentioned in section 1.1, the SASA was passed in 1996, and it makes provision for the establishment of democratic structures of SGBs. The establishment of SGBs provided a basis for decentralised governance between education authorities and the school community (Thenga, 2012:15). Mbatsane (2006:18) defines an SGB as a body of parents, teachers, non-teaching staff, the principal and learner representatives elected tri-annually to perform the administrative functions of the school.

3.2.2.1 COMPOSITION AND MEMBERSHIP OF SGBs

Table 3.1 below explains the composition of the SGBs in terms of sections 23 and 24 of the SASA.

Table 3.1 **Composition of SGBs**

| Primary school | Secondary school | Special school |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> - The principal - Teachers (minimum of 1 and maximum of 3 depending on learner's roll) - One non-teaching member of staff - Parents (minimum of 4 and maximum of 6 depending on learner's roll) | <ul style="list-style-type: none"> - The principal - Teachers (minimum of 2 and maximum of 3 depending on learner's roll) - One non-teaching member of staff - Parents (minimum of 7 and maximum of 9 depending on learner's roll) - Learners in Grade 8 or higher (minimum of 2 and maximum of 3 depending on learners roll) | <ul style="list-style-type: none"> - The principal - Teachers (number depends on learner's roll) - One non-teaching member of staff - Parents (number depends on learner's roll) - Learners in Grade 8 or higher (number depends on learner's roll) - Organisations of parents - Representatives of sponsoring bodies - Representatives of organisations of disabled persons - Disabled persons - Experts in relevant fields of special needs education |

Source: Author's own compilation (SASA, sections 23 and 24)

According to the SASA the SGB may co-opt members of the public with specific expertise to serve on the governing body (RSA, 1996b). Co-opted members do not have voting rights. The SGB is elected every three years. According to the SASA, a person is eligible to stand for election as an SGB member for only two consecutive terms. The SGB shall, from amongst its members, elect office bearers who must include at least a chairperson, a treasurer and a secretary whose term of office is only a year. A member may be re-elected to the position. The chairperson and the treasurer must be parents (RSA, 1996b). Section 30 of the SASA allocates powers to the SGB to establish committees. Some of the committees are shown in Figure 3.1 below (Ndou, 2012:24).

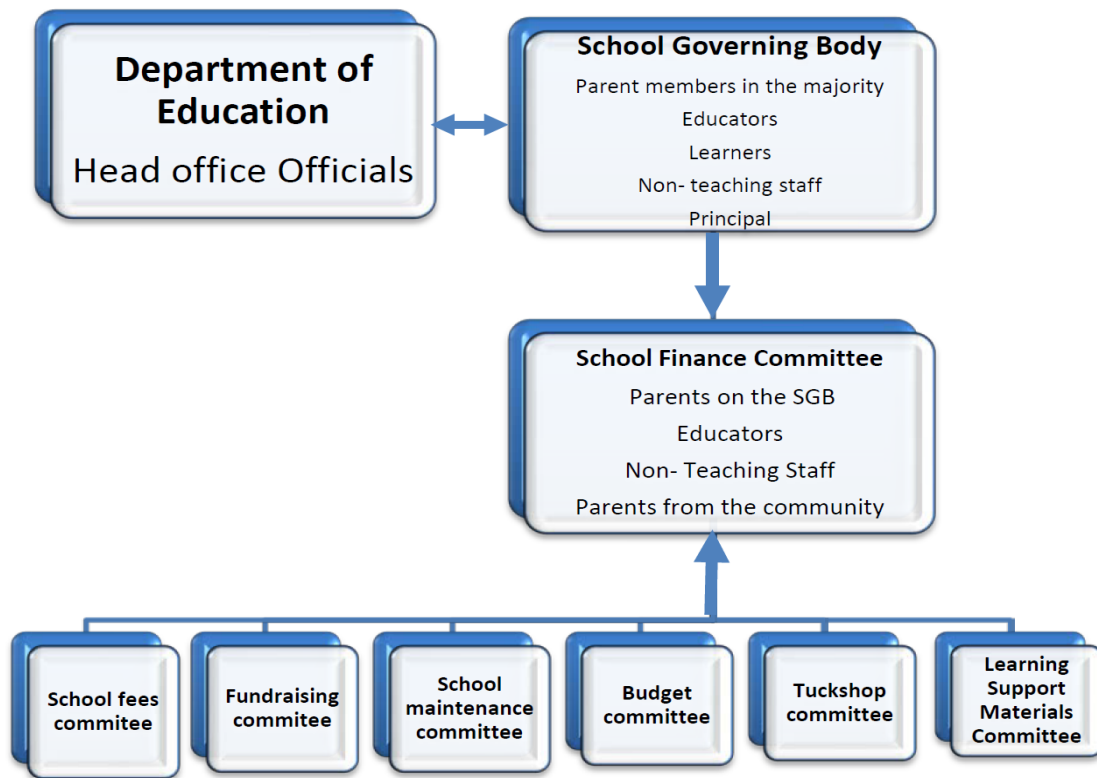


Figure 3.1 A model for school financial management

Source: Ndou (2012:24)

IoDSA (2015:14) recommends that the nominations committee, remunerations committee, risk management committee and the audit committee should form part of the SGBs sub-committees. The researcher, due to the nature of the study, considered the finance committee one of the important subjects for the study. This is because majority of state-owned entities and private companies have finance committees as an oversight body around the organisation’s finances. This is considered good practice. The finance committee is discussed in section 3.2.2.2.

3.2.2.2 FUNCTIONS OF THE SGBs

According to section 20 of the South African Schools Act of 1996 (RSA, 1996b), the following are functions and responsibilities of SGBs, namely to –

- promote the best interests of the school and strive to ensure its development through the provision of quality education for all learners at the school;
- adopt the school’s constitution;
- support the principal, teachers and other staff of the school in the performance of their

professional functions; and

- administer and control the school's property, buildings and grounds occupied by the school, including school hostels. The governing body may allow reasonable use of the facilities of the school for community, social and school fund-raising purposes, subject to such reasonable and equitable conditions as the governing body may determine, which may include the charging of a fee or tariff, which accrues to the school.

The following are other functions that may be allocated to the SGB in terms of section 21 of the SASA (RSA, 1996b), namely to –

- maintain and improve the school's property, buildings, grounds and hostels;
- determine the extra-mural curriculum and the choice of subject options in terms of the provincial curriculum policy;
- purchase textbooks, educational materials or equipment for the school; and
- pay for services to the school.

These functions of the SGB are also emphasised in section 3(4) of the National Education Policy Act, 1996 (No. 27 of 1996) (RSA, 1996c) dealing with the national norms and standards.

The SASA (RSA, 1996b) further stipulates the following functions of the SGB relating to finance of the school, namely to –

- strive to raise funds, including voluntary contributions to the school in cash or kind;
- establish a school fund and administer it in accordance with directions issued by the head of the provincial DoE;
- open and maintain the school's bank account;
- establish budget priorities and prepare a budget each year;
- keep record of funds received and spent by the school and of its assets, liabilities and financial transactions;
- draw up annual financial statements, not later than three months after the end of each financial year, which should indicate, with suitable particulars, money received and expenditures incurred by the school during the financial year, its assets and liabilities at the end of the financial year concerned; and
- ensure that the accounting records and financial statements are audited or examined and submitted to the head of provincial DoE within six months after the end of each financial year.

3.2.2.3 THE FINANCE COMMITTEE

As mentioned in section 3.2.2.1 above, section 30 of the SASA mandates the SGB to establish various sub-committees and the finance committee should be one of them. The finance committee plays a very important role in the management of the school's finance. According to Figure 3.1 above, the finance committee should comprise parents from the SGB and from the community, teachers and non-teaching staff. The guidelines from Gauteng, KZN and Western Cape provinces indicate the composition and functions of the finance policies. The guidelines obtained from other provinces did not indicate such information. However, such information may have been addressed in separate documents. The finance committee may comprise the treasurer, the principal, teachers, parents and co-opted members (Gauteng Provincial Government, 2014b:9; KwaZulu-Natal Department of Education, 2014: 29 and Western Cape, 2013:5). The treasurer must chair the finance committee. The regulations for management of finances at public schools (Gauteng Provincial Government, 2014b:9), the school funding norms policy implementation manual for public schools (KwaZulu-Natal Department of Education, 2014: 29) and basic financial systems for schools indicate the following duties of the finance committee (Western Cape, 2013:5). The finance committee should:

- support the treasurer in administering his or her duties;
- draw up the budget each year;
- advise the governing body on fundraising;
- advise the governing body on ways to invest surplus money;
- advise the governing body on the amount of school fees to be charged;
- advise the governing body on exemptions from school fees;
- assist the financial officer in drawing up annual financial statements; and
- recommend to the governing body, who should be appointed as auditor.

The following are the duties of the treasurer of the SGB (WCED, 2013:5):

- serve as chairperson of the finance committee;
- monitor on a monthly basis that all funds received are deposited in the school account and that all payments were duly authorised;
- monitor all donations received, in kind and cash;
- monitor all petty cash transactions, including the reconciliation of petty cash;
- provide a financial report to the SGB on a quarterly basis;
- monitor actual income and expenditure against the approved budget; and

- the treasurer should not be the person responsible for handling money matters on a daily basis. This is the responsibility of the finance officer appointed by the SGB.

The SGB should appoint the finance officer in writing, who will record all financial transactions and keep the principal, the treasurer, and the finance committee fully informed on the financial matters (WCED, 2013:6). The following duties may also be allocated to the finance officer by the SGB (WCED, 2013:6):

- receipting of income;
- maintaining the cash-book of the school;
- preparing the monthly bank reconciliation statements;
- ensuring the completion of monthly and quarterly reports;
- monitoring the budget against actual income and expenditure;
- maintaining the various assets and inventory registers; and
- compiling the annual financial statements.

The researcher suggests that the appointment of the finance officer who reports to the finance committee by the SGB and that the finance committee should report to the SGB is in line with good practice. As indicated above, all subcommittees report to the SGB.

3.2.3 THE PUBLIC FINANCE MANAGEMENT ACT (PFMA)

The South African schools are mainly regulated by the SASA and there is no reference to the schools required to comply with the Public Finance Management Act (PFMA). Mestry (2004:128) argues that neither schedule 2 nor schedule 3 of the PFMA indicates that schools fall within the ambit of the particular Act. Mestry (2004:128) further argues that the PFMA has no direct applicability to a school even though section 37 of the SASA requires the governing body to establish and administer a school fund in accordance with the directions issued by the HOD. The researcher therefore agrees with Mestry (2004:128) that South African schools fall within the public sector and form part of public entities as defined by the PFMA. It may therefore be argued that schools should also comply with the PFMA. The inclusion of the PFMA in their guidelines as one of their legislation framework by the WCED supports the argument that schools should also comply with the PFMA. The researcher therefore argues that where the South African Schools Act is silent about certain aspects, reference should be made to the PFMA. For example, the SASA does not give guidance on the procurement processes. Therefore, reference should be made to the PFMA in this regard.

As stated in Chapter 1, one of the duties of the governing body is to draw up annual financial statements. Section 55(1)(a)–(b) of the PFMA (RSA, 1999) also requires the accounting authority for a public entity to keep full and proper records of financial affairs of the public entity; prepare financial statements for each financial year in accordance with GAAP, unless the accounting standards board approves the application of GRAP for the public entity.

Section 87 of the PFMA (RSA, 1999) refers to the establishment of an Accounting Standards Board by the minister of finance. In terms of section 89 of the PFMA, some of the duties of this board include setting GRAP standards to be used by departments, public entities, constitutional institutions, municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership and/or control of the municipality, parliament and provincial legislature. The PFMA mandates the accounting authority of the public entities to manage the resources of the entities in an effective and efficient manner. The SGBs should also take charge by ensuring that the funds of the schools are well managed and that corruption in schools is ended.

The chief executive of Corruption Watch, David Lewis identified procurement and abuse of school funds as prevalent form of corruption in schools and that this is as a result of a collaboration or collusion between the schools' principals and the chairpersons of the SGBs (The Citizen, 2018). It is therefore in the best interest of the stakeholders of these authorities, in this case including the SGBs, to take appropriate and reasonable steps to prevent the entity from incurring fruitless and wasteful expenditure. According to section 5A of the Public Audit Amendment Bill (19 January 2018) (RSA, 2018), the AGSA's recommendations are enforceable and must be implemented (RSA, 2018). This means that fruitless and wasteful expenditures may be recovered from responsible persons. In this case, a duty to be accountable and transparent is therefore placed in the hands of the SGBs (Ntsele, 2014:9).

3.3 FINANCIAL ACCOUNTABILITY FOR SCHOOLS

As discussed in section 2.3 above, financial accountability means taking responsibility and accounting for funds received and spent, which is also accountability in terms of the finances of the school (Ngubane, 2009:16). According to the SASA, all financial responsibilities of the schools lie with the SGBs, i.e. the responsibility of receipting and spending of funds lies with the SGBs. School principals and governing bodies are entrusted with the responsibilities of preparation of the budget, fund-raising, purchasing of assets and books, maintenance of buildings as well as preparation of financial records and annual financial statements to ensure a high level

of accountability, transparency and prudence in the utilisation of school funds (Motsamai, Jacobs & De Wet, 2011:106; Munge et al., 2016:99; RSA, 1996b).

Section 18 of the SASA also emphasise accountability of the SGBs. According to this section, the governing body must draw up a constitution, which must provide, amongst others for:

- the meeting of the governing body with parents, learners, teachers and other staff at the school, respectively, at least once a year; and
- rendering a report on the activities of the school to parents, learners, teachers and other staff members, respectively, at least once a year.

Circular number 09/2016, issued by the GDE emphasises the importance of planning, reporting and accountability (GPE, 2016:7). In addition to the School Development Plan (SDP) and the School Improvement Plan (SIP), all under-performing schools in Gauteng are required to submit an Academic Performance Improvement Plan (APIP) (GPE, 2016:7). The SGBs are also required to keep minutes of the meeting where the APIP and the resources to support the plan are discussed (GPE, 2016:8).

Section 20 of the SASA requires the governing body to present an annual report, which includes financial statements, at an annual general meeting (AGM) (RSA, 1996b). The SGBs must also prepare the budget and present it at the AGM to parents. The SASA allocates some important functions to the SGB, which were discussed in section 3.2.2.2. These functions are part of the accountability placed on the SGBs in terms of the stakeholders. It is therefore evident that the governing body is entrusted with accountability to its stakeholders. As explained in section 2.3, Farrell and Law (1999) gives a description of being accountable as a requirement to explain or justify one's actions or behaviour, and they also link accountability with responsibility.

Section 42 of the SASA (RSA, 1996b) requires SGBs to keep records of funds received and spent and of the assets, liabilities and financial transactions of the school. According to this section, the governing body is also required to prepare the school's annual financial statements within three months after the end of the financial year, in accordance with guidelines determined by the MEC (RSA, 1996b). These responsibilities entrusted to the SGBs indicate how the SGBs are accountable to various stakeholders. In evaluating accountability, the governing body should be held liable to account for –

- the quality of education;
- performance management in the school;
- financial probity; and

- appropriate use of resources to overcome barriers to learning in relation to the school's strategic direction (James et al., 2013:87).

The SGB is also mandated by the SASA to maintain an effective and efficient internal control environment (GDE, n.d.[a]). Internal control is a process effected by the SGB, principal and other personnel, designed to provide reasonable assurance regarding the achievement of the objectives of the school (GDE, n.d.[a]). These are measures that are put in place to eliminate risks, prevent irregularities such as fraud from taking place, detect any irregularity that might have occurred, and correct irregularities that are detected (GDE, n.d.[a]). The researcher is therefore of the opinion that the SGB's duty of accountability may be discharged by implementing the effective financial management system.

Tooley and Guthrie (2007:351) argue that the annual report serves as main instrument with which the school's performance may be measured. This instrument provides information on the financial operations and position of the schools, provision of service, and the use of the resources during the year (Tooley & Guthrie, 2007:351). The researcher agrees with the Accounting Standards Board (ASB), and argues that schools are public entities and that they are responsible for providing goods and services to the citizens of the country by using public resources entrusted to them (ASB, 2013:2). The ASB (2013:2) continues by emphasising that there are a number of stakeholders who need information so that they can be able to assess the stewardship of the entities over the resources provided in order to hold the management of the entity accountable for their actions. The researcher is therefore of the opinion that the annual financial statements, which form part of the annual report, may also be used as an instrument to measure the performance of the SGB. According to the researcher, good financial management by the SGB may lead to performance and accountability.

3.4 FINANCIAL MANAGEMENT FOR SCHOOLS

Financial management involves financial planning and budgeting, financial accounting, financial analysis, financial decision-making and action (Hansraj, 2007:15). According to Joubert (2000:2), the functions of SGBs regarding finance include the establishment of the school fund, preparation of a budget, collection and administration of the school fund, keeping financial records, appointment of an accountant and supplementing the school's resources. Ngubane (2009:13–14), who agrees with Joubert (2000:11), identifies components of financial management, namely financial planning, financial control and financial monitoring. He further extends the definition of financial planning by including strategy and budgeting. Ngubane

(2009:28–49) also classifies financial control into internal and external controls, while financial monitoring refers to record-keeping, financial statements, financial analysis and financial reporting.

According to Mestry (2004:129) and Munge et al. (2016:93), the management of a school's finances plays a very important role, and it is an integral part of efficient and effective utilisation of a school's resources. Motsamai et al. (2011:105) believe that proper financial management enables the school to achieve effective education. This is supported by the research done by Mobegi (2015:221) who concluded that financial mismanagement contributes to poor performance due to insufficient or a lack of teaching and learning facilities and physical facilities. Mobegi (2015:221) also concludes that financial mismanagement has a negative effect on learner enrolment due to poor quality of resources. Mestry (2004:129) regards the importance of the management of a school's finances as similar to that of a curriculum or human values, in terms of status and influence.

Joubert (2000:10), in her research, refers to the 2004 Ministerial Committee report on review of school governance in South African public schools. In this report, financial management was ranked as the most important amongst all SGB functions. As mentioned in section 3.2.2.1, the SGB may appoint the financial committee and allocate some functions to it. One of the functions which may be allocated to the finance committee by the SGB is the financial management of the school. The financial management of schools will be discussed (see sub sections 3.4.1 to 3.4.6) from the following perspectives: the finance policy, a budget, the management of school funds, financial record-keeping and reporting, SA-SAMS and the audit or examination of financial statements.

3.4.1 THE FINANCE POLICY

The GDE provides a guideline to SGBs on policy formulation. This guideline outlines the ten-step policy formulation model. The following steps are explained in the model (GDE, n.d.[b]):

Step 1: Identify policy issues. This involves the identification of a need for a particular policy.

Step 2: Agenda setting. This entails the definition of the internal priority issues relating to the policy development as well as the drafting of a concept document.

Step 3: Clarification of issues, appointment of a project team (if necessary), analysing the influence of the policy on various stakeholders, cost–benefit analysis, risk identification and mitigation of those risks, budget determination and the development of the management or

project plan.

Step 4: Development of a draft policy document.

Step 5: Wide consultation with various stakeholders to be affected by the policy, careful consideration of comments and development of an amended draft policy document.

Step 6: Develop a final draft after considering and evaluating inputs from various stakeholders. The final draft must first be scrutinised by the SGB before presentation to the stakeholders.

Step 7: The policy should be proofread, the necessary corrections effected and approved by the SGB and then submitted to the District Director for final approval.

Step 8: Within 30 days after approval by the District Director, the policy should be brought to the attention of all stakeholders, and be implemented immediately.

Step 9: Once the policy has been implemented, the SGB should ensure that measures are put in place for regular monitoring in order to assess compliance.

Step 10: It is ideal to review or amend the policy as and when necessary, especially if the policy does not achieve desired results.

According to step 3 above, the SGB may appoint a project team to develop a policy. In case of developing the finance policy, the SGB may delegate the function to the finance committee. Mestry (2006:35) defines a finance policy as formulation of rules and regulations for handling the money or assets of the school. He further says that the policy should clearly state the procedures for handling school fees, donations, cheques, authorisation of cheque payments, signatories to the bank account, documentation, recording transactions and every aspect related to the school's finances. Mobegi (2015:221) agrees with section A9 of the Western Cape's basic financial systems for schools (WCED, 2013:8), which requires the finance policy to provide a clear understanding of the responsibilities of a treasurer, the finance officer, auditor, finance committee, the principal and other persons to whom specific tasks are allocated. According to Mobegi (2015:221), the development and adoption of a finance policy by relevant stakeholders will enable the school to manage its finances effectively and efficiently. However, the researcher agrees with Motsamai et al. (2011:115) by arguing that the existence of the finance policy may not lead to sound management of finances in Lesotho schools if the governing body do not have sufficient financial management skills.

Ngubane (2009:28) cites Shapiro (2008) who listed the following policy items to be included in

the finance policy: donor or income policy, budgeting policies, policy for financial management, expenditure policies, travel policies, auditing policies, petty cash policy, salary policy, staff loans and bank account. The researcher is of the opinion that it is also important that the finance policy should address the recording of transactions, safekeeping of documents as well as the preparation of financial statements.

3.4.2 A BUDGET

Freeman, Shoulders and Allison (2006:73) define 'budgeting' as the process of allocating scarce resources to unlimited demands in the form of dollars and cents, for a specific period of time. It is also defined as a written future plan with the aim of achieving certain planned objectives with limited resources (Colditz et al., 2017:81). According to Mbatsane (2006:27), a school budget serves as a guide to spending school funds. Ngubane (2009:22) defines a budget as a form of financial statement, which contains estimated revenue and expenditure over a certain period of time. This financial statement or budget is one of the public documents that should be carefully compiled and submitted to the legislative authority for approval and be stored in the official archives (Ngubane, 2009:22). Freeman et al. (2006:73) state that the budget should at minimum contain information about types and amounts of proposed expenditure, purposes for which such expenditures are to be made and proposed means of financing these. This is referred to by Munge et al. (2016:96) as the descriptive part of the budget theory. They further say that budget plays a greater role in planning, controlling and evaluating operations (Freeman et al., 2006:73).

While presenting the 2017 budget, the South African minister of finance regarded a budget as reflection of a balance between maintaining spending commitments and ensuring the long-term health of public finances (National Treasury, 2017:10). The budget should reflect the school's prioritised educational objectives, which seek to achieve efficient use of funds and be subjected to regular, effective financial monitoring (Mbatsane, 2006:27; Mestry, 2006:36). The emphasis is on the budget as a useful tool of ensuring that school activities are geared towards achieving their aim of advancement of effective education and training (Ngubane, 2009:25). Therefore, in drafting the budget, the SGB must strive to promote the best interests of the school and it should strive to ensure the budget's development through the provision of quality education for all learners at the school. This is in compliance with section 20(1)(a) of the SASA.

Mestry and Naidoo (2009:108) identify accountability and stewardship as other functions of a budget. Freeman, Shoulders, Allison Patton and Smith (2011:16) refer to budgetary accountability which, according to them, entails reporting whether revenues were obtained and

expended as anticipated and whether authorised expenditure limitations were exceeded. In terms of section 38 of the SASA, the governing body is required to establish budget priorities, prepare the budget and present it at the AGM where parents will approve it (Gauteng Provincial Government, 1997). According to the ASB (2013:6), the budget of a public entity must be publicly available. The budget must be prepared according to prescriptions determined by the MEC in the Provincial Gazette (Ngubane, 2009:22).

In order to ensure proper exercise of rights of learners to education and to redress inequalities, the state must fund public schools from public revenue (RSA, 1996b [section 20]). The national DoE allocates funds to provincial education departments (PEDs). The PEDs must then allocate funds to public schools on an equitable basis. By 30 September of each year, the PEDs must provide schools with sufficient information so that the SGBs can develop their budgets. The districts will then send letters to the schools with information on how the funds are allocated (in the resource allocation circular). Schools with Grade R receive separate resource allocations for Grade R and for the main stream (Grades 1 to 7). This means that there will be two budget allocations in the schools, which start with Grade R.

The letter sent out by the district states the total amount allocated to the school. The amount is further broken down into functions, namely maintenance, day-to-day expenses, learning and teaching support material (LTSM) and municipal services. The money received from the DoE is ring-fenced and may therefore not be used for any purpose other than that mentioned in the resource allocation letter. It is therefore the responsibility of the SGB to ensure that the money is spent as indicated. Schools should therefore avoid spending money on unnecessary things that do not contribute to the improvement of the learners' education (Colditz et al., 2017:89).

In terms of section 36 of the SASA, the SGBs may supplement the school's resources through fund-raising and donations (RSA, 1996b). The plan on how the SGB will supplement the school's resources must form part of the budget. Ngubane (2009:25) categorises the budget into operating budget, cash budget and capital budget. Ngubane (2009:25), Munge et al. (2016:96) and Thenga (2012:37) all emphasise the importance of consultation and wide participation of all stakeholders in preparing the budget. According to Thenga (2012:37), stakeholder consultation during the budget preparation process will enhance accountability, transparency and the effective control of school finances as well as the achievement of the school's needs and objectives. This is referred to as the normative perspective of a budget theory (Munge et al., 2016:96). Figure 3.2 below indicates the stakeholders to be consulted as well as the process to be followed in

preparing the budget (Western Cape, 2013):

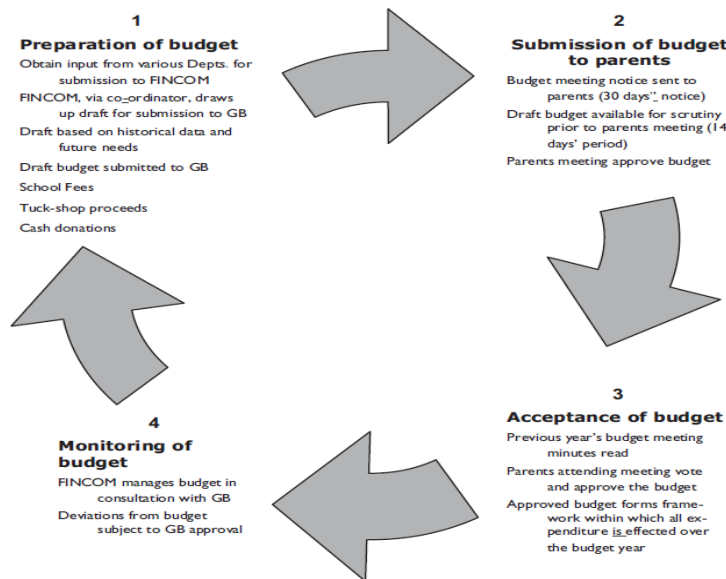


Figure 3.2: A budgetary process

Source: WCED (2013:11)

The SGB treasurer must draw up an annual as well as quarterly budget reports indicating the variance between budgeted and actual amounts (Gauteng Provincial Government, 2014a:36). This is in line with the standards of GRAP, which require entities to prepare a comparison of budget amounts and actual amounts arising from execution of the budget in meeting users' needs (ASB, 2013:6). In order for a budget to serve its purpose and to be useful, the calculated variances should be followed up and reasons for deviation should be investigated. Section 10.4.1 of the Financial Regulations, Framework and Standard Chart of Accounts for Public Schools (Gauteng Provincial Government, 2014a) provides three options of dealing with the variance (Gauteng Provincial Government, 2014a), namely:

- **Working adjustments:** if the school has overspent on one item in any quarter, it will have to spend less in remaining quarters.
- **Formal adjustments:** in case of serious variances, the finance committee may need to draft an interim budget that should be presented for approval by parents at a general meeting.
- **Special fund-raising:** rather than the school moving funds from one cost centre to another, it is better to raise funds for the overspent cost centre.

As discussed in section 2.4 above, the SGB must prepare the SDP and the SIP (RSA, 2016:6–7). The SDP includes all the infrastructural developments that the SGB wishes to achieve during the three years' term of office while the SIP includes all annual plans that the SGB wishes to achieve (Gauteng Province 2016:6–7). The SDP is prepared when the SGB occupies the office while the SIP is prepared and updated annually (Gauteng Province, 2016:6–7). The SDP and the SIP should indicate the action plan required, person responsible, the time frame and total cost. It is therefore important that the SGB align its budget with the SDP and the SIP (Gauteng Province, 2016:6).

Although the budget is regarded as an important tool in ensuring proper and efficient control and management of school finances, Mestry (2004:126), Xaba (2011:210), Mestry and Naidoo (2009:107) and Mbatsane (2006:29) identify a very serious challenge, namely the lack of adequate financial management skills by some of the SGB members. Xaba (2011:210) adds that the skills challenges need special attention in terms of training, as they are inherent in the specialised field. The researcher agrees with the above, namely that the lack of skills is a serious concern and that it needs to be addressed as a matter of urgency. Mestry (2006:32) interviewed one parent, who was quoted saying, “all the department wants are the school’s financial statements. They don’t read it and offer school support.”

It is clear from the above quote that much still has to be done by the DoE to ensure proper and efficient management of funds by SGBs. The preparation of the budget may be delegated to the financial committee, which must also draft the finance policy. It is also important that the DoE should monitor the usage of school funds against the approved budget and seek explanations for variances and deviations.

3.4.3 THE MANAGEMENT OF SCHOOL FUND

SGBs are required to establish a school fund and administer it in accordance with directions issued by the head of the education department (RSA, 1996b). According to section 37 of the SASA, all money received by a public school, including government allocations, school fees, donations and voluntary contributions must be paid into the school fund. As mentioned in section 3.4.2, section 36 of the SASA requires the SGB to take reasonable measures to supplement the resources supplied by the state in order to improve the quality of education provided by the school to all learners of the school. The SGB may establish a fund-raising committee in this regard. The fund-raising committee may be mandated to draft the fund-raising policy. This committee, like any other subcommittee of the SGB, does not make any decisions. All decisions

are taken by the SGB. The committee therefore reports and make recommendations to the SGB. Public schools are categorised into quintiles. They range from quintile 1, being the poorest to quintile 5, the least poor (RSA, 1996c). According to the National Norms and Standards for School Funding (RSA, 1996b), allocation is made on a variable per learner basis that favours the poor segments of the population. In this case, the neediest and largest schools are prioritised in funding.

The schools are further divided into fee-paying and no-fee schools. The MEC determines a no-fee threshold and publishes in a gazette, a list of all schools qualifying as no-fee schools (RSA, 1996b). This means that the parents of learners attending the particular school are not required to pay school fees. According to section 37(3) of the SASA, all schools are required to have only one bank account into which all monies received should be deposited (RSA, 1996b). However, should the school need an additional bank account, like an investment, prior approval should be obtained from the MEC (RSA, 1996b).

3.4.4 FINANCIAL RECORD-KEEPING AND REPORTING

As mentioned in section 3.5, there are a number of parties who need information in order to assess how the entity is being managed. According to the ASB (2013:2), financial statements play a major role in providing such information. According to IoDSA (2015:9), for a school to achieve great legitimacy as an established corporate citizen in society, greater transparency must be achieved by disclosing at minimum, annual audited financial statements, academic reports, co-curricular and social contributions to the community.

Section 42 of the SASA requires the SGB to keep record of funds received and spent by the public school and of its assets, liabilities and financial transactions. Similarly, section 55 of the PFMA requires the accounting authority of the public entity to keep full and proper records of financial affairs. The information from every transaction should be captured in a source document relevant to the type of the transaction (Doussy, Jansen van Rensburg, Ngcobo, Rehwinkel, Scheepers & Scott, 2011:83). The source document should be created immediately when the transaction takes place. The source document may include the invoice, cheque counterfoil, credit note, receipts and bank statement (Doussy et al., 2011:87–88). The information on the source documents is then recorded in the subsidiary journals, posted to the general ledger and a trial balance is created. The balances in the trial balance are used to prepare the financial statements. The whole process is referred to as ‘the accounting cycle’, as shown in Figure 3.3 below:

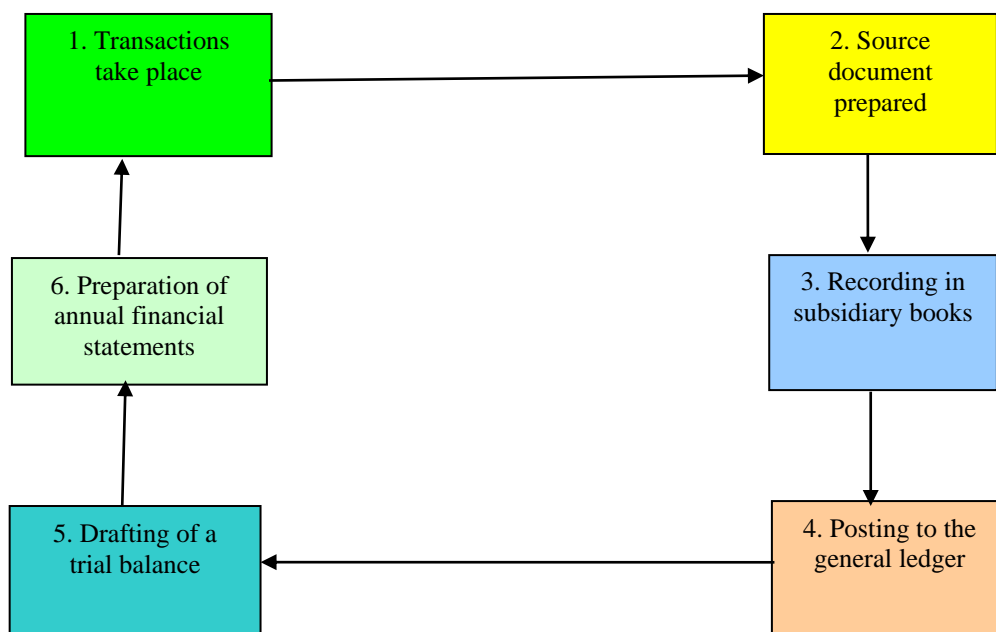


Figure 3.3: **The accounting cycle**

Source: Doussy et al. (2011)

This means that a full bookkeeping or accounting system should be designed and put in place. The following are some of the reasons why a bookkeeping or accounting system is needed (Ngubane, 2009:39):

- for key stakeholders to be able to understand what the financial position of the school is;
- for the school to be able to monitor the income and expenditure against the budget;
- for accountability and transparency;
- for effective and proper financial planning;
- for securing the school's assets from mismanagement, corruption and theft;
- for proper and regular reporting; and
- for enabling the SGB to make informed decisions.

Section 1 of the Companies Act, No. 71 of 2008 (as amended) (RSA, 2014) refers to the accounting records as information in written or electronic form concerning financial affairs of a company, including but not limited to, purchase and sales records, general and subsidiary ledgers and other documents and books used in preparation of financial statements. This definition of accounting records does not differ from the definition by Campher (2003:3, cited by Mbatsane, 2006:29). Campher indicates that accounting records consist of a receipt book, deposit books,

cash analysis book, bank statements, reconciliation statements, order book, a cheque book and documentary evidence of payments. Also included are petty cash journals, receipts and payment statements, the monthly payroll, school fees receivable register, ticket sales, stores records, asset register and tuck shop trading statements (Gauteng Provincial Government, 2014a). According to Doussy et al. (2011:84), the subsidiary journals could comprise the cash receipt journal, cash payments journal, sales or debtors' journal, sales returns or debtors' allowances journal, purchases or creditors' journal, purchases returns or creditors' allowances journal and the general journal.

Section 20 of the SASA allows the SGB to employ a non-teaching staff member. Therefore, a finance officer or bookkeeper may be employed by the SGB to handle the recording of finances and preparation of financial statements.

3.4.5 THE SOUTH AFRICAN SCHOOLS ADMINISTRATION AND MANAGEMENT SYSTEM (SA-SAMS)

As discussed in section 3.4.4, the financial information may be in a written or electronic form. Although some of the entities are still applying the manual or written format, the majority of entities are now using the electronic format, such as Pastel or Accpack.

The national DBE developed the SA-SAMS, which caters for administrative, governance and management functions (DBE, 2013b). This system was designed to simplify both administrative work and financial recording at school level. According to the DoE, SA-SAMS is a cost-effective, easy-to-use and fully integrated computer solution containing all aspects of school management requirements (DBE, 2013b). These functions are, amongst others, general school information, human resource information, learner and parent information, learner listing, governance information, standard letters and forms, export of data, the annual national assessment, financial assistance, curriculum-related data, timetabling assistance, physical resources, a library module, security and database functions, and the Learner Unit Record Information and Tracking System (LURITS) approval module (DBE, 2013b). The financial assistance function caters from the system setting to producing annual financial statements (DBE, 2013b). The SA-SAMS comprises, amongst others, the following functions (DBE, 2013b):

3.4.5.1 PREPARING THE SYSTEM FOR THE FINANCIAL YEAR

In terms of section 44 of the SASA, the financial year of a public school starts on the first day of January and ends on the last day of December. As highlighted in Table 3.2 below, the financial assistance function includes setting up the system at the beginning of the financial year, the maintenance of bank accounts, cheque books, petty cash accounts, receipts books, deposit books, chart of accounts and the budget.

Table 3.2 SA-SAMS: Financial assistance menu

| SA-SAMS : School Administration and Management System | |
|--------------------------------------------------------------|-------------------------------------|
| 11. FINANCIAL ASSISTANT MENU | |
| 11.1. System Setup | 11.11. View Financial Statements |
| 11.2. Maintain Chart of Accounts | 11.12. Export Expenditure (xml) |
| 11.3. Budgets | 11.13. Export Budget (xml) |
| 11.4. Select a Transaction | 11.14. Quick Export Options (Excel) |
| 11.5. Debtors and School Fees | |
| 11.6. Bank Reconciliation | 11.16. Transaction Printouts |
| 11.7. Print Outstanding Cheques | |
| 11.8. Print Cash on Hand | |
| 11.9. Print Statement of Investment | 11.19. Year End Functions |
| 11.10. View Cash Book | << MAIN MENU |

Source: DBE (2013b:8)

3.4.5.2 FINANCIAL DOCUMENTS ON INCOME AND EXPENSES

This function enables the user to access amongst others, receipts and payments for a specific period (e.g. for the month), cash and direct deposits, all transactions relating to debtors and school fees, requisitions, cheque and direct payments from the bank, SGB salary payments, and petty cash payments.

3.4.5.3 CORRECTIONS AND CANCELLATION OF TRANSACTIONS

This function allows the user to cancel cheques, receipts, deposits and petty cash. It also allows the user to delete and re-process deleted items and to process a journal entry.

3.4.5.4 MONTHLY BANK RECONCILIATION

The user is enabled to reconcile the bank statement with the system transaction, print the bank reconciliation per statement, view reconciled items and transactions, view the list of bank statements on the system, view details of bank entries and cash-book, print outstanding cheques and cash on hand.

3.4.5.5 MONTHLY AND ANNUAL FINANCIAL STATEMENTS

The user is able to access the monthly and annual income statement, balance sheet, trial balance and actual receipts and payments

3.4.5.6 CLOSING OF FINANCIAL YEAR

This function includes writing off of irrecoverable debtors' accounts, processing of year-end transactions, deleting archived data and preparing the system for the new financial period.

This system was developed for use by all provinces across the country. The system is linked to the respective districts. This means that the DoE can access any information at any time.

3.4.6 AUDIT OR EXAMINATION OF FINANCIAL RECORDS AND ANNUAL FINANCIAL STATEMENTS

An audit is a process of determining whether the financial information has been recorded and presented in accordance with predetermined set criteria and that the financial statements represent the economic events that have taken place by collecting and evaluating supporting information or evidence (Elifsen, Messier, Glover & Prawitt, 2014:11). Whittington and Pany (2016:4) and Doussy and Doussy (2014:32) also add that the main aim of an audit is to provide the users of financial statements with the assurance that the financial statements are reliable and to enhance the degree of confidence on the financial statements of such users.

Section 43 of the SASA requires the SGB of a public school to appoint a person registered as an auditor in terms of the Auditing Profession Act (No. 26 of 2005) (IRBA, 2014/2015) to audit the financial records and financial statements of the school (RSA, 1996b). Should the SGB consider an audit to be impracticable, an accounting officer who is qualified to perform duties in terms of section 60 of the Close Corporations Act (No. 69 of 1986, as amended) (RSA, 1996c), may be appointed to examine and report on the records and financial statements of the school (RSA, 1996c), or the school may appoint a person approved by the MEC to examine the financial records and financial statements of the school. Section 43 of the SASA does not explain what would be considered 'impracticable'. Instead, SGBs are expected to obtain approval from the

MEC before appointing an accounting officer to examine the financial records and financial statements of the school. The DBE has issued circular M1 of 2018, in which the term reasonably practicable is interpreted (DBE, 2018a). According to this circular, the term reasonably practicable includes references to the financial resources of the school, the value of the assets of the school and all other relevant matters (DBE, 2018a).

The SGB is also expected to submit the audited annual financial statements to the DoE within six months after the financial year end (RSA, 1996b). These audited financial records and financial statements must be made available for inspection to interested parties upon request. Doussy and Doussy (2014:32) also referred to Hack, Candoli and Ray (1998:170) who define an audit as the final stage in the process of managing school funds, which also helps in improving the school's system. The researcher is of the opinion that the audit of financial statements forms an integral part of the schools' financial management. This is supported by the study of Munge et al. (2016:106), which revealed that inadequate auditing knowledge by school principals and a lack of internal auditing coupled with irregular auditing by districts auditors created loopholes for poor financial management in the schools. Mbatsane (2006:31) established that some schools cannot afford to pay for the audit service because they have the lowest number of registered learners and therefore receive very little subsidy from the state. Doussy and Doussy (2014:33) found that in two schools, their assets were not audited. According to Doussy and Doussy (2014:33), this is a main concern in terms of the integrity of the auditors appointed by schools. It raises concern about whether the schools' auditors are registered auditors as required by the SASA.

According to the 2015–2016 Education Sector Report (AGSA, 2016:40), the following were the findings of AGSA (2016:40):

- the SGBs did not submit the financial statements to the HOD within six months after the end of the financial period; therefore, not complying with section 43(5) of the SASA;
- the financial statements of selected schools were not prepared according to the guidelines developed by the MEC for education, i.e. non-compliance with section 42 of the SASA;
- a sample of schools did not have audited financial statements for the 2014 financial period, i.e. non-compliance with sections 42, 43 and 44 of the SASA;
- a sample of schools did not use auditors who were registered, i.e. non-compliance with section 43(1) of the SASA; and
- a sample of schools did not use persons who were approved by the MEC for this purpose,

i.e. non-compliance with section 43(2)(b) of the SASA.

Another serious concern that may be raised is that the SASA gives the schools an alternative. As mentioned above, section 43(2) of the SASA accepts the accounting officer's report as well, but subject to written permission from the MEC for education. This indicates that the school may choose whether to submit the accounting officer's report or an audit report. Table 3.3 below gives the differences between an audit report and the accounting officer's report.

Table 3.3 **Audit report versus accounting officers report**

| Audit report | Accounting officer's report |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • An independent written report provides assurance in the form of an opinion. • An auditor expresses reasonable assurance, while a review practitioner gives limited assurance on whether the financial statements have been prepared in accordance with an appropriate accounting framework. • An audit report can express a qualified, unqualified or disclaimer audit opinion. • Audit procedures are determined by International Auditing Standards (IASs) | <ul style="list-style-type: none"> • A practitioner issues a statement that will assist users in forming their own opinion of whether the financial statements are fairly presented. • The report does not include an evaluation of financial statements against an appropriate accounting framework to assess and conclude on fair presentation. • Report presents factual findings related to accounting records, whether the financial statements agree with accounting records and the appropriateness of the accounting policies as applied by the entity. • Report states any contravention to the Act(s). |

Source: Colditz et al. (2017:75–76)

The auditor is expected to perform an audit in accordance with the International Standards on Auditing (ISA 200). According to this standard, the auditor is required to exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit and among other things (International Audit and Assurance Standards Board [IAASB], 2010:73) to –

- identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity's internal control;
- obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks; and

- form an opinion on the financial statements based on conclusions drawn from the audit evidence obtained.

The fact that the SASA allows the SGBs to choose whether to submit the audit report or the accounting officer's report, opens up the financial statements of the schools to more scrutiny by other stakeholders. It is however questionable whether the accounting officer's report will provide all the information to satisfy the needs of all the stakeholders. Based on the education sector report issued by AGSA of 2015–2016, the DBE issued a circular to PEDs, districts managers, circuit managers, principals and SGBs (DBE, 2017:M1). One of the matters addressed in this circular was the separation of duties of bookkeepers and auditors. The Independent Regulatory Board for Auditors (IRBA) (2014/2015:4–85) emphasises that when an auditor provides a client with accounting and bookkeeping services, such as preparation of accounting records or financial statements, and subsequently audits the financial statements, that may create a self-review threat. According to the DoE, the AGSA raised a number of findings on the management of school finances, which include non-compliance on the preparation and audit of the annual financial statements. The IAASB (2010:78) further emphasises the requirements of auditor independence and ethics. When assessing the auditor's independence, the financial interest, loans and guarantees, close business relationships and family and personal relationship between the auditor and any member of the school's SGB or staff must be assessed. According to the researcher, the appointment of an auditor needs to be given special attention, and it therefore requires an extensive knowledge on accounting and audit matters.

The researcher therefore supports IoDSA (2015:15) on the establishment of audit committees by schools as these committees will assist the SGBs in assessing the auditor's performance, supplement the internal control measures of the SGB, and monitor compliance with the law.

3.5 INFORMATION REQUIRED BY THE SCHOOL'S STAKEHOLDERS

Various stakeholders have different needs. These needs may also be in conflict with one another. As Coy et al. (2001:16) mention, it may be difficult to identify and satisfy all stakeholders' needs. Section 43(6) of the SASA mandates the governing body to make available for inspection the accounting records and the audited or examined accounting records and financial statements of a school to an interested party at his or her request. Section 59(2) of the SASA also requires the governing body to provide information about the school that the HOD or Director-General of the national DBE may reasonably require.

Tooley and Guthrie (2007:353) emphasise the requirements of sections 43(6) and 59(2) of the

SASA and state that stakeholders should be furnished with sufficient information on the performance of the school and objectives that will enable them to make meaningful decisions. The authors also emphasise the criticality of disclosing both financial and non-financial information to enable users or stakeholders to assess performance and discharging of public accountability.

Freeman et al. (2011:18) consider financial statements the most useful tool and source of information to stakeholders. They add that financial reporting should provide useful information to decision-makers in assessing financial accountability for both economic and political decision-making. The authors further highlight that the financial information should enable the decision-maker to:

- compare actual financial results with the legally adopted budget;
- assess the financial condition and the results of operation;
- assist in determining compliance with finance-related laws, rules and regulations; and
- assist in evaluating efficiency and effectiveness.

Coy et al. (2001:16–20) identified five forms of information disclosures which are overhead allocation, resource allocation, service efforts and accomplishments, research performance and teaching performance. According to Coy et al., (2001) these information disclosures may play a vital role in advancing annual reporting towards accountability perspective. These five information disclosure forms were identified in respect of colleges and universities in New Zealand. Teaching performance disclosure, which may also be applicable to schools, was amongst the disclosures discussed by Coy et al. (2001:16). According to Coy et al. (2001:17) the information about enrolled students, graduates, expenditure per student, instruction expenditure per credit hours, student–staff ratios, and student feedback on courses, all categorised by school of study and aggregated for the institution as a whole, would assist stakeholders in obtaining a more meaningful understanding of the performance of the institution. The researcher agrees with Coy et al. (2001:17) that stakeholders of schools may benefit from disclosure of information such as trend information about enrolled learners, learners who passed exit grades, expenditure per learner, learner–teacher ratios, workshop expenditure per teacher, and learners’ feedback on subjects.

3.6 INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS), GENERALLY RECOGNISED ACCOUNTING PRACTICE (GRAP) AND THE MODIFIED CASH STANDARD (MCS)

The conceptual framework will be discussed based on the IFRS, GRAP and the MCS.

3.6.1 THE CONCEPTUAL FRAMEWORK

In preparing the financial statements, the IASB's conceptual framework is the most important point of departure. Standard setters regard the conceptual framework as a guideline in developing accounting standards (EY, 2018:3). Although the IASB's conceptual framework is not an accounting standard, it assists the IASB in promoting harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements by providing a basis for reducing the number of alternative accounting treatments permitted by IFRS (Koppeschaar et al., 2018:9).

Both the IFRS and the GRAP discuss the IASB's conceptual framework. The IFRS is mostly applied by profit-making companies (as defined by the Companies Act [No. 71 of 2008, as amended]) while GRAP is mostly applied by government entities when preparing their financial statements (Deloitte & Touche, 2012:2). The researcher will mainly discuss the conceptual framework for the IFRS and incorporate only the differences in terms of the GRAP. The IFRS is internationally comparable and some of the public entities, including the SOEs, are applying it as compared to GRAP.

According to Koppeschaar et al. (2018:10–13), Doussy et al. (2011:10–11) and the ASB (2013:2), there are some characteristics that should be met by the financial statements in ensuring that these financial statements are of good quality. These characteristics are referred to as the 'qualitative characteristics' (Koppeschaar et al., 2018:10–13) and they include the following:

3.6.1.1 RELEVANCE

Users of financial information need information, which is relevant in order to make informed decisions.

3.6.1.2 FAITHFUL REPRESENTATION

For financial information to be useful, it must be complete, neutral and free from error.

3.6.1.3 COMPARABILITY

In order for the user to be able to make informed decisions, the information presented in the

financial statements must be comparable to similar information of other entities in the same industry as well as information of the same entity for another period.

3.6.1.4 VERIFIABILITY

Verifiability helps to ensure users that the information faithfully represents the economic phenomenon it purports to represent. This means that different knowledgeable and independent observers could reach consensus.

3.6.1.5 TIMELINESS

For information to be relevant and also able to influence decision-makers, it must be made available on time.

3.6.1.6 UNDERSTANDABILITY

Information must be classified, characterised and clearly presented in order for users to understand. The users should, however, have reasonable knowledge of business and economic activities and be able to review and analyse the information diligently. Coy et al. (2001:21) add two more characteristics of annual reports being accessibility and distribution. This is simply referred to as transparency (see section 2.3 above). |Coy et al. (2001) argue that stakeholders must be made aware of the availability of reports through media, such as the press and internal newsletters. Stakeholders should access the reports with ease. Coy et al. (2001:21) suggest that the reports may be made available to stakeholders through libraries, information offices, the principal's office, the internet, or printed copies during meetings. In terms of section 87AB of the Education Act (No. 80 of 1989), New Zealand schools are required to publish their annual report, which includes audited financial statements, on an internet site maintained by a board of trustees Ministry of Education, 2018:47). This board of trustees serves as the school governing body in New Zealand (Ministry of Education, 2018:6).

The elements of financial statements, including recognition criteria, are also explained in the IASB's conceptual framework. These elements of financial statements include the following:

3.6.1.7 INCOME

The IFRS (Deloitte & Touche, 2012:5) defines 'income' as an increase in assets or a decrease in liabilities that results in an increase in equity, other than those relating to contributions from holders of equity claims. GRAP (ASB, 2010:9) defines 'income' as a gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets other than an increase relating to contributions from owners.

3.6.1.8 EXPENSE

A decrease in assets or an increase in liabilities that result in decrease in equity, other than those relating to distributions to holders of equity. GRAP (ASB, 2010:8) defines an expense as a decrease in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets other than those relating to distributions to owners.

3.6.1.9 ASSET

An asset is a present economic resource controlled by an entity as a result of past event (Deloitte & Touche, 2012:4). Assets are classified into current assets and non-current assets Deloitte & Touche, 2012:4. Current assets are those assets that may be convertible into cash within twelve months, while non-current assets take more than twelve months to be converted into cash (Koppeschaar et al., 2018:38)). GRAP (Deloitte & Touche, 2012:4) defines an asset as a resource controlled by an entity from which future economic benefits or service potential are expected to flow to the entity. The assets are further classified into cash-generating and non-cash-generating assets (Deloitte & Touche, 2012:4).

There is also an expectation that the methods and period of depreciating of the assets may differ between private entities (when applying IFRS) and public entities (when applying GRAP). This is because assets in the public sector are primarily held for service delivery rather than for generating cash flows, as is the case with the private sector (ASB, 2013:6).

3.6.1.10 LIABILITY

A liability is defined as a present obligation of the entity to transfer an economic resource as a result of past events. Liabilities are also classified into current liabilities and non-current liabilities (Koppeschaar et al., 2018:15). Current liabilities are all those liabilities that may be settled within twelve months while non-current liabilities are all those liabilities that take more than twelve months to settle (Koppeschaar et al., 2018:38). GRAP (Deloitte & Touche, 2012:4) defines a liability as a present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity resources embodying economic benefits or service potential.

3.6.1.11 EQUITY

Equity is defined as the residual interest in the assets of the entity after deducting all its liabilities (Koppeschaar et al., 2018:17). This definition is the same for both the IFRS (Koppeschaar et al., 2018:17) and GRAP which refers to a term, net assets instead of equity (ASB, 2010:9).

The following are the components of financial statements and their purposes as per the IASB's conceptual framework:

3.6.1.12 STATEMENT OF FINANCIAL POSITION

The statement of financial position is also referred to as the balance sheet (Gauteng Provincial Government, 2014a:10). It determines the financial position of an entity at a given point in time. It shows balances of the assets of the entity (current and non-current), liabilities (current and non-current) and the equity as at year end. It has two sections, namely the assets and equity and liabilities sections (Koppeschaar et al., 2018:38; IAS 1, paragraph 60).

3.6.1.13 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The statement of profit or loss and other comprehensive income is also referred to as the income statement or income and expenditure statement (Gauteng Provincial Government, 2014c:10). In this statement, income and expenses are recorded, and is subdivided into three sections: trading, profit and loss, and other comprehensive income sections (Koppeschaar et al., 2018:44). The statement reflects the financial performance of an entity for the specific period. It shows whether the entity has made a profit or a loss. In case of non-profit entities, such as schools, the statement indicates a surplus or a deficit.

3.6.1.14 STATEMENT OF CHANGES IN EQUITY

This statement reflects the changes in the equity of an entity. It shows the balance of the capital at the beginning of the financial period, movements during the year as well as the balance at the end of the financial year (Koppeschaar et al., 2018:49). The movements include capital contributed, capital withdrawn as well as the results of the statement of profit or loss and other comprehensive income, which is the profit (surplus) or loss (deficit) (IAS 1, paragraph 106; Koppeschaar et al., 2018:49).

3.6.1.15 STATEMENT OF CASH FLOWS

The statement of cash flows determines the changes in the financial position of an entity (IAS 1, paragraph 111). It shows the inflows (sources) and outflows (uses) of cash. It has three sections:

cash flows from operating activities, cash flows from investing activities, as well as cash flows from financing activities (ASB, 2010: paragraph 121; Koppeschaar et al., 2018:51).

3.6.1.16 NOTES TO THE FINANCIAL STATEMENTS

The above components of financial statements may have included only a summary of other items or it may not have been practical to include some of the information (ASB, 2010: paragraph 122; Koppeschaar, 2018:51). This information is therefore explained and included in detail in the notes. For example, the amount of non-current assets of an entity is disclosed in the statement of financial position as property, plant and equipment (PPE) (see section 3.6.1.12 above). This amount is further broken down and explained in the notes to PPE. The notes also give the composition of the item PPE. There is an additional requirement of providing information on whether resources were obtained and utilised in accordance with the legally adopted budget (Deloitte & Touche, 2012:15).

The financial statements discussed above, should be prepared on two underlying assumptions, as discussed below.

3.6.1.17 GOING CONCERN BASIS

This means that the entity will continue operating for the foreseeable future or for the next twelve months (ASB, 2010: paragraph 27; Koppeschaar et al., 2018:33).

3.6.1.18 Accrual basis

This means that transactions and other events of the entity are recorded when they occur, realised and reported in the period to which they relate. It does not matter whether cash was received or paid in a different period (ASB, 2010: paragraph 31; Koppeschaar et al., 2018:33).

3.6.1.19 MODIFIED CASH BASIS

In terms of this basis, only certain elements are recognised in the statement of financial position and the statement of financial performance, while others are recorded for presentation as notes (RSA, 2015a:5). The modified cash basis is regarded as a compromise between the cash basis and the accrual basis. The elements of financial statements are primarily recognised when they arise from cash inflows or outflows (National Treasury, 2015:5).

3.6.2 FINANCIAL REPORTING FOR SMALL AND MEDIUM-SIZED ENTITIES (IFRS FOR SMEs)

According to the IASB's conceptual framework, the objective of general purpose financial statements is to provide the users of financial statements with financial information about the entity that will be useful in making decisions about providing resources to the entity (Koppeschaar et al., 2018:9). Stainbank (2008:3) argues that the issue of differential reporting, which the Department of Trade and Industry (DTI) had started addressing since 2004, lies in consideration of users' needs and cost-benefit considerations. There should be an assessment of the cost-benefit trade-off in relation to the nature and number of users' information needs (Stainbank, 2008:3). Van Wyk and Rossouw (2009:104) add that, in designing the new format of financial statements, priority should be given to the needs of the users of the financial statements.

In order to improve the quality of reporting and reduce the significant costs of maintaining and developing standards on a national basis, the International Accounting Standards Board (IASB) issued the IFRS for SMEs (IASB, 2016:2; Van Wyk & Rossouw, 2009:99). This is also to reduce the complexity of applying the full IFRS and the time it takes to achieve compliance (Stainbank, 2008:3). According to the IASB, the IFRS for SMEs is easier to apply than full IFRS standards. Entities without public accountability as well as those who prepare general purpose financial statements for external users are eligible to adopt the IFRS for SMEs (Koppeschaar et.al, 2018:848). An entity has public accountability if its debt or equity is traded in a public market or if it holds assets in a fiduciary capacity (Koppeschaar et al., 2018:848). South African public schools do not have public accountability and it may therefore be argued that the schools may qualify to apply or use the IFRS for SMEs in preparing their financial statements. However, entities other than companies, where legal provisions or other regulations require compliance with a specific financial reporting framework other than the IFRS for SMEs may not apply the IFRS for SMEs even where such entities do not have public accountability. It is therefore questionable whether the schools may apply the IFRS for SMEs. This is because the SASA does not prescribe the IFRS for the preparation of financial statements for schools, but instead requires the SGBs to prepare financial statements according to the guidelines developed by the MEC for education in each province.

3.7 INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)

IPSAS are standards developed by the International Public Sector Accounting Standards Board (IPSASB) with the aim of assisting the national, regional and local governments, related local governmental agencies and their constituencies in addressing their need in relation to the accounting, auditing and financial reporting when preparing the financial statements (Deloitte, 2017:1–2).

Table 3.4 **International Public Sector Accounting Standards**

| IPSAS number | Title | Based on |
|--------------|-----------------------------------------------------------------|----------|
| IPSAS 1 | Presentation of financial statements | IAS 1 |
| IPSAS 2 | Cash flow statements | IAS 7 |
| IPSAS 3 | Accounting policies, changes in accounting estimates and errors | IAS 8 |
| IPSAS 6 | Consolidated and separate financial statements | IAS 27 |
| IPSAS 12 | Inventories | IAS 2 |
| IPSAS 13 | Leases | IAS 17 |
| IPSAS 17 | Property, plant and equipment | IAS 16 |
| IPSAS 24 | Presentation of budget information in financial statements | N/A |
| IPSAS 25 | Employee benefits | IAS 19 |
| IPSAS 31 | Intangible assets | IAS 38 |
| IPSAS 40 | Public sector combinations | N/A |

Source: (Deloitte, 2017:8)

Although these accounting standards were developed for use by public entities, they are aligned to the IASs. Table 3.4 indicates the IPSAS number (not an exhaustive list), title as well as the related IAS standards on which the IPSASs are based. In order to improve transparency and accountability in the public sector, the IPSAB and the International Federation of Accountants (IFAC) have developed the IPSAS for use by governments and their agencies around the world since 1997 (Deloitte, 2017:2). Section 3.6.2 above shows how the simplified version of the IFRS (IFRSs for SMEs) was developed to suit the financial reporting by small entities. South African public schools fall within the public sector, and therefore within the scope of the IPSAS. However, as in the case of SMEs, the full IPSAS might be complex, time-consuming and very costly for application by the schools. It is therefore important that the same version of the IPSAS be developed for schools, as the full IPSAS (just like full IFRS) is suitable for general purpose financial statements.

3.8 FINANCIAL REPORTING BY SCHOOLS IN OTHER COUNTRIES

In section 1.5, the researcher identified some similarities between South Africa, Australia, New Zealand and England in terms of the composition and some responsibilities of the SGBs. In this section, the researcher discusses the financial reporting as required by the guidelines of Australia, New Zealand and England. These guidelines might assist the researcher in developing the recommended practice guidelines for South African public schools. The researcher used these guidelines as a benchmark when developing the recommended practice guidelines. The guidelines for the preparation of financial statements by South African public schools will be discussed in Chapter 6. The following guidelines were obtained by the researcher from the respective websites:

- Australia – Financial reporting for schools (Department of Education and Training, 2015) and School Council Financial Assurance Program (Department of Education and training, 2017);
- New Zealand – Financial information for schools handbook (Ministry of Education, 2018); and
- England – Financial reporting in schools and academies (National College for School Leadership, n.d.).

Table 3.5 Schools’ financial reporting guidelines in other countries

| Australia | New Zealand | England |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Financial statements</p> <ul style="list-style-type: none"> • balance sheet (assets – liabilities = accumulated funds) • operating statement (revenue – expenditure = net operating surplus/deficit); budget variance report for current and prior year • cash flow statement (cash flow movement by each bank account and total bank accounts) • bank account movements (opening balance, total receipts, total payments) • cash receipts report • cash payments report • bank reconciliation reports • chart of accounts | <p>Financial statements</p> <ul style="list-style-type: none"> • statement of responsibility • statement of comprehensive revenue and expense • statement of changes in net equity/assets • statement of financial position • statement of cash flows • notes to the financial statements • auditor’s report | <p>Financial statements</p> <ul style="list-style-type: none"> • governors’ report • independent auditors’ report • statement of financial performance (statement of financial activities, summary income and expenditure account, statement of total recognised gains and losses) • balance sheet • cash flow statement • accounting policies and notes to the accounts • supplementary detailed income and expenditure account |

Table 3.5 Schools' financial reporting guidelines in other countries (continued)

| Australia | New Zealand | England |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • trial balance with debtor (Dr) and creditor (Cr) movements • valuation of assets (asset code, description, original cost, additions cost adjustments, disposals) • budget variance report <p>School council reports</p> <ul style="list-style-type: none"> • balance of all accounts • budget against revenue and expenditure • accounts to be ratified • accounts to be passed for payment • commitments | <p>Other reports/records</p> <ul style="list-style-type: none"> • statement of variance • board chair's report (optional) • principal's report (optional) • national standards/Nga Whanaketanga Rumaki Maori report (optional) • statement of resources report (optional) • fixed assets register • budget • bank account reconciliations • payables and receivables schedules | |
| <p>Audit</p> <ul style="list-style-type: none"> • the Department of Education and Training performs the agreed-upon procedures • in addition to agreed-upon procedures, the Department of Education and Training may identify several topic audits to be carried out at the schools. • ad hoc audits may also take place based requests from management of the DoE. | <p>Audit</p> <ul style="list-style-type: none"> • the schools' independent auditors are appointed by the auditor-general who then prepares their report on the school's financial statements | <p>Audit</p> <ul style="list-style-type: none"> • the governors' report and annual financial statements must be supported by a report setting out the independent auditors' opinion on them |

Source: Author's own compilation

As opposed to the requirements of the SASA, which entail the use of different guidelines in various provinces, schools in Australia, New Zealand and England apply uniform guidelines. In addition to the IPSAS, the New Zealand ASB of the External Reporting Board (XRB) issued the Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS) consisting of a two-sector, multi-tier structure with different accounting requirements (New Zealand Accounting Standards Board, 2015:5). The sectors are for-profit entities and public benefit

entities. Each sector has tiers 1 to 4. The researcher concentrated only on the public benefit sector as this was the one considered relevant for this study. A public benefit entity (PBE) is defined as a reporting entity whose primary objective is to provide goods or services for the community or social benefit, and where any equity has been provided with a view to supporting that primary objective rather than as a financial return to equity holders (New Zealand Accounting Standards Board, 2015:7). The tiers are explained as follows:

- Tier 1 – for large entities, with public accountability. These entities should apply PBE standards.
- Tier 2 – for non-large entities, without public accountability, which elect to be in tier 2. These entities apply PBE standards Reduced Disclosure Regime (also called PBE standards RDR).
- Tier 3 – for entities without public accountability, with expenses \leq \$2million, which elect to be in tier 3. These entities should apply simple PBE format reporting using accrual basis.
- Tier 4 – for entities allowed by law to use non-GAAP accounting standards, which elect to be in tier 4. These entities should apply simple format reporting using cash basis (also called PBE SFR-C)

In terms of the IAB definition, an entity has public accountability if (New Zealand Accounting Standards Board, 2015:7–8):

- its debt or equity instruments are traded in a public market, or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and foreign markets); or
- it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance providers, securities brokers and/or dealers, mutual funds and investment banks.

The definition of public accountability by the New Zealand accounting standards framework (see New Zealand Accounting Standards Board, 2015) is similar to the one defined by the IFRS for SMEs (see section 3.6.2 above). The schools in New Zealand have adopted the PBE IPSAS (see New Zealand Accounting Standards Board, 2015) and have allocated the schools to the tiers according to the size of operating expenditure, as follows:

- Tier 1 – operating expenditure of more than \$30 million;
- Tier 2 – operating expenditure between \$2 million and \$30 million. About 1 100 schools

are likely to be in this tier;

- Tier3 – operating expenditure of less than \$2 million. About 1 400 schools are likely to be in this tier; and
- Tier 4 – only if permitted by legislation.

3.9 SUMMARY AND CONCLUSION

Different legislative frameworks within which the SGBs operate were discussed, mainly the Constitution of the Republic of South Africa, the SASA and the PFMA. The researcher is of the opinion that the composition of the SGBs as provided for by the SASA has almost a similar structure to that of the governing body of companies as provided by the King Code of Corporate Governance. The school's structure comprise of teachers (executive) and parents (non-executive) with parents forming the majority. Factors which are not taken into account when establishing SGBs are skills, academic qualifications, expertise and experience. The researcher argues that skills, expertise, experience and academic qualifications are the most important requirements to be considered when appointing the SGBs, as is the case in England (see section 1.5). Although the SASA allows SGBs to co-opt any member of the community with specific skills or expertise to serve on the governing body, the researcher is of the opinion that the SGBs are not exercising this right. It might be that the members of the SGBs either do not understand or they do not know how to implement this. This is supported by a research done by Botha (2012) which revealed that the principals and other members of the SGBs do not have clear understanding of their roles and responsibilities.

The researcher then discussed (see section 3.3) the financial accountability of schools. This section was linked to the accountability theory and the stakeholder theories that were discussed earlier. In section 3.4, the researcher discussed how the SGBs discharge their duty of accounting to different stakeholders. It has also been indicated how the SASA and other legislation play a role in holding the SGBs to account by requiring them to perform certain functions. These functions are preparation of the budget, management of school funds, development of the financial policy, keeping of proper accounting records, and preparation and auditing of financial statements.

The researcher emphasised the importance of the reliability of financial information given to stakeholders. In this regard, section 43 of SASA mandates SGBs to submit their financial statements for audit. This section of the SASA also gives an alternative to the auditing of financial statements, namely examination of the financial statements. This means that the SGB

may submit an accounting officer's report instead of an audit report. Although an accounting officer's report is also acceptable in terms of section 43(2) of the SASA, the researcher is of the opinion that the DoE should only make provision for the submission of the audit report as this carries more weight in terms of assuring the reliability of financial information.

The researcher also discussed the type of information that is required by schools' stakeholders. It was emphasised that the information supplied should enable stakeholders to make informed decisions. This information should therefore be disclosed in the financial statements of schools.

The researcher then discussed the IASB's conceptual framework from the IFRS and GRAP point of view. The IASB's conceptual framework was discussed as the researcher would use it as benchmark when comparing the guidelines of different provinces. The researcher also noted the differences between these frameworks as identified by Deloitte & Touche, 2012:4. The definition as provided in GRAP includes the provision of service. This is mainly because public entities are more concerned with service than with profit maximisation.

GRAP also makes provision for a complete set of financial statements, which comprises a statement of financial position, a statement of financial performance, a statement of changes in net assets, a cash flow statement and notes comprising a summary of significant accounting policies and other explanatory notes.

The IFRS for SMEs was also discussed. Although the researcher feels that schools meet the definition of entities without public accountability as defined by the standard, they cannot apply the standard unless it is prescribed for use by the MEC for education in the respective provinces as schools are obliged to comply with section 42(b) of the SASA.

The chapter concluded by discussing the IPSAS as well as the financial reporting by schools in other countries. Reporting by schools in Australia, New Zealand and England was discussed. These countries have structures similar to the governing bodies to South Africa. The researcher established that the guidelines of these countries are almost similar with regard to components of financial statements, although it is only New Zealand which indicates that it applies the IPSAS. As indicated in section 3.8, New Zealand also adopted the PBE IPSAS which, according to the researcher, is comparable to the IFRS for SMEs, although it has been simplified compared to the IFRS for SMEs.

However, the researcher is of the opinion that the IFRS for SMEs might be too complex for use by schools. Some of the terms and standards are not suitable for the schools' business or

operation. It is therefore important that a guideline be developed for specific use by public schools. In the next chapter, the researcher will discuss the research methodology of the current study.

CHAPTER 4

RESEARCH METHODOLOGY

4.1 INTRODUCTION

In Chapter 2, the literature on various aspects of school governance, including theoretical perspectives on which this research drew, was explored. Two theories – the stakeholder theory and the accountability theory – were discussed. The legislative framework within which school governance is formed was considered in Chapter 3. This formed the basis for the investigation of how the SGBs account for, manage and report on the finances of schools.

In this chapter, the researcher will discuss the research design that was used in this study. Firstly, the research approach and data collection methods are discussed. Then the focus will be on how the population was formed, the sampling method and way of selection, reliability and validity, and limitations of the study, data analysis and interpretation, as well as ethical considerations. Lastly, the chapter will discuss the development of the recommended practice guidelines.

4.2 RESEARCH APPROACH

To answer the research questions and execute the research, the researcher had to design a framework of action referred to as the ‘research design’ (Bless, Higson-Smith & Kagee, 2007). According to Bless et al. (2007), the research design provides detailed information on the sampling process, data collection and analysis.

Guba and Lincoln (1994:108) identify four underlying assumptions influencing research, namely ontology, epistemology, axiology and methodology. Purists apply these assumptions to distinguish between qualitative and quantitative research (Onwuegbuzie & Leech, 2005). Onwuegbuzie and Leech (2005) emphasise that purists concentrate on differences rather than on similarities between qualitative and quantitative paradigms. While Anderson and Herr (1998:12) refer to paradigm wars amongst positivists, interpretivists and critical theorists as ‘the battle of the snails’, Onwuegbuzie and Leech (2005) argue that the qualitative, quantitative and mixed methods would be generally acceptable if focus would be on the similarities rather than on the differences.

Creswell (2003:6) identifies three approaches, namely quantitative, qualitative and mixed methods. According to Creswell (2003:6), the quantitative approach is the one in which the

investigator uses positivist claims for developing knowledge by developing strategies of enquiry, such as experiments and surveys. Creswell (2003:6) also emphasise that modernist researchers approached reality by using methods that prevent human contamination of its understanding and that there is a “real” reality out there. According to Creswell (2003:7), the researcher tests the theory by specifying narrow hypotheses and the collection of data to support or refute the hypotheses. In this case, data is collected using an instrument that measures attitudes, and the information collected is analysed using statistical procedures and hypothesis testing (Creswell, 2003:7).

According to Creswell (2003:12), the mixed method approach is the one in which the researcher tends to base knowledge claims on pragmatic grounds. The researcher is concerned with the solutions to problems rather than with methods (Creswell, 2003:11). In the mixed methods approach, the data collection involves gathering of numeric as well as text information, i.e. both qualitative and quantitative approaches (Creswell, 2003:12). In this approach, multiple methods with different worldviews and different assumptions in which different forms of data collection and analysis may be applied, are discussed (Creswell, 2003:12). In the current research, the researcher applied the qualitative approach, which is discussed below.

Creswell (2003:18) says, “[a] qualitative approach is one in which the inquirer makes knowledge claims based primarily on constructivist perspectives. The researcher collects open-ended, emerging data with the primary intent of developing themes from the data.”

According to Creswell, an individual’s personal experiences may be determined by means of interviews (Creswell, 2003:18). Salkind (2009:209) agrees with Creswell by adding that in this approach, the researcher explores human behaviour using techniques such as interviews, surveys, case studies and other relatively personal techniques to understand the world. Mestry (2004:126) who agrees with Strauss and Corbin (1990:11), describes qualitative researchers as the ones who are interested in understanding the meaning people have constructed in making sense of the world and the experiences they have in the world. Strauss and Corbin (1990:11) add that qualitative research is a research about people’s lives, experiences, behaviours, emotions, and feelings, organisational functioning, social movements, cultural phenomena and interactions between nations.

Researchers use this method to explore a phenomenon, and they study people in their own environment, within naturally occurring settings, such as in homes, schools or hospitals (Krathwohl, 2004:229; Willig, 2001:15). According to Hansraj (2007:13), the qualitative

research design can enhance the study of formal schooling structures by allowing the researcher to reach beyond the documentation of a structural feature of the education system to describe the actual operation of the various processes in education in diverse cultural settings from the point of view of the participant involved.

As mentioned by Thenga (2012:50), the application of qualitative research methodology:

- enables the researcher to obtain a detailed understanding of a person, event or phenomenon;
- allows for flexibility in responding to events or phenomena;
- does not require extensive resources to conduct the research;
- is helpful in understanding unusual or exceptional situations; and
- is also helpful in the initial exploration of individuals, events or phenomena.

In this study, the researcher's interest is on how the SGB members, district officials as well as auditors understand reporting and the application of the financial reporting guidelines that were developed by the MECs for education for the various provinces, as well as the meaning they attach to schools' financial accountability and reporting in order to develop the recommended practice guidelines. For the current study, the researcher did not use any statistical procedures or other means of quantification to produce the research findings (see Strauss & Corbin, 1990:10). In this study, the researcher followed a qualitative approach.

4.3 DATA COLLECTION METHODS

Creswell (2003:3) discusses three framework elements, namely constitution of knowledge claims, general research procedures, and detailed procedures of data collection, analysis and writing. Krathwohl (2004:242) agrees with Creswell by stating that data can be collected using various methods, such as interviewing, observations, records and document analysis, artefacts and photos. This is not an exhaustive list as Krathwohl (2004:241) also argues that there are many other ways which researchers may apply to collect data.

In obtaining information about the experiences SGBs have with schools' financial management and reporting, and the way organisations (in this case, schools) present their financial statements, the researcher used document analysis as the main data collection method.

The researcher did triangulation by conducting interviews in order to seek corroboration and convergence by using different data sources (Bowen, 2009:28). Bowen (2009:28) argues that the use of different data sources and methods reduces the effect of potential biases that could exist in

a single study. In addition to document analysis, the researcher conducted interviews to supplement data collected by means of document analysis. The data collection methods used by the researcher are discussed below.

4.3.1 DOCUMENT ANALYSIS

In qualitative research, various documents – official, semi-official or non-official – may be analysed for the purpose of obtaining data for research (Thenga, 2012:60). These documents comprise diaries, artefacts, proceedings, minutes of meeting, census statistics, letters, essays, personal notes, biographies, institutional memoranda and reports, government pronouncements and proceedings, policy documents, circulars and financial records, marriage certificates, driving licences, building contracts, bank statements and other personal or official records (Flick, 2010:269; Hodder, 1994:393; Krathwohl, 2004:240; Mbatsane, 2006:54; Thenga, 2012:60). Bowen (2009:27) defines document analysis as a systematic procedure for reviewing or evaluating both printed and electronic documents. Mbatsane (2006:53) adds that document analysis is a non-interactive strategy for obtaining qualitative data, and that these documents may be easily accessible. Except for the uncertainty that exists on the suitability of data analysis as method of data collection, the researcher agrees with Bowen (2009:31) that this method is efficient and cost-effective and that the documents are mostly available in the public domain.

In this study, the researcher reviewed the documents in order to develop understanding and gain insights into how the financial reporting guidelines in various provinces are formulated, as well as how the schools' financial statements are prepared (Bowen, 2009:29). The researcher therefore reviewed the following documents:

- financial recording and reporting guidelines obtained from various provinces; and
- schools' annual financial statements obtained from selected schools.

4.3.1.1 THE FINANCIAL RECORDING AND REPORTING GUIDELINES OBTAINED FROM VARIOUS PROVINCES

As mentioned in section 1.3 above, the MECs for education from various provinces are required by section 42 of the SASA to develop guidelines for the preparation of financial statements. In section 1.4, the researcher referred to Bordoloi and Bordoloi (2013:25) who emphasise the need for the use of uniform accounting standards, which promote communication of the information which is understood by all the users of financial statements. Doussy and Doussy (2014 34) argue that the use of different reporting standards results in deficiencies in the financial statements, which may also render financial information unreliable. As highlighted in section 1.4, there are

different financial reporting guidelines used by schools in various provinces. These guidelines from the provinces might be inconsistent with each other. In order to determine the level of consistency, comparability of the guidelines developed by MECs for education in the provinces and to determine whether these guidelines are in line with best practice, the researcher compared the guidelines collected from the provinces.

The researcher could however only obtain guidelines from eight of the nine provinces. Some of these guidelines were available on the PED websites. Where the researcher was unable to access the guidelines, he requested assistance from the office of the Auditor-General in Pretoria, and with their assistance, managed to obtain guidelines from eight provinces. The researcher tried to obtain the guidelines for the remaining province from the provincial website but did not succeed. The researcher then visited the offices of the DoE in that province but also did not succeed. He was told that the personnel who work with governance are not available, and he was given their contact details. He tried contacting them with no success.

First, the guidelines were compared with each other in order to determine the level of consistency and comparability. Secondly, the guidelines were compared with IFRS, IPSAS, GRAP and the SASA in order to determine whether the guidelines are in line with best practice.

As mentioned in section 1.12.3, sections 42 and 43 of the SASA require the SGB to keep records of funds received and spent, and of the assets, liabilities and financial transactions of the school as well as to submit these records for audit. In examining the guidelines, the researcher considered the definitions of comparability and consistency as defined by Koppeschaar et al. (2018:12 & 34) (refer to sections 1.4 and 1.12.7).

When analysing and comparing the guidelines, the following information or themes were considered, namely whether the guidelines –

- refer to any prescribed accounting standards with which schools should comply when preparing their financial statements (e.g. GRAP, IPSAS, IFRS or IFRS for SMEs);
- prescribe which accounting records must be prepared by the schools and which supporting documents must be kept;
- specify which components of financial statements must be compiled by schools;
- specify which information should be disclosed in the financial statements;
- specify which elements of financial statements are required for disclosure in the financial statements; and
- include any requirement for an audit or examination of financial statements.

The comparison is categorised as follows:

→ **Keeping of accounting records**

Figure 3.3, the accounting cycle, indicates that the accounting cycle starts with the creation of a source document from which a transaction is recorded in the subsidiary books and ends with the preparation of financial statements. According to sections 1.12.3 and 3.4.5.2, accounting records include the cash receipts journal, cash payment journal, bank reconciliation statement, debtors and school fees records, requisitions, SGB salary payment records, and petty cash journal.

The guidelines will therefore be examined to establish whether they contain the following information in respect of records to be kept by the school, namely whether the guidelines:

- clearly state the purpose or objective of the guidelines;
- include the definitions of concepts;
- clearly state which types of accounting records should be kept by the governing body;
- clearly indicate which source documents should be kept by the SGB; and
- indicate or state the standard chart of accounts to be kept by the SGB.

→ **Preparation of financial statements**

According to the International Accounting Standard 1 (IAS 1) (Presentation of financial statements) (IASB, 2016), the objective of financial statements is to provide users with information regarding the financial position of the entity, its financial performance and cash flows in order to enable users to make informed decisions (Kopperschaar et al., 2018:30). As mentioned in section 3.6.1, the information regarding the financial position of the entity is provided in the statement of financial position by disclosing the assets, liabilities and equity, while the financial performance is provided in the statement of profit or loss and other comprehensive income by disclosing the incomes and expenses. The statement of cash flows discloses the inflows and outflows of cash. The statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows are referred to as components of financial statements (see ASB, 2010: paragraph 11) while assets, liabilities, equity, expenses and incomes are referred to as elements of financial statements (see IASB, 2018 and section 3.6.1 above).

In terms of the preparation of financial statements, the guidelines were examined to see whether they contain the following information, namely whether the guidelines:

- state which components of financial statements are required;

- state which elements of financial statements should be disclosed;
- provide for guidance on initial and subsequent measurement of the elements of financial statements;
- specify or require compliance with any of the accounting standards (GRAP, IFRS, IFRS for SMEs);
- prescribe the accrual or cash basis to be used;
- require the disclosure of comparative information; and
- provide for the recognition criteria.

→ **Audit or examination of financial statements**

As discussed in section 3.4.6, according to section 43 of the SASA, the SGB of a public school must appoint a qualified professional to perform an independent audit of the financial statements. Where the audit is not practical, the SGB may appoint a qualified professional to examine the financial statements, provided that the SGB has obtained approval from the MEC for education to appoint the accounting officer. This section also emphasised the objective of an audit, which is to provide users of financial statements with the assurance that the financial statements are reliable and therefore enhance the degree of confidence on the financial statements.

In terms of the audit of the financial statements, the researcher examined the guidelines to see whether they contain the following information:

- the requirement for the audit of the financial statements; or
- the examination of financial statements; and
- any conditions with which the SGB must comply when appointing the accounting officer to examine the financial statements, instead of appointing the auditor.

4.3.1.2 THE SCHOOLS' ANNUAL FINANCIAL STATEMENTS

To supplement the data collected by analysing the guidelines, the researcher examined financial statements of schools, and also conducted some interviews (refer to section 4.2.2 for a discussion on interviews, and section 4.5.2 for sample selection). Table 4.1 indicates the number of schools for which financial statements were obtained.

Table 4.1 **Number of schools' financial statements obtained vs sample**

| Type of public school | Number of schools sampled | Number of schools for which financial statements were obtained |
|----------------------------------------------------|---------------------------|----------------------------------------------------------------|
| Fee-paying school | 2 | 1 |
| No-fee school | 2 | 1 |
| Special school (learners with special needs [LSN]) | 2 | 2 |
| Total | 6 | 4 |

Source: Author's own compilation

Although the researcher selected six schools to participate in this study (see section 4.5.2), only five schools could be accessed. The researcher tried all means to get the sixth school but did not succeed. This challenge was also experienced by other researchers (see sections 1.10.2 and 4.7). The researcher requested from the schools the copies of audited or examined annual financial statements for the 2014 and 2015 financial years. Four of the above five schools agreed to give copies of their audited financial statements to the researcher while one of the schools refused to provide this information.

Firstly, the financial statements were analysed in order to determine the level of consistency and comparability with one another. The comparison was done horizontally and vertically, where vertical comparison meant comparing the financial statements of one school for different financial periods, while horizontal comparison meant comparing the financial statements of different schools for a particular financial period. Secondly, the financial statements were analysed in order to determine the level of compliance with prescribed guidelines, legislation or regulation.

→ **Preparation of financial statements**

When analysing the financial statements, the following items were considered:

- the components of financial statements disclosed by each school;
- the elements of financial statements disclosed by the school in the financial statements;
- whether the financial statements disclosed the basis of preparation, recognition criteria, asset depreciation policy and measurement basis; and
- whether the school applied the accrual or cash basis of accounting.

→ **Audit or examination of financial statements**

The analysis also considered the following in terms of the audit or examination of financial statements:

- whether the school provided an audit or an accounting officer's report; and
- if an audit report, whether it was a qualified, unqualified, disclaimer or adverse opinion; and
- the total cost of audit vs total expenditure.

The researcher acknowledges that the document analysis method may have its own limitations. As indicated by Bowen (2009:32), the information collected using document analysis may be insufficient, difficult to retrieve and/or biased. In order to cover for the limitations that might arise because of the document analysis method of data collection (in this case, analysis of guidelines and financial statements), the researcher also conducted some interviews.

4.3.2 INTERVIEWS

Rapley (2004:15) and Thenga (2012:55) define an interview as a conversation between two or more people talking about a specific topic. These two people are the interviewer, who asks questions, and the interviewee, who gives answers. The above authors also refer to an interview as the most prominent and predominant mode of data collection in qualitative research. Interviews may vary in form, such as individual, face-to-face verbal interchange, face-to-face group interviewing, mailed or self-administered questionnaires, and telephone surveys, and can be structured, semi-structured or unstructured with structured interviews often producing quantitative data (DiCicco-Bloom & Crabtree, 2006:314; Fontana & Frey, 1994:361).

The researcher used semi-structured interviews. He compiled predetermined open-ended questions (refer to Annexure A), and the interviews were scheduled in advance at designated times and locations (in this case, at the schools) (DiCicco-Bloom & Crabtree, 2006:315). Flick (2010:170) emphasises that semi-structured interviews provide the researcher with the opportunity to study the interviewee's knowledge about the topic being researched.

Kothari (2004:98) mentions the following advantages of personal interviews:

- More information can be obtained in greater depth.
- The interviewer can overcome the resistance, if any, of the respondents and the interview can be made to yield an almost perfect sample of the general population.
- There is greater flexibility when using this method as there is always opportunity to

restructure questions, especially in the case of structured interviews.

- The observation method can also be used to record verbal answers to various questions.
- Personal information can be obtained easily when using this method.
- Samples can be controlled more effectively as there is no problem of missing returns; non-response generally remains very low.
- The interviewer can usually control which person(s) will answer the questions. If so desired, group discussions can also be held.
- The language of the interview can be adapted to the ability or educational level of the person interviewed and misinterpretations concerning questions can thus be avoided.
- The interviewer can collect supplementary information about the respondent's personal characteristics and environment, which is often of great value in interpreting results.

Kothari (2004:99) emphasises the fact that it is important that the interviewer should obtain full and honest responses from the interviewee. The interviewer should therefore not only possess interviewing skills in order to obtain good information, but must also create a favourable atmosphere to interviewing (Kothari, 2004:99; Krathwohl, 2004:299). Kothari (2004:99) also emphasises that the interviewer should be friendly, courteous, conversational and unbiased and should not show surprise at or disapproval of a respondent's answer.

In this study, interviews were held with preparers and users of financial statements in order to obtain a better understanding of procedures followed in preparing the financial statements at the time of this research. The researcher also enquired about additional information that the interviewee thought should be included in the financial statements. As discussed in section 4.3.1.2, the interviews were conducted to supplement the data collected by means of document analysis. The data collected from the interviews assisted the researcher in gaining an understanding of how schools' SGBs practically manage the finances. The data collected assisted the researcher when developing the recommended practice guidelines.

4.3.2.1 THE INTERVIEW SET-UP

The researcher used an interview guideline (refer to Annexures B, C and D). This guideline comprised a list of pre-determined questions that were asked during the interview. These questions differed according to stakeholders; treasurers, principals, district officials and auditors were therefore asked different kinds of questions. The interview guide was divided into the following sections:

- **Section one**

This section was used to gather information regarding the demographics of the school and the profile of the interviewees and the information was obtained before the actual interview (see Annexures B, C and D).

- **Section two**

This section covered information regarding the knowledge and experience of the interviewees in the schools' financial management. It comprised the interview questions (see Annexures B, C and D).

On delivery of the letters, the researcher met the school principals and explained the purpose of the research as well as the process in full. The researcher then agreed on a schedule with the principal. Each individual was being interviewed on a separate day.

On the day of the interview, the researcher explained the research to the interviewee and emphasised that the interviewee participation was voluntary. The researcher also informed the interviewee that he or she had the right to withdraw at any time during the interview and that the interview would be tape-recorded. The researcher asked the interviewees not to mention any names of people, organisations and schools. Where an interviewee wanted to refer to a person, instead of naming that person, the position of such person, for example the principal of the school or the treasurer of the SGB was used. All the interviewees, except only one district official, agreed to be tape-recorded. The researcher took notes during the interview that were not tape-recorded. An experienced independent person transcribed the interviews. The transcriber was recommended to the researcher by one of the researchers who had previously used the transcriber's services.

4.4 POPULATION

Kothari (2004:153) defines the term 'population' as the total number of items about which information is desired. The population for this study was defined as follows:

4.4.1 GUIDELINES

The population for the guidelines consisted of the guidelines developed by the MECs for education across the country. Therefore, it consisted of nine sets of guidelines.

4.4.2 INTERVIEWS

The population for the interviews consisted of the SGB treasurers, school principals, schools'

financial officers, district officials and schools' auditors across the country. It was, however, not practical for the researcher to interview treasurers, principals, financial officers, district officials and auditors in all nine provinces. An extreme instance was therefore considered. The researcher limited the target population to Gauteng. This province was chosen based on the corruption reports for 2014, 2015 and 2016, which indicated that Gauteng had the highest number of corruption cases reported (see Figure 1.1). According to these reports, Gauteng was the worst in terms of corruption reported for schools, as indicated in Figure 1.1.

As mentioned in section 1.8.1, the study focused on section 21 schools only. Another reason for choosing Gauteng was that all the schools in this province were declared section 21 schools by MEC of education on 2 May 2015 (Sunday World, 2015). All schools in Gauteng would therefore stand an equal chance of being selected in the sample.

4.5 SAMPLING

Sampling is defined as the process of obtaining information about the population by examining part of it (Kothari, 2004:152). Kothari (2004:152) explains different reasons for using sampling, namely:

- Time and money saving – it is less expensive to use a sample as compared to a census study (see Kothari, 2004:152), and it produces results at a relatively faster speed.
- Sampling may enable more accurate measurement if generally conducted by trained and experienced investigators.
- Sampling remains the only way when population contains infinitely many members.
- Sampling remains the only choice when a test involves the destruction of an item under study.
- Sampling usually enables the researcher to estimate the sampling errors and, thus, it assists in obtaining information concerning some characteristics of the population.

The population for the current study was too large and therefore it was impractical for the researcher to examine the entire population. It would have required a considerable period of time and a large amount of money to examine the entire population. Sampling was therefore the only way to do the study in an effective and efficient manner.

In most studies, emphasis is on generalisation or to draw inferences based on samples about parameters of the population from which the samples are taken (Kothari, 2004:152). According to Coyne (1997:623), it is not a requirement to generalise the results of a qualitative research. An

appropriate sample size is one that adequately answers the research question (Marshall, 1996:523). According to Gobo (2004:435):

- only surveys and polls use representative samples;
- to be representative, a sample needs to be drawn up using probability methods, such as stratified random sampling or area sampling;
- because qualitative research is based on non-probability samples, its samples are not representative;
- only findings from a representative sample are automatically generalisable to the population;
- representativeness therefore leads to generalisability;
- if research is not carried out on a representative sample, its findings are not generalisable;
- findings of qualitative researchers are not generalisable.

Marshall (1996:522) mentions two types of sampling, probability or random sampling and non-probability sampling. As Gobo (2004:435) mentioned above, supported by Coyne (1997:627) and Marshall (1996:524–525), non-probability sampling is most suitable for qualitative research and focuses on small samples. In this research, focus was therefore on non-probability sampling. Gobo (2004:448), Krathwohl (2004:172–174) and Marshall (1996:523) identify and discuss types of sampling procedures in qualitative research, namely purposive or judgement sampling, convenience sampling, snowball sampling, and quota sampling. Purposive sampling is explained in 4.5.1 below.

4.5.1 PURPOSIVE SAMPLING

According to Gobo (2004:448), Krathwohl (2004:172–174) and Marshall (1996:523), the researcher selects his or her sample based on personal judgement by attaching some characteristics or developing a framework of the variables that might influence individual contributions when answering the research question. Cohen, Manion and Morrison (2007:114) added by saying:

In purposive sampling, often (but by no means exclusively) a feature of qualitative research, researchers handpick the cases to be included in the sample on the basis of their judgement of their typicality or possession of the particular characteristics being sought. Researchers consider the sample that will meet their needs in terms of the study.

According to Strydom and Venter (2002:207, cited in Ngubane, 2009:80), in purposive sampling, the researcher judgementally selects the sample that satisfies most elements of the

characteristics or typical attributes of the population. In this case, the researcher pays special attention to those variables in the population that will satisfy or meet the goals of the study or the investigation (Xaba, 2011:203). Coyne (1997:624) agrees with Cohen et al. (2007:114) and states that the term ‘purposive’ was derived from the term ‘purpose’, which is defined as an idea or aim kept in the mind as the end of effort; power of seeking the end desired; a definite intention, and purposeful as directed towards the purpose.

Schatzman and Straus (1973, cited in Coyne, 1997:624) state that the terms ‘selective’ and ‘purposive sampling’ are sometimes used interchangeably. They define selective or purposive sampling as practical necessity shaped by the time the researcher has available to him or her, by his or her framework, by his or her starting and developing interests, and by any restrictions placed upon his or her observations by his or her hosts. They also suggest that after several observations and visits to the sites, the researcher would know whom to sample for the purpose of his or her study. As emphasised by Thenga (2012:53) the researcher therefore agrees that there is no need for the findings of the study to be generalised.

4.5.2 SAMPLE SELECTION

In the current research, the researcher applied a multi-stage plan. Stage one referred to the province. The researcher wanted to determine the availability of the guidelines, compare the guidelines for consistency, and examine whether these guidelines were in line with best practice. During stage two, the researcher interviewed the district officials in order to obtain the information that would assist him in understanding the schools’ financial management better. This information assisted the researcher to develop the recommended practice guidelines. Stage three comprised interviewing the SGB treasurers, school principals, finance officers and auditors as well as comparing the audited financial statements of the selected schools. The information from the interviews assisted the researcher in developing the recommended practice guidelines. The comparison of the schools’ financial statements was done in order to determine consistency in reporting by schools as well as compliance with prescribed guidelines and regulations.

Six Gauteng schools were selected using purposive convenience sampling. The researcher obtained the lists of public schools from the GDE website, categorised into fee-paying schools, no-fee schools and special schools. All six schools were selected from these lists. Of the six schools that were selected, only four responded positively. The researcher could not get cooperation from two schools (one fee-paying and one no-fee school). The SGB chairperson from the no-fee school told the researcher that the school’s SGB did not approve the researcher’s

request while the fee-paying school could not participate as it was under investigation, and the DBE had confiscated the school's financial records. The researcher selected the other schools and applied for permission at the DoE, which was granted. The researcher approached the schools and only one school (no-fee) agreed to participate. The school however refused to provide the researcher with the copies of its financial statements but agreed to participate in the interviews. Another school refused to participate. It was too late for the researcher to make another selection as the permission granted by the GDE head office was about to expire.

The six schools selected comprised two no-fee schools, two fee-paying schools and two special schools. All public schools receive grants from the DBE. The grant is higher for no-fee and special schools compared to fee-paying schools. Fee-paying schools may collect school funds from learners while no-fee schools and special schools are not allowed to charge school fees to learners. Special schools are those that accommodate learners with disabilities and special needs. The SGB members of special schools are not necessarily disabled and therefore do not need any special consideration.

The researcher selected the fee-paying and no-fee schools to establish whether the size of the grant and charging of school fees had an effect on the ability of the SGB in the preparation and audit of financial statements as well as the quality of financial reporting. The study done by Mbatsane (2006:87) found differences between city and rural schools in terms of resources.

The researcher also viewed the special schools as critical instances. The special schools were selected for the current research, as the researcher considered this category schools to be understudied.

As mentioned in section 4.4 above, all schools in Gauteng were declared section 21 schools by the MEC for education in 2015 (Sunday World, 2015). Therefore, it did not matter which one was selected as all the schools are expected to submit the audited financial statements as required by section 43 of the SASA.

In each school, the researcher interviewed the principal, the treasurer, the finance officer and the auditor. In the districts, the district coordinators or managers were interviewed. The districts selected were the same districts to which the above selected schools report. Therefore, the determining factor for the districts was the schools selected. The researcher selected a total of 29 individuals to be interviewed. The number comprised six principals, six treasurers, six financial officers, six auditors and five district officials.

The principal was selected as he or she is seen as the *ex officio* officer and also the accounting officer of the DoE. According to section 16A(1)(a) of the SASA, he or she represents the DoE. Therefore, he or she is expected to have knowledge of the financial management of the school. The treasurer was selected as he or she is also expected to have knowledge of the finances of the school. He or she is the chairperson of the finance committee and, together with the principal as well as the SGB chairperson, are signatories on the bank account of the school (Western Cape, 2013:5). The finance officer was selected as he or she is the one who keeps records of all the finances of the school (WCED, 2013:6). The auditor was also selected as he or she is the one who expresses an opinion about the fair presentation of the financial statements of the school. Lastly, the district official was selected as he or she is the one who monitors the schools.

4.6 RELIABILITY AND VALIDITY

According to Heyink and Tymstra (1993:297), in qualitative research, it is not easy to separate reliability and validity. Hansraj (2007:44) refers to ‘trustworthiness’ of research findings instead of using the words ‘validity’ and ‘reliability’. Like other researchers in qualitative study, the current researcher used various forms of methods to enhance the trustworthiness, credibility, reliability and validity of the results. Information was obtained from credible sources in the literature and documents and from the interviews. The questions for the interviews were first checked and reviewed by senior researchers who confirmed that the questions were relevant to address the research and aims of the study. The interviews were taped-recorded and transcribed. The researcher listened to the taped-recorded interviews and compared them to the transcriptions in order to confirm the accuracy of the transcriptions. The researcher took notes during the interviews about things that could not be taped-recorded, e.g. body language. All the themes addressed in the interviews were based on and covered in the interview schedule. These themes were also covered by the relevant literature.

4.7 LIMITATIONS OF THE STUDY

One of the challenges experienced by the researcher was difficulty of not being able to access some of the schools. The chairperson of one of the schools denied the researcher access to other members of the SGB, as well as to the financial statements of the school. This happened despite the researcher having obtained approval from the GDE head office and the district offices of the selected schools. As mentioned in section 4.3.1.2, the researcher could only access five schools instead of six. Of the five schools that he accessed, he was only given access to the financial statements of four schools. One of the schools indicated that they do not even have financial

statements. As indicated in section 1.10.2, Mbatsane (2006) as well as Doussy and Doussy (2014) experienced the same challenges. The principal of the other school forbade the researcher to make copies of the annual financial statements. One of the district officials refused to be tape-recorded. The researcher therefore had to take notes while interviewing.

The researcher interviewed amongst others, the treasurers of the SGBs. According to the SASA, treasurers are elected from the parents of learners attending the school. Some parents had no information or knowledge on financial management and reporting.

4.8 DATA ANALYSIS AND INTERPRETATION

In a qualitative enquiry, analysis of data is viewed as an ongoing cyclical process integrated in all phases of research, which should be done at the research site during data collection and away from the research site following data collection (Thenga, 2012:63). Mngomezulu (2001:45) also describes it as a systematic process of selecting data, categorising, effecting order, structure, attaching meaning, comparing and interpreting data to provide solutions to problems under investigation. Mbatsane (2006:55) emphasises that data analysis is a process whereby one organises what you have heard, seen and read so that one can make sense of the data collected. Hansraj (2007:43) argues that researchers may make inferences of their own meanings to the texts.

When using the qualitative method, different kinds of equipment are used, such as audio tape recorders, video tapes, video cameras and computers (Frankel & Devers, 2000:259). In the current research, interviews were tape recorded and transcribed into hard copies. Just like Thenga (2012:65), the analysis of data began during the literature review process and continued when data was collected during individual interviews and document analysis. Like Thenga (2012:65) and Ntsele (2014:72), the researcher categorised the data, identified patterns, noted exceptional responses, and then lastly did the analysis and interpretation (Mbatsane, 2006:55).

When analysing the data, the researcher followed the same steps as Ntsele and Mestry when conducting their studies (Mestry, 2006:30; Ntsele, 2014:72–74). The steps described in 4.8.1 were followed by the researcher when analysing the data.

4.8.1 PREPARING AND ORGANISING DATA

As mentioned in section 4.2.3.1 above, an experienced person transcribed the interviews. In preparing the data, the researcher read the transcriptions while listening to the recordings.

4.8.2 EXPLORING AND CODING THE DATABASE

First, the researcher assigned a pseudonym to each transcript to maintain and ensure confidentiality. Second, the researcher read and re-read the transcriptions line by line to understand what the participant was saying and then assigned a code label to a text segment using ATLAS.ti (refer to Annexure A, for a code report).

4.8.3 DESCRIBING FINDINGS AND FORMING THEMES

This process involved going through all codes created to decide which codes were the most important and to create categories by bringing several codes together. This involved answering the main research question and gaining an in-depth understanding of the phenomenon through descriptive and thematic development.

4.8.4 REPRESENTING AND REPORTING FINDINGS

The researcher presents the findings regarding the document analysis and interviews in Chapter 5. The findings are presented in the form of tables and detailed discussions of the themes. The researcher describes the categories and how they are correlated using a neutral voice without interpreting the results.

4.8.5 INTERPRETING THE MEANING OF THE FINDINGS

From the reporting and the representation of findings, the researcher interpreted and discussed the results. This is where the researcher advanced his personal views, making comparisons to similar, previous studies published in relevant scientific journals, theories and concepts from the relevant field. This included making comparisons between findings and literature.

The researcher organised the data collected into different folders, and saved the data first by school, then by district and lastly by participants. Each school was named e.g. as A_NF, which stands for school A, a no-fee school, or B_FP, which stands for school B, a fee-paying or C_LSN, which stands for school C, a special school. The participants were filed by position, e.g. principal, treasurer or finance officer. The districts were saved in separate folders as D1, D2, D3, D4 and D5.

The researcher saved all transcribed interviews in different folders. All participants were

allocated code pseudonyms, e.g. Pri_A_NFP, for principal from school A, a no-fee school or Aud_B_FP, for auditor of school B, a fee-paying school or DO_D1, for district official from district one. The data from interviews were grouped into:

- data obtained by interviewing SGB treasurers, school principals and schools financial officers;
- data obtained by interviewing district officials; and
- data obtained by interviewing schools' auditors.

The data obtained from documents analysis were grouped into:

- data obtained from analysis of financial recording and reporting guidelines; and
- data obtained from analysis of schools' annual financial statements.

4.9 ETHICAL CONSIDERATIONS

In terms of the research policy of the University of South Africa's, all researchers must obtain clearance from the university before conducting research. The following were taken into account by the researcher when applying for ethical clearance:

4.9.1 INFORMED CONSENT

Since the study was conducted in schools, the researcher first requested permission from the head office of the GDE, which is the gatekeeper, by completing a prescribed form to conduct research at selected schools (see Annexure E). The form was obtained from the website of the GDE. On receipt of the permission letter from the GDE, the researcher applied for clearance from the university, which was also obtained (see Annexure F). After obtaining clearance from the university, letters were written to the district offices of the GDE for the selected schools in order to gain direct access to the respective schools (see Annexure G). Lastly, the researcher wrote two letters to each school. The letters were addressed to the principals and the SGBs of the respective schools. One letter requested permission to interview the selected members, and the other letter requested access to the financial statements of the school (see Annexures H and I). The letters were hand-delivered by the researcher at the schools. All interviews were conducted only after permission and consent had been obtained from all relevant parties. After delivery of the letters to the schools, communication was done telephonically with the principals who then provided the researcher with contact details of other selected participants for the researcher to contact directly so that arrangements could be made for the interviews.

4.9.2 ANONYMITY

The names of the schools, districts and individuals selected for interviewing and the names of other people who would be participating in this study, including any other personal information are not mentioned or revealed. Due to the large number of schools in the area, it will not be possible for any person to identify the name of the participating schools or individuals.

4.9.3 CONFIDENTIALITY

The researcher gave assurance that all information acquired would be kept confidential and that it would only be used for the purpose of the research and study.

4.9.4 HONESTY

The conclusion is based on the actual findings. No information was fabricated or concealed. The researcher maintained a high level of honesty in conducting the study.

4.10 DEVELOPMENT OF RECOMMENDED PRACTICE GUIDELINES

The reliability, acceptability and understandability of financial information, promoted by its consistency, were emphasised by Bordoloi and Bordoloi (2013:26). According to the researcher, who agrees with Bordoloi and Bordoloi (2013:26), in enhancing accountability, responsibility and transparency, consistency and comparability of financial information may be achieved through the application of uniformity in accounting terminology, approach and presentation (see section 1.4).

In section 3.8, the researcher identified that, at the time of this research, schools in Australia, New Zealand and England applied uniform guidelines as opposed to the SASA, which requires the use of different guidelines in different provinces.

In Chapter 6, the researcher therefore reports the recommended practice guidelines. When developing these guidelines, the researcher used the data collected from the literature review (Chapter 2 and 3), as well as the data collected from the analysis of guidelines and interviews. In order to eliminate and ensure that there is no bias in developing the recommended practice guidelines, the researcher sent the guidelines to at least two external parties for validation.

4.11 SUMMARY AND CONCLUSION

In this chapter, the research approach and method were discussed. The researcher adopted the qualitative approach, which was discussed in depth in this chapter. The researcher discussed two data collection methods, namely document analysis and interviews.

Document analysis was adopted by the researcher as the primary data collection method. As the primary aim of the study was to develop recommended practice guidelines, all available guidelines collected from various provinces were analysed. The researcher also analysed the financial statements of selected schools. These schools were also the schools selected by the researcher for interviews. Interviews were used as another data collection method to obtain understanding from stakeholders and of financial management and also to find out which information stakeholders expect to find in the financial statements of the schools. Six schools were selected purposively.

The researcher discussed the reliability and validity of data. This included the discussion of the credibility of sources from which the information was obtained by the researcher. The steps to be taken by the researcher when analysing and interpreting the data were also discussed in this chapter. These steps were preparation and organisation of data, exploring and coding data, describing the findings and forming themes, representation and reporting of the findings, as well as interpreting the meaning of the findings.

Ethical considerations were also discussed in this chapter. The researcher discussed how consent was obtained from the head office of the GDE, the districts offices as well as from the SGBs. The researcher discussed how the anonymity of the participants was kept and maintained. The discussion included how the information that was obtained from the participants in the form of interviews as well as the documents obtained from the schools would be kept confidential.

This chapter was finalised by the discussion on the level of honesty that was maintained by the researcher when conducting the study and the fact that no data was fabricated or concealed while conducting of the study. The next chapter discusses the presentation, analysis and interpretation of the findings on the data collected.

CHAPTER 5

INTERPRETATION AND PRESENTATION OF THE RESEARCH FINDINGS: DOCUMENT ANALYSIS AND INTERVIEWS

5.1 INTRODUCTION

Chapter 4 focused on research methodology for this study. Amongst others, the research design, population and sampling as well as data collection were discussed. As discussed in Chapter 4, the researcher collected data by means of document analysis, supplemented by interviews. The data from document analysis assisted the researcher to establish the consistency and comparability of financial reporting guidelines and the financial statements of the selected schools and also to determine whether the financial statements of these schools comply with prescribed guidelines. The data from the interviews assisted the researcher when developing the recommended practice guidelines.

This chapter focuses on the presentation and interpretation of data collected by means of document analysis and the interviews. Firstly, results of the comparison of guidelines from various provinces are presented and discussed. Secondly, results of comparison of guidelines from various provinces to best practice are presented and discussed. Thirdly, results of comparison of financial statements of selected schools are presented and discussed. Fourthly, results of comparison of financial statements of selected schools to the prescribed provincial guidelines are presented and discussed. Then the results of the data obtained from interviewing the SGB treasurers, school principals, the schools' finance officers, district officials and schools' auditors are presented and discussed. This chapter will be concluded by discussing the conclusion on the findings obtained.

5.2 RESEARCH FINDINGS OBTAINED FROM DOCUMENT ANALYSIS

As mentioned in section 5.1 above, the results from the analysis of financial recording and reporting guidelines as well as results of comparison of schools' financial statements are discussed in this section.

5.2.1 DATA OBTAINED FROM THE ANALYSIS OF FINANCIAL RECORDING AND REPORTING GUIDELINES

As discussed in section 4.3.1.1, the researcher could only obtain guidelines from eight provinces, and the analysis was therefore based on the guidelines obtained. These guidelines were compared in order to assess the level of consistency amongst these guidelines. The guidelines were also compared or benchmarked against the SASA, GRAP, IFRSs, PFMA and the IPSAS to assess whether they were in line with best practice and whether they complied with prescribed legislation.

5.2.1.1 COMPARISON OF GUIDELINES OBTAINED FROM VARIOUS PROVINCES

As mentioned in section 4.3.1.1, when comparing these guidelines, the researcher wanted to determine whether the guidelines, which were developed by the MECs for education in various provinces, were consistent with each other (see section 1.7, objectives number 1 and 2). The comparison was about the following: keeping of accounting records, preparation of financial statements and audit or examination of financial statements.

(a) Keeping of accounting records

The guidelines were examined to establish whether they clearly stated what the objective of a particular guideline was, such as the definition of concepts and clearly stating the types of accounting records, source documents and the standard chart of accounts to be kept by the SGB.

Table 5.1 gives a summary of information obtained from the guidelines in terms of keeping of accounting records.

Table 5.1 Comparison of provincial guidelines (accounting records)

| ITEMS | Prov A | Prov B | Prov C | Prov D | Prov E | Prov F | Prov G | Prov H |
|------------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Introduction/overview | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| States the purpose/objective of the guidelines | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| States definition of terms or concepts | Yes | Yes | Yes | Yes | No | No | No | No |
| Indicates the types of accounting records to be kept | No | Yes | Yes | Yes | Yes | Yes | No | Yes |
| Indicates the source documents to be kept | No | Yes | Yes | Yes | Yes | Yes | No | No |
| Indicates the standard chart of accounts | No | No | Yes | Yes | No | No | No | Yes |

Source: Author's own compilation

As indicated in section 3.3, the governing body is required to keep records of funds received and spent by the school and of the assets, liabilities and financial transactions of the school. It is therefore important that the financial guidelines indicate the types of accounting records that must be kept by the SGBs. It is also important for the guidelines to state which documents should be kept for the transactions that take place and to indicate which standard chart of accounts should be kept.

In terms of section 1.10.3, accounting records refers to the cash-book (also known as 'the statement of receipts and payments' or 'cash receipts and cash payments journals'), debtors and debtors' allowances journals, creditors and creditors' allowances journals, petty cash journal, general journal, general ledger and the trial balance. As indicated above, the governing body is required to keep records of all funds received and spent. This means that all transactions must be supported by source documents. The guidelines should therefore state which source documents are compulsory for the school to keep. According to the analysis in Table 5.1 above, all provinces stated either the purpose or the objectives of their guidelines. Only four provinces – A, B, C and D – included the definitions of terms in their guidelines. The results also indicate that six of the provincial guidelines have specified which accounting records should be kept by the SGBs. Five of the provincial guidelines specified the types of source documents to be kept by the SGBs, while three of the provincial guidelines specified the list of the standard chart of accounts to be kept by the SGBs.

(b) Preparation of financial statements

In terms of the preparation of financial statements, the guidelines were examined in terms of the following information:

- whether the guidelines stated which components of financial statements were required;
- whether the guidelines stated which elements of financial statements should be disclosed;
- whether the guidelines provided for guidance on initial and subsequent measurement of the elements of financial statements;
- whether the guidelines specified or required compliance with any of the accounting standards (GRAP, IFRS, IFRS for SMEs or IPSAS);
- whether the guideline prescribed the accrual or cash basis to be used;
- whether the guidelines required the disclosure of comparative information; and
- whether the guidelines provided for the recognition criteria.

Table 5.2 indicates which components of financial statements were required as per the guidelines of various provinces, while Table 5.3 indicates other information pertaining to the financial statements.

Table 5.2 Comparison of provincial guidelines (components of financial statements)

| Components of financial statements | Prov A | Prov B | Prov C | Prov D | Prov E | Prov F | Prov G | Prov H |
|----------------------------------------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Income and expenditure statement | X | √ | √ | √ | N/A | X | N/A | N/A |
| Statement of financial performance | X | N/A | N/A | N/A | √ | X | √ | √ |
| Statement of all assets and liabilities | X | √ | N/A | N/A | N/A | X | N/A | N/A |
| Balance sheet | X | N/A | √ | √ | N/A | X | N/A | N/A |
| Statement of financial position | X | N/A | N/A | N/A | √ | X | √ | √ |
| Statement of changes in surplus and reserves | X | N/A | N/A | N/A | √ | X | √ | N/A |
| Statement of cash flows | X | N/A | N/A | N/A | √ | X | √ | √ |
| Budget report (income and expenditure variance report) | X | N/A | √ | √ | N/A | X | N/A | N/A |
| Reconciliation of paper budget, National School Nutrition Programme (NSNP), LTSM | X | N/A | N/A | N/A | √ | X | N/A | N/A |
| Inventory of assets | X | N/A | √ | N/A | N/A | X | N/A | N/A |
| Notes or schedules | X | N/A | √ | N/A | √ | X | √ | √ |
| Significant accounting policies | X | N/A | N/A | N/A | N/A | X | √ | √ |
| Annual bank reconciliation statements | X | N/A | N/A | √ | N/A | X | N/A | N/A |

Table 5.2 Comparison of provincial guidelines (components of financial statements) continued

| Components of financial statements | Prov A | Prov B | Prov C | Prov D | Prov E | Prov F | Prov G | Prov H |
|------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Statements of investments | X | N/A | N/A | √ | N/A | X | N/A | N/A |
| Stock-take certificates | X | N/A | N/A | √ | N/A | X | N/A | N/A |
| Statements of debts outstanding | X | N/A | N/A | √ | N/A | X | N/A | N/A |
| Ratios | X | N/A | N/A | N/A | √ | X | N/A | N/A |

Source: Author's own compilation

According to Table 5.2, the guidelines for provinces B, C and D required the income and expenditure statement, while the guidelines for provinces E, G and H required the statement of financial performance. The guidelines of province B required the statement of assets and liabilities, and the guidelines of provinces C and D required the balance sheet while the guidelines of provinces E, G and H required the statement of financial position. Only provinces E and G required the statements of changes in surplus and reserves. Provinces B, C and D were still using old terms in their guidelines (such as 'balance sheet' and 'income statement'). This may be an indication that their guidelines may be outdated and that they are not updated regularly. The IFRSs are being updated on a regular basis, due to changes in the needs of the users of financial statements. It is therefore important that the guidelines should also be updated to be in line with best practice.

At the time of this research, the guidelines for provinces E, G and H required the statement of cash flows, while the guidelines for C and D required the income and expenditure budget variance report. Guidelines for provinces C, E, G and H required the notes to the financial statements, while provinces G and H also required disclosure of significant accounting policies. The guidelines for province E required additional disclosure of reconciliation of the NSNP and LTSM with the budget. Province D required additional disclosure of bank reconciliation, statement of investments, statement of outstanding debts and stock-taking certificates while province E required disclosure of financial ratios. As discussed in section 3.6, the IFRS, IPSAS and GRAP and the components of financial statements comprise the statement of financial performance, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements. It might be argued that the IFRS, IPSAS and GRAP focus on different users than the schools. However, this may not serve as justification for having different guidelines for different provinces. There should still be consistency and uniformity in the guidelines used by schools, irrespective of the province where

they are situated.

Table 5.3 Comparison of provincial guidelines (financial statements: other information)

| ITEMS | Prov A | Prov B | Prov C | Prov D | Prov E | Prov F | Prov G | Prov H |
|--------------------------------------------------------------------------|--------|--------|-------------------|-----------------------------|-------------------------|--------|-------------|-------------|
| Specifies the elements of financial statements | No | Yes | Yes | Yes | Yes | No | Yes | Yes |
| Gives guidance on measurement | No | No | Yes | Yes | Yes | No | Yes | Yes |
| Specifies with which accounting standards or guidelines to comply | No | No | Yes SA GAAP | Yes SASA, PFMA, TR | Yes IFRS for SMEs | No | Yes SASA | Yes GAAP |
| Specifies whether accrual or cash basis is used | No | Yes | Yes | Yes | Yes | No | Yes | Yes |
| Comparative information required? | No | Yes | Yes | Yes | Yes | No | Yes | Yes |
| Guidance on recognition criteria | No | No | Yes | Yes | Yes | No | No | Yes |
| Specifies method of depreciating assets | No | No | Yes | Yes | Yes | No | Yes | Yes |
| Guidance on economic useful lives of assets | No | No | Yes | Yes | Yes | No | Yes | Yes |
| Guideline provides a framework or format of financial statements | No | No | Yes | Yes | Yes | No | Yes | Yes |

**Table 5.3 Comparison of provincial guidelines (financial statements: other information)
(continued)**

| ITEMS | Prov A | Prov B | Prov C | Prov D | Prov E | Prov F | Prov G | Prov H |
|-------------------------------------------|---------|---------|-----------------------------|-----------------------------|-------------------------------------------------------------------------------------------------------------------------|---------|---------|---------|
| Any additional disclosure required | Nothing | Nothing | Budget with variance report | Budget with variance report | Reconciliation of paper budget, NSNP, LTSM Ratios Unspent government grant to be disclosed as a liability | Nothing | Nothing | Nothing |
| Total (Yes) | 0 | 3 | 9 | 9 | 9 | 0 | 8 | 9 |
| Total (No) | 9 | 6 | 0 | 0 | 0 | 9 | 1 | 0 |

Source: Author's own compilation

According to Table 5.3, the guidelines for provinces C, D, E, G and H specify the following information:

- element of financial statements to be disclosed;
- initial and subsequent measurement of the elements of financial statements;
- the accrual basis of accounting that should be used;
- method of depreciation, depreciation rates, economic useful lives of various assets;
- the comparative information that is required; and
- the framework and format of financial statements.

At the time of this research, the guidelines from province B only specified the elements of financial statements, the basis of preparation and the requirement for comparative information. Regarding compliance to any of the accounting standards, provinces C and H required that the schools should comply with South African Generally Accepted Accounting Practice (SA GAAP). Since 2005, SA GAAP is no longer used in South Africa (Kopperschaar et al., 2018:2). South Africa had adopted the IFRS in 2005 (Kopperschaar et al., 2018:2). Province D required compliance with the SASA, PFMA and treasury regulations. Province E required compliance with IFRS for SMEs, which, according to the researcher, is not appropriate and suitable for

adoption by public schools as it was developed for use by public sector and not private sector Province G required compliance with the SASA, while provinces A, B and E did not mention any accounting standards with which the governing bodies had to comply when preparing their financial statements.

The results above indicate that there were inconsistencies in the guidelines of the different provinces. The information included in these guidelines differed from one province to the next and was therefore not consistent. As indicated in section 1.4, Doussy and Doussy (2014:34) argue that South African schools are held to different standards of financial reporting and auditing which, according to Kopperschaar et al. (2018:12), may diminish comparability and other qualities of financial information, such as faithful representation and understandability. It has also been noted that the guidelines from provinces A, B, G and H were not signed by the relevant MECs as proof of having been issued officially and approved by the MEC. The documents that are not signed may therefore not be valid and authentic.

(c) Audit or examination of financial statements

In terms of the audit or examination of the financial statements, the researcher examined the guidelines for the following:

- the requirement for the audit of the financial statements; or
- the requirement for the examination of financial statements by the accountant; and
- any conditions attached to the examination of financial statements or appointment of an accounting officer instead of an auditor.

Table 5.4 below, indicates the results of comparison of the guidelines of various provinces.

Table 5.4 Comparison of provincial guidelines (audit or examination of financial statements)

| ITEMS | Prov A | Prov B | Prov C | Prov D | Prov E | Prov F | Prov G | Prov H |
|------------------------------------------------------------------------|--------|-----------------------------------------------------------------------------------------------------------------------------------------|--------|--------|-------------------------------------------------------------------------|--------|--------|--------|
| Provides for the audit of financial statements | N/A | N/A | N/A | N/A | N/A | N/A | √ | N/A |
| Provides for the examination of financial statements | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Silence on the matter | √ | | | | | | | |
| Provides for both the audit and examination of financial statements | N/A | √ | √ | √ | √ | √ | N/A | √ |
| Requires MEC's approval in case of examination of financial statements | | √ | √ | √ | √ | √ | | √ |
| Any other requirement in case of examination of financial statements | N/A | A school must not have been allocated functions in terms of section 42 of the SASA Have annual gross income of less than R20 000 | N/A | N/A | The company or person appointed must be in the DoE's approved data base | N/A | N/A | N/A |

Source: Author's own compilation

Table 5.4 indicates that the guideline of province A was silent with regard to the requirement for an audit or examination of financial statements. At the time of this research, the guidelines for provinces B, C, D, E, F and H made provision for both the audit and examination of financial statements. These guidelines also made provision for requirement for the MEC's approval in a case where the school submits its financial statements for examination instead of an audit. According to the guidelines of province G, only an audit was required. The guidelines for provinces B and E made provision for additional requirements in the case where the school opted for the examination of the financial statements instead of an audit.

As indicated in section 3.4.6 above, section 43 of the SASA makes it clear that the governing body of a public school must appoint an auditor to audit the financial statements of the school. The section also indicates that the person so appointed must be registered in terms of the Auditing Profession Act (No. 26 of 2005) (RSA, 1996c). The above results therefore indicate that the majority of the guidelines were in line with the SASA. Six sets of guidelines made provision for the requirement of auditing of schools' financial records.

5.2.1.2 COMPARISON OF GUIDELINES OBTAINED FROM VARIOUS PROVINCES TO BEST PRACTICE (SASA, IFRS, IPSAS AND PFMA)

When comparing these guidelines, the researcher wanted to determine whether the provincial guidelines were in line with the SASA, GRAP, IFRS, IPSAS and the PFMA. The researcher also wanted to determine whether the provincial guidelines were in line with best practice (see sections 1.7, objective number 2 and 4.3.1.1). This assisted the researcher in determining which information from the existing guidelines could be used in developing the recommended practice guidelines for the schools financial reporting.

The following items were considered:

- which source documents are required by various guidelines;
- which accounting records are required by various guidelines;
- basis of preparation (accrual or cash basis);
- components of financial statements required;
- elements of financial statements required;
- requirement for an audit or examination of financial statements; and
- any strict conditions attached to an examination of financial statements.

The existing guidelines were analysed, and the results of the analysis are shown in Tables 5.5, 5.6 and 5.7. The analysis of the guidelines yielded the following results.

(a) Keeping of accounting records

The results of the analysis in terms of keeping of accounting records are shown in Table 5.5 below.

Table 5.5 Provincial guidelines vs best practice (accounting records)

Yes = Agree (fully in line); No = Not agree (not in line)

| Requirement to keep accounting records as per GRAP and SA-SAMS – best practice | Accounting records as required per provincial guideline | | | | | | | |
|------------------------------------------------------------------------------------------|---------------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|
| | Prov A | Prov B | Prov C | Prov D | Prov E | Prov F | Prov G | Prov H |
| Cash receipts and cash payment journals or Cash-book or Receipts and payments statements | No | Yes | Yes | Yes | Yes | Yes | No | Yes |
| Debtors' journal | No | No | Yes | Yes | No | No | No | No |
| Debtors' allowances journal | No | No | No | No | No | No | No | No |
| Creditors' journal | No | No | No | No | No | No | No | No |
| Creditors' allowances journal | No | No | No | No | No | No | No | No |
| General journal | No | No | No | No | Yes | No | No | No |
| General ledger or standard chart of accounts | No | No | Yes | Yes | Yes | Yes | No | Yes |
| Trial balance | No | No | Yes | Yes | Yes | No | No | Yes |
| Bank reconciliation statement | No | Yes | Yes | Yes | No | Yes | No | Yes |
| Debtors' ledger | No | No | Yes | Yes | Yes | No | No | Yes |
| Creditors' ledger | No | No | No | No | Yes | No | No | Yes |
| Asset register | No | Yes | Yes | Yes | Yes | Yes | No | Yes |
| Petty cash journal | No | Yes | Yes | Yes | No | Yes | No | Yes |
| | | | | | | | | |
| Total (Yes) | 0 | 4 | 8 | 8 | 7 | 5 | 0 | 7 |
| Total (No) | 13 | 9 | 5 | 5 | 6 | 8 | 13 | 6 |
| Grand total | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 13 |
| % (Yes) | 0% | 31% | 62% | 62% | 54% | 38% | 0% | 54% |

Source: Author's own compilation

Table 5.5 indicates that the guidelines for provinces B, C, D, E, F and H required the governing bodies to keep either cash receipts and cash payment journals, cash-book or receipts and payments statement. None of the guidelines required debtors and debtors' allowances journals and creditors and creditors' allowances journals. The guideline for only one province, namely province E, required a general journal. Provinces C, D, E, F and H required a general ledger or standard chart of accounts while only C, D, E and H required a trial balance. Provinces B, C, D, F and H required the preparation of a bank reconciliation statement. Provinces C, D, E and H required a debtors' ledger while only province E required a creditors' ledger. Provinces B, C, D, E, F and H required the preparation and maintenance of a fixed asset register, while provinces B,

C, D, F and H required a petty cash journal.

As discussed in section 3.3, keeping of accounting records is one of the financial responsibilities of the governing body. It is the duty of the governing body to ensure that there are source documents for all financial transactions taking place and that all source documents are recorded in the relevant subsidiary books. The governing body must also ensure that all resolutions taken during the meetings are properly recorded in the minutes. For purpose of good governance and best practice, every organisation should keep records of cash received, cash payments, credit sales, allowances for credit sales, credit purchases, allowances for credit purchases, general ledger accounts, the trial balance and the reconciliations between the bank statement and the cash account in the general ledger. However, the organisation does not have to keep all of the above records, depending on the nature of its operations. For example, most of the participating public schools did not have complex transactions, and the majority of their transactions were done on a cash basis. They might have a few credit transactions that were settled within thirty days. These schools could therefore keep debtors' and creditors' ledgers and not keep debtors' and creditors' journals. Some of the schools, instead of preparing the cash receipts and cash payment journals, kept a cash-book, which also served the purpose of the general ledger bank account.

In terms of debtors, the participating schools should keep either the debtors' journals or debtors' ledger, especially those schools that collect school fees (classified as 'fee-paying' schools). These schools should also keep either a creditors' journal or a creditors' ledger.

All schools must keep monthly records of the general ledger or standard chart of accounts, a trial balance, cash-book, petty cash journal, a general ledger and bank reconciliation statements. The public schools' financial records should be in line with the requirements of the SA-SAMS. It is therefore important for all schools to use the SA-SAMS in order to ensure consistency, accuracy and completeness of accounting records. The supporting documents of all the transactions recorded in the above-mentioned records should be kept safely. According to SAICA (see SAICA, 2016:16), the Financial Intelligence Centre Act (No. 38 of 2001) institutions are required to keep the financial records and source documents for a minimum period of five years. The researcher is of the opinion that the schools should also adhere to these minimum requirements, as these source documents are regarded as an audit trail and should be submitted together with annual financial statements for audit. Section 3.4.4 indicates how the source documents, subsidiary books, as well as the financial statements fit into the accounting cycle. The lack of source documents and proper accounting records may affect the audit report of the

school. It is also very important for the governing body to design and implement proper internal controls to ensure that the accounting records of the school are complete, accurate and reliable.

(b) Preparation of financial statements

The results of the analysis of preparation of financial statements are shown in Table 5.6 below.

Table 5.6 Provincial guidelines vs best practice (components and elements of financial statements)

Yes = Agree (fully in line); No = Not agree (not in line)

| Preparation of financial statements as per GRAP, IFRS (IAS 1), IPSAS | Financial statements as required per provincial guideline | | | | | | | |
|----------------------------------------------------------------------|-----------------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|
| | Prov A | Prov B | Prov C | Prov D | Prov E | Prov F | Prov G | Prov H |
| Objective of financial statements | No | No | No | No | Yes | No | Yes | Yes |
| Components of financial statements in terms of the IFRS | | | | | | | | |
| Statement of financial position | No | No | No | No | Yes | No | No | No |
| Statement of profit or loss and other comprehensive income | No | No | No | No | Yes | No | No | No |
| Statement of changes in equity and/or accumulated funds | No | No | Yes | No | Yes | No | No | No |
| Statement of cash flow | No | No | No | No | Yes | No | No | Yes |
| Notes to financial statements | No | No | Yes | Yes | Yes | No | No | Yes |
| Comparative information | No | Yes | Yes | Yes | No | No | No | Yes |
| Budget variance report (IPSAS 24) | No | No | Yes | Yes | No | No | No | Yes |
| Elements of financial statements | | | | | | | | |
| Non-current assets | No | No | Yes | Yes | Yes | No | No | Yes |
| Current assets | No | No | Yes | Yes | Yes | No | No | Yes |
| Non-current liabilities | No | No | Yes | Yes | Yes | No | No | Yes |
| Current liabilities | No | No | Yes | Yes | Yes | No | No | Yes |
| Equity and/or accumulated funds | No | No | Yes | Yes | Yes | No | No | No |
| Income or revenue | No | Yes | Yes | Yes | Yes | No | No | Yes |
| Operating expenses | No | No | Yes | Yes | Yes | No | No | Yes |
| Administrative expenses | No | No | Yes | Yes | Yes | No | No | Yes |
| Definition of elements of financial statements | No | No | Yes | Yes | No | No | No | No |
| Recognition criteria | No | No | Yes | Yes | Yes | No | No | Yes |
| Measurement | No | No | Yes | Yes | Yes | No | No | Yes |
| Accrual basis of accounting | No | Yes | Yes | Yes | Yes | No | No | Yes |
| Total (Yes) | 0 | 3 | 16 | 15 | 17 | 0 | 1 | 15 |

Table 5.6 Provincial guidelines vs best practice (components and elements of financial statements) continued

| Preparation of financial statements as per GRAP, IFRS (IAS 1), IPSAS | Prov A | Prov B | Prov C | Prov D | Prov E | Prov F | Prov G | Prov H |
|----------------------------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total (No) | 20 | 17 | 4 | 5 | 3 | 20 | 19 | 5 |
| Grand total | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 |
| % (Yes) | 0% | 15% | 80% | 75% | 85% | 0% | 5% | 75% |

Source: Author's own compilation

According to section 3.6.1, the IASB's conceptual framework gives the objectives of general purpose financial statements. The framework also gives the components as well as the elements of financial statements. The definition of elements of financial statements, initial and subsequent measurements as well as the basis of preparation of financial statements is also explained in the conceptual framework. Therefore, for the guidelines to be in line with best practice, they should specify the components of financial statements, elements of financial statements and their definitions, measurement of the elements of financial statements as well as the basis of preparation.

Table 5.6 indicates that the guidelines of only provinces F, G and H included the objective of financial statements. The guidelines of province E required the components of financial statements using similar terms as used by the IFRS (IAS 1, paragraph 10). The guidelines require the statement of financial position, statement of comprehensive income, statement of changes in equity or accumulated funds, statement of cash flows and the notes. Other provincial guidelines required the components of financial statements using the old terms, for example, 'balance sheet' (instead of 'the statement of financial position') and 'income statement' (instead of 'the statement of comprehensive income'). The GRAP and the IPSAS also provide for the components of financial statements using different terms than those used by the IFRS. The components of financial statements according to the GRAP are the statement of financial position, the statement of financial performance, the statement of changes in net assets, a cash flow statement and notes (GRAP 1, paragraph 08). The IPSAS provides for the statement of financial position, the statement of comprehensive revenue and expense, the statement of changes in net assets or equity, the cash flow statement and notes (IPSAS 1, paragraph 21). The IFRS, IPSAS and GRAP permit entities to use different titles for the statements than those used in the standards (GRAP 1, paragraph 09; IAS 1, paragraph 10; IPSAS 1, paragraph 22).

In terms of the requirements on the disclosure of the elements of financial statements, provincial

guidelines for C, D, E and H were in line with the IFRS, IPSAS and GRAP. Only guidelines for provinces C and D included definitions of elements of financial statements. The guidelines for provinces C, D, E and H were in line with the IFRS, IPSAS and GRAP in terms of the inclusion of the recognition criteria and the measurement of elements of financial statements. Provinces B, C, D, E and H required the use of accrual basis, which is in line with IFRS, IPSAS and GRAP. IPSAS 24 (Presentation of budget information in financial statements) requires government and other public sector entities to apply the accrual basis of financial reporting and to make their approved budgets publicly available, to disclose a comparison of budget and actual amounts in the financial reports, and to provide an explanation of any material differences between budget and actual amounts. Results in Table 5.6 indicate that only provinces C, D and H had complied with IPSAS 24 by including the budget variance reports as part of the components of financial statements required to be disclosed by schools.

According to Table 5.6, guidelines for only four provinces were in line with the IFRS, IPSAS and GRAP. This may be an indication that South Africa has a considerable challenge with regard to schools' financial reporting guidelines.

(c) Audit or examination of financial statements

The results of the analysis of the audit or examination of financial statements are shown in Table 5.7 below.

Table 5.7 Provincial guidelines vs best practice (audit or examination of financial statements)

Yes = Agree (fully in line); No = Not agree (not in line)

| Audit or examination of financial statements as per the SASA | Audit or examination of financial statements as required per provincial guideline | | | | | | | |
|--------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|
| | Prov A | Prov B | Prov C | Prov D | Prov E | Prov F | Prov G | Prov H |
| Requirement for audit or examination of financial statements | No | Yes | Yes | Yes | Yes | Yes | No | Yes |
| Qualification of the auditor | No | Yes | Yes | Yes | Yes | Yes | No | Yes |
| Qualification of person examining the financial statements | No | Yes | Yes | Yes | Yes | Yes | No | Yes |
| Issue of an audit engagement or appointment letter | No | No | Yes | Yes | Yes | No | No | No |
| Obtaining approval from MEC in case of the examination of financial statements | No | Yes | Yes | Yes | No | Yes | No | Yes |
| Total (Yes) | 0 | 4 | 5 | 5 | 4 | 4 | 0 | 4 |
| Total (No) | 5 | 1 | 0 | 0 | 1 | 1 | 5 | 1 |
| Grand total | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| % (Yes) | 0% | 80% | 100% | 100% | 80% | 80% | 0% | 80% |

Source: Author's own compilation

In this section, the researcher explained whether the provincial guidelines were in line with the SASA in terms of the requirements for the audit and examination of financial statements.

Table 5.7 indicates that provinces B, C, D, E, F and G had guidelines which were in line with the SASA in terms of the requirements for an audit or examination of financial statements and the qualification of the auditor or accounting officer. Only provincial guidelines for C, D and E were in line with the SASA in terms of the requirement that an engagement letter should be issued and signed by both the governing body and the auditor or the person performing the review or examination of financial statements. The guidelines for provinces B, C, D, F and H required the governing body to obtain approval from the MEC where the financial statements were submitted for examination instead of audit.

In order for the researcher to get an overall picture of compliance by the selected provincial guidelines with best practice, the results on the keeping of accounting records (Table 5.5), preparation of financial statements (Table 5.6) as well as audit or examination of financial statements (Table 5.7) are summarised in Table 5.8 below. Table 5.8 indicates that only guidelines of four provinces (provinces C, D, E and H) were close to best practice while the other

four provinces (provinces A, B, F and G) were far from best practice.

Table 5.8: Provincial guidelines vs best practice (financial statements: summary)

| | Prov A | Prov B | Prov C | Prov D | Prov E | Prov F | Prov G | Prov H |
|----------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Keeping of accounting records | 0% | 31% | 62% | 62% | 54% | 38% | 0% | 54% |
| Preparation of financial statements | 0% | 15% | 80% | 75% | 85% | 0% | 5% | 75% |
| Audit or examination of financial statements | 0% | 80% | 100% | 100% | 80% | 80% | 0% | 80% |
| Total (average) | 0% | 42% | 81% | 79% | 73% | 39% | 2% | 70% |

Source: Author's own compilation

5.2.2 DATA OBTAINED FROM THE ANALYSIS OF SCHOOLS' ANNUAL FINANCIAL STATEMENTS

As mentioned in section 4.3.1.2, the financial statements of selected schools in Gauteng were analysed in order to determine the level of consistency and comparability with one another, as well as with the level of compliance with prescribed guidelines, legislation or regulation. The comparison was done horizontally and vertically and was based on four schools (refer to Table 4.1 in terms of number of schools' financial statements).

5.2.2.1 COMPARISON OF SELECTED SCHOOLS' ANNUAL FINANCIAL STATEMENTS

The financial statements of the selected schools were compared for consistency and comparability in terms of the preparation of financial statements and the audit and examination of financial statements (see sections 4.3.1.2 and 1.7, objective number 3).

(a) Preparation of financial statements

The financial statements of schools were examined for components and elements of financial statements disclosed, the basis of preparation, recognition criteria, asset depreciation policy and measurement criteria used. Lastly, the financial statements were examined to determine whether the schools applied the accrual or cash basis of accounting (see Table 5.10).

(b) Audit or examination of financial statements

The financial statements were examined to determine whether they were audited or examined. If audited, whether a qualified, unqualified, disclaimer or adverse opinion was indicated in the report (see Table 5.11). Lastly, the total cost of audit was compared to total expenditure (see Table 5.12).

Table 5.10 Comparison of schools' annual financial statements (components or elements)

√ = Disclosed by the school; X = Information not available; N/A = Not applicable

| | School A (Fee-Paying) | | School B (No-Fee) | | School C (Special) | | School D (Special) | | Total | |
|-------------------------------------------|-----------------------|------|-------------------|------|--------------------|------|--------------------|------|-------|------|
| | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 |
| Financial year | | | | | | | | | | |
| Components of financial statements | | | | | | | | | | |
| Balance sheet | √ | N/A | √ | √ | √ | √ | N/A | N/A | 3 | 2 |
| Statement of financial position | | √ | N/A | N/A | N/A | N/A | √ | √ | 1 | 2 |
| Income statement | √ | N/A | √ | √ | √ | √ | N/A | N/A | 3 | 2 |
| Statement of comprehensive income | | √ | N/A | N/A | N/A | N/A | √ | √ | 1 | 2 |
| Statement of changes in equity/funds | √ | √ | X | X | √ | √ | √ | √ | 3 | 3 |
| Cash flow statement | √ | √ | X | X | X | X | N/A | N/A | 1 | 1 |
| Statement of cash flows | N/A | N/A | X | X | X | X | √ | √ | 1 | 1 |
| Notes to financial statements | X | X | X | X | X | X | X | X | | |
| Accounting policy notes | √ | √ | X | X | X | X | √ | √ | 2 | 2 |
| Fixed assets/PPE | √ | √ | √ | √ | √ | √ | √ | √ | 4 | 4 |
| Inventory | √ | √ | X | X | X | X | X | X | 1 | 1 |
| Accounts receivables/debtors | √ | √ | X | X | X | X | X | X | 1 | 1 |
| Accounts payables/creditors | √ | √ | √ | √ | X | X | √ | √ | 3 | 3 |
| Cash and cash equivalents | √ | √ | √ | √ | X | X | √ | √ | 3 | 3 |
| Loans | √ | √ | X | X | X | X | √ | √ | 1 | 1 |
| Investments | √ | √ | X | X | X | X | √ | √ | 1 | 1 |
| Detailed income statement | √ | √ | √ | √ | X | X | √ | √ | 3 | 3 |
| Comparative information | √ | √ | √ | √ | √ | √ | √ | √ | 4 | 4 |
| Elements of financial statements | | | | | | | | | | |
| Non-current assets | √ | √ | √ | √ | X | X | √ | √ | 3 | 3 |
| Current assets | √ | √ | √ | √ | √ | √ | √ | √ | 4 | 4 |
| Non-current liabilities | √ | √ | X | X | X | X | √ | √ | 2 | 2 |
| Current liabilities | √ | √ | √ | √ | √ | √ | √ | √ | 4 | 4 |
| Equity/accumulated funds | √ | √ | √ | √ | √ | √ | √ | √ | 4 | 4 |
| Income/revenue | √ | √ | √ | √ | √ | √ | √ | √ | 4 | 4 |
| Expenses | N/A | N/A | N/A | N/A | √ | √ | N/A | N/A | 1 | 1 |
| Operating expenses | √ | √ | √ | √ | X | X | √ | √ | 3 | 3 |
| Administrative expenses | X | X | X | X | X | X | X | X | | |
| Basis of preparation | √ | √ | √ | √ | X | X | √ | √ | 3 | 3 |
| Recognition criteria | √ | √ | √ | √ | X | X | X | X | 2 | 2 |
| Assets depreciation policy | √ | √ | √ | √ | X | X | √ | √ | 3 | 3 |
| Accrual basis of accounting | √ | √ | √ | √ | √ | √ | √ | √ | 4 | 4 |
| Measurement basis | √ | √ | X | X | X | X | X | X | 1 | 1 |

Source: Author's own compilation

As mentioned in section 1.4, according to IAS 1, presentation and classification of items in the financial statements should be retained from one period to the next, unless there has been significant change in operations or when a change in presentation or classification is necessary. This is referred to as consistency (Koppeschaar, 2018:36). When comparing the financial statements of each of the schools for two financial periods (2014 and 2015), results (in Table 5.10) indicate that the financial statements of schools B, C and D were presented consistently between the 2014 and 2015 financial periods. School A presented the balance sheet and income statement in 2014 but presented a statement of financial position and statement of comprehensive income in the 2015 financial period. In this instance, there is inconsistency, but it is acceptable. The terms, 'balance sheet' and 'income statement' were used in GAAP, but these are no longer used in South Africa. As stated in section 5.2.1.1 above, South Africa has adopted IFRSs in 2005, and the terms 'statement of financial position' and 'statement of comprehensive income' are currently used.

As indicated in section 4.5.2, the researcher selected fee-paying and no-fee schools in order to establish whether the size of the grants received from government and the size of income derived from school fees have an effect on the ability of the SGB in preparing the financial statements as well as the quality of the financial statements. Table 5.12 indicates that, at the time of this research, fee-paying schools generated more income from school fees compared to no-fee schools whose income was largely generated from government grants. However, as indicated above, the financial statements of all the schools were consistent and comparable every year when compared vertically (i.e. year on year). The quality of financial statements was therefore considered not to be affected by the size of the income or the type of the school (i.e. whether the school was a fee-paying school or a no-fee school).

Regarding the components of financial statements, schools disclosed different forms of components of financial statements. Schools A and B indicated that their financial statements were disclosed in line with GAAP. School D indicated that its financial statements were disclosed in line with SA GAAP for SMEs, while school C did not indicate any accounting standards with which its financial statements complied. The information provided by school D in its financial statements, regarding compliance with SA GAAP for SMEs might be misleading, as the SA GAAP does not have a version on SMEs. Only the IFRS for SMEs exists. According to Table 5.10, three schools (schools A, B and C) disclosed the balance sheet and the income

statement (in line with GAAP), while one school (school D) disclosed the statement of financial position and the statement of comprehensive income (in line with the IFRS). Two schools disclosed the statement of cash flows and the cash flow statement, respectively, while the other schools did not disclose any cash flow statement. Table 5.10 indicates that the schools were more consistent when it came to classification of the elements of financial statements. Four disclosed their current assets, current liabilities, accumulated funds and revenue. These four schools were also consistent in terms of the application of the accrual basis of accounting, as well as disclosure of comparative information. Only three schools separated operating and other expenditure. Three schools (A, B and D) disclosed their non-current or fixed assets while one school (C), did not disclose the non-current assets in the balance sheet. This school (C) did not depreciate the assets. Instead, all assets were fully expensed in the year of purchase while the other three schools (A, B and D) depreciated their assets. Results also indicate that only school A disclosed its inventory in its financial statements. However, this inventory only consisted of clothing. This indicates that these schools (A, B, C and D) were consistent with only seven items out of thirty items, i.e. 23%. These results indicate that these schools were presenting and disclosing similar items of financial statements differently. The schools (A, B, C and D) also applied different accounting policies, which is inconsistent.

Given the above results, the researcher is of the opinion that the inconsistencies of the financial statements as determined by the analysis would not have enabled decision-makers to compare actual results with the legally adopted budget or to determine compliance with finance-related laws, rules and regulations as stated by Freeman et al. (2011) in section 3.5.

Table 5.11 below, indicates the results of the analysis of the audit or examination of annual financial statements of selected schools.

Table 5.11 Schools' annual financial statements (audit/examination)

| | School A (fee-paying) | | School B (no-fee) | | School C (special) | | School D (special) | | Total | |
|--------------------------------------------------|-----------------------|------|-------------------|------|--------------------|------|--------------------|------|-------|------|
| | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 |
| Financial year | | | | | | | | | | |
| Type of report | | | | | | | | | | |
| Audit report | √ | √ | N/A | N/A | √ | √ | N/A | N/A | 2 | 2 |
| Accounting officer's report | N/A | N/A | √ | √ | N/A | N/A | √ | √ | 2 | 2 |
| Audit opinion | | | | | | | | | | |
| Qualified | √ | √ | N/A | N/A | N/A | N/A | N/A | N/A | 1 | 1 |
| Unqualified | N/A | N/A | N/A | N/A | √ | √ | N/A | N/A | 1 | 1 |
| Disclaimer | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | | |
| Adverse | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | | |
| SGB report or statement of responsibility | √ | √ | N/A | N/A | N/A | N/A | √ | √ | 2 | 2 |

Source: Author's own compilation

Table 5.11 indicates that school A received a qualified audit report while school C received an unqualified audit report for both the 2014 and 2015 financial periods. Schools B and D received accounting officers' reports for both the 2014 and 2015 financial periods. Schools A and D provided statements of responsibility of the SGB for both the 2014 and 2015 financial periods.

Table 5.12 Schools' audit and accounting fees vs total income and expenditure

| | School A (Fee-Paying) | | School B (No-Fee) | | School C (Special) | | School D (Special) | | Total | |
|-----------------------------------------------|-----------------------|------|-------------------|------|--------------------|------|--------------------|------|-------|------|
| | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 |
| Financial year | | | | | | | | | | |
| Size of government grant | | | | | | | | | | |
| R1 000 000–R1 500 000 | √ | √ | N/A | N/A | N/A | N/A | N/A | N/A | 1 | 1 |
| R1 500 001–R2 000 000 | N/A | N/A | √ | √ | N/A | N/A | N/A | N/A | 1 | 1 |
| R2 000 0001–R2 500 000 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | | |
| R2 500 000–R3 000 000 | N/A | N/A | N/A | N/A | √ | N/A | N/A | N/A | 1 | |
| R3 000 001 and above | N/A | N/A | N/A | N/A | N/A | √ | √ | √ | 1 | 2 |
| Size of other income | | | | | | | | | | |
| R100 000–R500 000 | N/A | N/A | √ | √ | N/A | N/A | N/A | N/A | 1 | 1 |
| R500 001–R1 000 000 | N/A | N/A | N/A | N/A | √ | √ | √ | √ | 2 | 2 |
| R1 000 001–R1 500 000 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | | |
| R1 500 0001–R2 000 000 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | | |
| R2 000 001 and above | √ | √ | N/A | N/A | N/A | N/A | N/A | N/A | 1 | 1 |
| % of total expenditure to total income | 99% | 91% | 98% | 99% | 87% | 82% | 106% | 93% | | |

Table 5.12 Schools’ audit and accounting fees vs total income and expenditure (continued)

| | School A (Fee-Paying) | | School B (No-Fee) | | School C (Special) | | School D (Special) | | Total | |
|---------------------------------------------------------------------------------------|--------------------------|-------|----------------------|------|-----------------------|-------|-----------------------|-------|-------|--|
| % of total accounting fees (including accounting officer’s fees) to total expenditure | | | 0.4% | 0.4% | | | 0.11% | 0.12% | | |
| % of total audit and accounting fees to total expenditure | 0.32% | 0.22% | | | 0.02% | 0.03% | | | | |

Source: Author’s own compilation

Table 5.12 indicates that school A received the lowest grant from the state and generated additional income from school funds. On average, school A’s total expenditure amounted to 95% of the total income. On average, 0.27% of the average expenditure of school A comprised audit and accounting fees. School C’s income was largely from the state grant. On average, the expenditure consumed about 84.5% of the income. On average, 0.025% of the expenditure comprised the audit and accounting fees. The income of both schools B and D was largely from the state grant. The total expenditure of schools B and D on average amounted to 98.5% and 99.5% respectively. Total accounting and accounting officers’ fees comprised 0.4% and 0.11% of the total expenditure, respectively.

These results further reveal that whether the school receives a considerable state grant as opposed to other income, as in the case of school C or whether it generates income from school fees as opposed to a state grant, as in the case of school A, the school should still be able to afford the audit of financial statements. As section 43(2) of the SASA allows the financial statements of a school to be examined where an audit is reasonably impracticable, the analysis in Table 5.12 indicates that the cost of the audit may not be regarded as the reason of the audit being impracticable. As discussed in section 3.4.6, Mbatsane (2006) found that schools in Mpumalanga did not appoint auditors due to the high cost of auditing but, according to Table 5.12, the percentage of audit fees to total expenditure incurred by schools A and C was less than the percentage of total accounting officer’s fees to total expenditure incurred by schools B and D. Therefore, the schools may not avoid an audit because it is regarded as expensive.

In the 2015–2016 education sector report, AGSA (2016) indicated that the schools selected for audit did not comply with section 43(2)(b) of the SASA (see section 3.4.6). These schools appointed accounting officers instead of auditors. The schools probably wanted to reduce or

eliminate the cost of bookkeepers by allocating the bookkeeping responsibility to one of the general administrative workers already employed at the school. Schools may request the DoE to train these workers on the use and application of the SA-SAMS (DBE, 2013), which will allow the school to have monthly reports as well as annual financial statements (see section 3.4.5). In this case, the schools will only have to incur the cost of auditing but will save on accounting fees. The schools will also save on the costs of buying and maintaining accounting software or packages as they would not have to pay for SA-SAMS. SA-SAMS is installed by the DoE with all the costs incurred by the DoE.

5.2.2.2 COMPARISON OF SELECTED SCHOOLS' ANNUAL FINANCIAL STATEMENTS WITH THE PROVINCIAL GUIDELINES

In this section, the researcher reports on the school's annual financial statements in terms of compliance with the provincial guidelines (see sections 4.3.1.2 and 1.7, objective number 4).

→ Preparation of financial statements

The researcher evaluated the 2015 financial year's annual financial statements and tested whether the guidelines were effective in addressing the financial reporting challenges of the schools in the province.

Table 5.13 indicates the results of comparison of the selected schools' financial statements to the provincial guidelines. The comparison was done to determine whether the schools' financial statements comply with the provincial guidelines.

Table 5.13 Schools' annual financial statements vs provincial guidelines (components, elements and accounting policies)

Yes = Agree (fully in line); No = Not agree (not in line)

| Preparation of financial statements as per the GDE guidelines (financial regulations, framework and standard chart of accounts for public schools) | School A (fee-paying) | School B (no-fee) | School C (special) | School D (special) |
|----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-------------------|--------------------|--------------------|
| Components of financial statements in terms of the financial regulations, framework and standard chart of accounts for public schools | | | | |
| Balance sheet/statement of financial position | Yes | Yes | Yes | Yes |
| Income and expenditure statement, income statement, statement of profit or loss and other comprehensive income | Yes | Yes | Yes | Yes |
| Budget report | No | No | No | No |
| Time schedule for financial work | No | No | No | No |
| Notes to financial statements | | | | |
| Accounting policies | Yes | Yes | Yes | Yes |
| Basis of preparation | Yes | Yes | Yes | Yes |
| Historical cost according to GAAP | Yes | Yes | Yes | Yes |
| Fixed assets at carrying value | Yes | Yes | No | Yes |
| Depreciation | | | | |

Table 5.13 Schools' annual financial statements vs provincial guidelines (components, elements and accounting policies) (continued)

| Preparation of financial statements as per the GDE guidelines (financial regulations, framework and standard chart of accounts for public schools) | School A (fee-paying) | School B (no-fee) | School C (special) | School D (special) |
|----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|-----------------------------------|--------------------|-------------------------------|
| Furniture and fittings: 10% p.a. (straight line) | No 20% diminishing | No 16.687% Straight line | No | No 20% Straight line |
| Office equipment: 20% p.a. (straight line) | No 25% diminishing | Yes | No | Yes |
| Computers: 33.33% p.a. (straight line) | No 25% diminishing | Yes | No | No 20% Straight line |
| Computer software: 50% p.a. (straight line) | No | No | No | No |
| Comparative information required | Yes | Yes | Yes | Yes |
| Format (assets = accumulated funds + liabilities) | Yes | Yes | No | Yes |
| Elements of financial statements | | | | |
| Non-current assets/fixed assets | Yes | Yes | No | Yes |
| Current assets | Yes | Yes | Yes | Yes |
| Non-current liabilities | Yes | Yes | Yes | Yes |
| Current liabilities | Yes | Yes | Yes | Yes |
| Equity/Accumulated funds | Yes | Yes | Yes | Yes |
| Income/Revenue | | | | |
| Government grant | Yes | Yes | Yes | Yes |
| Other income (school fees, donations and/or fund-raising) | Yes | Yes | Yes | Yes |
| Expenses | | | | |
| Administrative expenses | No | No | Yes | No |
| Teaching and learning expenses | No | No | Yes | Yes |
| Auxiliary services expenses | No | No | Yes | Yes |
| Sports and culture | No | Yes | Yes | Yes |
| | | | | |
| Accrual basis of accounting | Yes | Yes | Yes | Yes |
| | | | | |
| Total (Yes) | 16 | 19 | 17 | 20 |
| Total (No) | 10 | 7 | 9 | 6 |
| Grand total | 26 | 26 | 26 | 26 |
| % (Yes) | 62% | 73% | 65% | 77% |

Source: Author's own compilation

Table 5.14 indicates the results of comparison of the selected schools' financial statements to the provincial guidelines. The comparison was done to determine whether the audit or examination of schools' financial statements comply with requirements of the provincial guidelines.

Table 5.14 Schools annual financial statements vs provincial guidelines (audit or examination of financial statements)

Yes = Agree (fully in line); No = Not agree (not in line)

| Audit or examination of financial statements as per the GDE guidelines (financial regulations, framework and standard chart of accounts for public schools) | School A (fee-paying) | School B (no-Fee) | School C (special) | School D (special) |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|--------------------------|---------------------------|---------------------------|
| Audit report issued by registered auditor and accountant | Yes | | Yes | |
| Accounting officer's report issued by a registered accountant | | Yes | | Yes |
| Letter of approval from the MEC where financial statements are examined by accounting officer If audited no approval needed | | No | | No |
| | | | | |
| Total (Yes) | 1 | 1 | 1 | 1 |
| Total (No) | 0 | 1 | 0 | 1 |
| Grand total | 1 | 2 | 1 | 2 |
| % (Yes) | 100% | 50% | 100% | 50% |

Source: Author's own compilation

Table 5.13 indicates that all four schools prepared either a balance sheet or statement of financial position as well as an income statement, income and expenditure statement or a statement of comprehensive income. The provincial guidelines still use old terms such as 'balance sheet' and 'income and expenditure statement'. However, there is still compliance with section 42(a) of the SASA. This section requires schools to keep records of income, expenditure, assets, liabilities and financial transactions. As mentioned in section 5.2.1.2, the use of different titles of the components of financial statements other than those used by the standards is permissible.

Schools A, B, C and D did not prepare the budget variance reports and time schedule for financial work as required by the provincial guidelines (the Financial Regulations, Framework and Standard Chart of Accounts for Public Schools [see Gauteng Provincial Government, 2014a]). Although schools A, B and D had disclosed fixed assets at carrying value, they provided for depreciation on similar types of assets using different rates. School C wrote off all its assets to the statement of comprehensive income or income and expenditure statement during the year of purchase. Doussy et al. (2014) had a similar finding in their research. The writing off of all assets to the income statement constituted non-compliance with the guidelines. The guidelines provide for the depreciation of non-current assets over a specific period of time or using allocated percentages. Schools A and B did not classify their expenses into administrative, teaching and learning, auxiliary services and sports and culture, as required by the guidelines,

while schools C and D did.

These results indicate that none of the selected schools complied 100% with the guidelines. The school that achieved the highest percentage on compliance was school D with 77%, while school A was the lowest with only 62%. With regard to audit and examination of financial statements, Table 5.14 indicates that only two schools out of four schools achieved 100% compliance.

Without having to generalise, the above results indicate that compliance with the guidelines by the selected schools at the time of this research was very low. This might be an indication that the guidelines were not being enforced and therefore rendered the guidelines ineffective. This finding is in line with the findings by AGSA, in terms of the Education Sector Report (AGSA, 2015; 2016:40). As highlighted in section 3.4.6, AGSA found that a sample of schools did not prepare the financial statements according to the guidelines developed by the MEC for education (AGSA, 2015; 2016:40).

5.3 RESEARCH FINDINGS OBTAINED FROM ANALYSIS OF THE INTERVIEWS

In order to supplement the data obtained from the document analysis the researcher conducted some interviews to obtain information from the users and preparers of financial statements. This information assisted the researcher in developing the best practice guideline (see sections 4.3.2 and 1.7, objective number 5). Table 5.15 below, indicates the profile of participants who were interviewed:

Table 5.15 **Profile of interview participants**

| Participant | Institution | Experience in the SGB | Number of years appointed by the school |
|--------------------|--------------------|------------------------------|------------------------------------------------|
| Principal | School A | 4 years | 4 years |
| Principal | School B | 20 years | 20 years |
| Principal | School C | 9 years | 9 years |
| Principal | School D | 8 years | 8 years |
| Principal | School E | 10 years | 10 years |
| Finance officer | School A | 3 years | 3 years |
| Finance officer | School B | 5 years | 5 years |
| Finance officer | School C | 12 years | 12 years |
| Finance officer | School D | 7 years | 7 years |
| Finance officer | School E | 4 years | 4 years |
| Treasurer | School A | 6 years | |

Table 5.15 **Profile of interview participants (continued)**

| Participant | Institution | Experience in the SGB | Number of years appointed by the school |
|---------------------|-------------|-----------------------|-----------------------------------------|
| Treasurer | School B | 3 years | |
| Treasurer | School C | – | |
| Treasurer | School D | 5 years | |
| Treasurer | School E | 6 years | |
| Auditor | School A | | 2 years |
| Accounting officer | School B | | 3 years |
| Auditor | School C | | 2 years |
| Accounting officer | School D | | 8 years |
| Accounting officer | School E | | 5 years |
| District official 1 | District 1 | | |
| District official 2 | District 2 | | |
| District official 3 | District 3 | | |
| District official 4 | District 4 | | |
| District official 5 | District 5 | | |
| Total number = 25 | | | |

Source: Author's own compilation

As discussed in section 4.5.2 above, the researcher selected individuals from six schools comprising principals (six), treasurers (six), finance officers (six), auditors (six), as well as five district officials from various districts. The researcher could only access five schools to conduct interviews. Therefore, only 25 participants were interviewed instead of 29.

5.3.1 DATA OBTAINED BY INTERVIEWING SGB TREASURERS, SCHOOLS PRINCIPALS AND SGB FINANCE OFFICERS

This section presents the data obtained from the interviews. As explained above, principals, SGB treasurers, school finance officers, departmental officials and auditors were interviewed.

5.3.1.1 KNOWLEDGE OF THE SOUTH AFRICAN SCHOOLS ACT

In this section (also see section 2.1 of Annexure B), the researcher reports on the information gained from the participants in terms of their knowledge of the SASA. It is very important that members of the SGB understand the SASA, as they have to comply with it.

The SASA was developed to assist the SGBs in ensuring that the schools are well governed. It is important for all members of governing bodies to understand how schools are being regulated.

Members of the SGBs must have thorough knowledge of the Act as it provides information relating to, for example, roles and responsibilities, functions and powers of the SGB. All five treasurers and principals who were interviewed indicated that they had copies of the SASA while only three of the five finance officers indicated that they had the copies of the SASA. Results indicate that the majority of participants had copies of the SASA, which meant they would have been able to refer to it in case they needed clarity.

The participants were asked whether they had attended any training on the SASA. Four of the five treasurers and four of the five principals indicated that they had attended such training and that they were able to perform their duties based on the information obtained from the training. The principal, finance officer and treasurer of school A indicated that they did not attend any training on the SASA. The finance officers of schools C, D and E indicated that they only attended workshops on finances but not on other parts of the SASA. The finance officer of school A indicated that she did not do any books.

The participants were asked whether there was any area where they would want to be trained. The treasurers from schools B, C and D indicated that they needed training on reading of financial statements and setting up policies and leadership, respectively, while the treasurer from school E indicated the need for training on budget and drafting of finance policy. The principals from schools A, C and E indicated that they only needed training on new amendments or developments while two finance officers indicated that they needed training on finances. Two finance officers, from schools C and E, indicated that they did not need any training.

Section 19 of the SASA deals with the enhancement of capacity of governing bodies. According to this section, the head of the DoE must establish a programme to provide introductory training for newly elected governing bodies as well as continuing training to promote effective performance of their duties. The results, however, indicate that the DoE might not be doing enough in terms of training of the governing bodies. Results also indicated that, at the time of this research, the majority of participants needed training on financial matters, including the budget. This matter was also highlighted in section 1.2. It has also been indicated in the results that the school finance officers had not received sufficient training on all matters relating to the SASA. The school finance officer of school C indicated that only SGB secretaries, treasurers and chairpersons were invited to workshops. The school finance officer stated the following when asked whether she had attended any training (all quotations are reproduced verbatim and unedited):

No, the only meetings they called they want the secretary of the SGB, chairperson like the executive of the SGB. It is only last year we attended a finance workshop where they called the SGB secretary, the SGB, so I also attended because it was about finance.

The researcher asked about the committees available at the schools. The treasurers from schools B, C, D and E mentioned the finance committee. Other committees that were mentioned were health and safety, sports, culture, disciplinary and bereavement committees. The principals from all schools also mentioned various committees, such as the School Based Support Team (SBST), School Assessment Team (SAT), School Development Team (SDT) and bereavement committees. This was an indication that the treasurers and principals understood and knew which committees should be formed by the SGB.

The participants were also asked about the schools' policies and their roles in developing the policies. The treasurer from school A only mentioned that the school have five policy documents without naming them. The treasurer from school B mentioned only one policy. Treasurers from schools C and D mentioned three policies each while the treasurer from school E mentioned seven policies. The principal of school A mentioned only three policies while the principal of school B mentioned eleven policies. All five principals mentioned the finance policy. The finance officer of school A indicated that she was still new and that she did not know of any school policies. In school E, both the treasurer and the principal indicated that the whole SGB participated in developing the policies. The treasurer said the following:

We have incurred something like... should I say bosberaad whereby we invite somebody from somewhere to come and assist us on a perspective on how to deal with specific issues in relation to various policies that we have. Than us to do it with our own knowledge we were always there and then contributing where we fail to say this one must be there, this one must not be there. That is how we done it.

Sections 6, 18 and 18A of the SASA require the governing body of a public school to determine the language policy, the constitution of a governing body and the code of conduct of a governing body. These sections place the responsibility of developing the policies of the governing body on the SGB. In section 3.4.1 above, the process and the steps of policy development were discussed. The results indicate that some of the SGB members did not know whose responsibility it is to develop the school's policies. In some of the schools, the information given by the treasurers did not agree with that given by the principals. School C's treasurer indicated that the finance committee was responsible for drafting the budget and finance policies while the principal indicated that a 'bosberaad' was arranged where all SGB members participated. In school D, the

treasurer indicated that the whole SGB participated in developing the policies while the principal indicated that it depends on the type and characters of the people elected.

The researcher asked about the role that the treasurer, principal and finance officers play in terms of preparation and audit of financial statements of the schools. Regarding the preparation and audit of financial statements of the school, sections 42 and 43 of the SASA are clear on who is responsible for the preparation and audit of the financial statements. According to these sections, the governing body of a public school is responsible for keeping accounting records, preparation of financial statements as well as the appointment of a qualified person to perform the audit or examination of financial statements. The treasurers of schools A, C and D indicated that their role is to provide the files to the bookkeepers or auditors. The principals of schools B, C, D and E indicated that their role is to make sure that all records are complete and submitted to the auditors. The finance officers of schools B and C indicated that they compile the financial statements. This is contrary to what the treasurer of school C indicated. The treasurer indicated that the financial statements are compiled by auditors. Results indicate that in the majority of schools, the finance officers were only responsible for filing of financial documents while the bookkeeping and preparation of financial statements function were outsourced. Some of the finance officers did not have a good understanding of the differences between accounting records and financial statements.

5.3.1.2 KNOWLEDGE AND UNDERSTANDING OF FINANCIAL MANAGEMENT

In this section (also refer to section 2.2 of Annexure B), the researcher reflects on information from the participants on their knowledge and understanding of how to manage the finances of the schools. The participants' knowledge and understanding of financial management play a very important role in the management of resources of the school.

The treasurers from all schools indicated that they considered the departmental allocation when preparing the budget, and that all schools had an SDP and an SIP. They also indicated that all schools kept accounting records. The researcher asked what the participants understood by financial management. According to section 3.4 above, financial management in respect of public schools comprises the establishment of a school fund, planning and preparation of a budget, collection and administration of school funds, keeping financial records, and preparation of financial statements. All five treasurers and the principals indicated that they had at least a basic, but little understanding of what financial management is. The treasurer from school C said:

All the management of the finance system, which means the daily running of the school, the investment should there be any, expenses we have got like capital expenditure, upgrading of grounds, the bigger expenses.

Only four of the five finance officers indicated to have a basic understanding of financial management. The finance officer of school A indicated that she did not know what financial management is. The participants highlighted record-keeping as the most important part of financial management.

The researcher asked the participants about the procedure of preparing the budget and the people responsible for preparing the budget. The treasurers for schools A and E indicated that they considered the income and expenditure. They did not explain the process in detail. The treasurers for schools B, C and D explained the process, and indicated that they started with a needs analysis. Results indicate that the majority of participants who understood the process of budget preparation were school principals. The principals of all five schools explained the entire budget process and added that all departmental heads are involved in drafting the budget. The finance officers for schools A and C indicated that they did not prepare the budget.

Treasurers for schools B, C, D and E indicated that they understood control procedures and measures over expenditure, while treasurers from schools C, D and E indicated that they understood how cash is controlled. Results indicated that the treasurer from school A did not have information on the school's budgeting process. In addition, there was an indication that school E's budget was only drawn by the treasurer and the principal. As mentioned in section 5.3.1.2, all participants, except for the finance officer of school A, indicated that their schools had an SIP and an SDP, and that they considered the departmental allocation when preparing the budgets. In section 3.4.1, the emphasis was on stakeholder consultation when preparing the budget. Figure 3.1 reflected the process that the SGB should follow when preparing the budget. There was also an indication that the majority of participants were taking part when the budget was being prepared, except for the finance officers of two schools (A and C) who indicated that they did not take part in preparing the budget. Results also indicate that the schools' treasurers, principals and finance officers were well informed in terms of the control of schools' expenditure. All schools had SDPs and SIPs and they took the departmental allocation into account when preparing the budget. This is also an indication of the schools having effective budgetary controls.

The majority of schools indicated that they had proper cash controls. The availability of

signatories, separation of duties between recording and handling of cash, introducing a limit on the use or withdrawal of cash, continuous banking of cash collected as well as minimising the cash kept on the premises are all indications of good and effective controls. The treasurers for schools C and D indicated that they had three signatories and that all payments have to be authorised before the cheques are being issued. The treasurer for school E indicated that they did not keep cash on the premises, while the treasurer of school A indicated that he did not have control over the school's cash. The principal for school D indicated that they had a limit, which could only be increased by the signatories at the bank. The principal for school E indicated that all cash collected was banked and that all cash received was receipted immediately. He also indicated that they did not keep cash on the school premises.

Regarding whether the schools kept accounting records, all participants agreed that their schools kept accounting records. The principal of schools C and E emphasised that preparation of reconciliations and keeping source documents, such as receipts, vouchers and requisitions is very important. The finance officer of school D mentioned the petty cash register as one of the records they keep.

5.3.1.3 KNOWLEDGE AND UNDERSTANDING OF ANNUAL FINANCIAL REPORTING

In this section, the researcher discusses information obtained from participants on their knowledge and understanding of financial reporting by schools. In order to obtain the information needed, the researcher asked various sub-questions.

In section 3.4.4 above, it was indicated FEDSAS requires that the financial reporting of a school should include at least the annual audited financial statements, academic reports, co-curricular and social contributions to the community. As indicated in section 5.3.1.1 above, some of the participants did not know the difference between accounting records and annual financial statements. The researcher first asked the participants to explain what financial reporting is. Treasurers from schools B, C and D illustrated little understanding of what financial reporting is. They referred to it as a report to be given to parents on how the school funds were utilised. They also referred to financial reporting as "income and expenditure". The treasurer for school C specifically referred to an income and expense statement while the treasurer for school D explained financial reporting as what the school has received and spent. The treasurer for school E indicated that he did not know what financial reporting is. The principals of schools C and E indicated that financial reporting means reporting to parents and the DoE on how the schools' finances were run. The principal of school B explained financial reporting as informing all

stakeholders on a regular basis about the financial position of the school, as well as what the school had collected and spent. The principal of school A and the finance officer of school B indicated that financial reporting is about accountability of funds while the principal as well as the finance officer of school D indicated that they were not sure of what financial reporting is. The finance officer of school C referred to financial reporting as a report to the principal, the DoE and the finance committee.

In order for the entity to supply reliable, consistent and comparable financial information, the financial statements should be prepared in accordance with set standards or guidelines. As mentioned in section 1.4, section 42(b) of the SASA requires the SGB to draw up the annual financial statements in accordance with the guidelines determined by the MEC for education. In August 2014, the GDE developed the Financial Regulations, Guidelines and Standard Chart of Accounts (see Gauteng Provincial Government, 2014a) to be applied when preparing the accounting records and financial statements for Gauteng schools. The researcher asked which accounting standards or guidelines were used by the schools when preparing their financial statements. The treasurers of schools A, C and D indicated that they did not know which accounting standards or guidelines were used by their schools when preparing the financial statements, while the treasurers of schools B and E referred to SGB guidelines and GAAP, respectively. The principals of schools A, B and C as well as the finance officers of schools A, B, C and E also indicated that they did not know. The principal of school C indicated that, at the time of this research, they were using the SASA, PFMA and circular 13/200 while the principal of school E indicated that they were using SA-SAMS and GAAP. None of the participants referred to the guidelines developed by the GDE. None of the participants knew about the guidelines. This suggested that the schools SGBs were not trained in terms of the guidelines.

Section 3.4.5 above refers to SA-SAMS. According to the national DBE, it is a cost-effective, easy-to-use and fully integrated computer solution system, developed by the national DoE. The participants were also asked whether they use SA-SAMS when recording the transactions and when preparing the financial statements. The principal and the finance officer of school E indicated that they used SA-SAMS when recording the transactions and producing monthly reports. The finance officer of school B indicated that they had not yet started using SA-SAMS although they had already attended training. She indicated that they still needed further training before they could start using the system. The finance officer of school C indicated that, at the time of this research, they were using Pastel and not SA-SAMS. Other participants indicated that

outside parties prepared their financial statements. That seemed to suggest that they were also not using SA-SAMS for accounting and financial management purposes.

The participants were asked which components of the financial statements were disclosed in their schools' annual financial statements. Even though the financial statements were being prepared by an outside bookkeeper or accountant, all SGB members were expected to have knowledge of what the contents of the audited financial statements were. As stated in section 3.3, section 20 of the SASA requires the governing body to present an annual report, which includes financial statements, at an AGM. It is clear that accountability is placed on the governing body. The treasurers of schools B, D and E indicated that their schools' financial statements comprised income and expenditure only. This is an indication that these treasurers had not been informed of their schools' financial reporting. The treasurer for school A mentioned the balance sheet and cash flow statements, while the treasurer of school C mentioned the balance sheet and the budget information. The principals of schools B, C and D also indicated that their schools' financial statements comprised income and expenditure. The principal of school C added bank reconciliation as another component of the school's financial statements.

The finance officer of school B mentioned the balance sheet and petty cash. The finance officer of school E mentioned the income for the month and cash payment while the finance officer of school D mentioned the audited financial statements, showing the cash flow, liabilities, assets and income. The finance officer of school C added the budget comparison while the finance officer of school A mentioned that she did not prepare financial statements. This seemed to suggest that these participants were not informed of their schools' financial reporting. However, the question was how members of the governing body could be expected to present the financial statements which they did not understand. It is generally known that financial management and financial accounting are specialised skills, which cannot be acquired in a one-day, three-day or even a one-week workshop.

The researcher asked the participants whether they could think of any other information that should be included in the financial statements. The principal of school B said that the inventory of books in good condition, as well as those ones that are worn out, should also be disclosed in the financial statements. The principal of school E noted that, in addition to assets and liabilities, progress reports towards achievement projects should also be disclosed. He added that these reports would guide the SGB when preparing the budget of the following financial year as well as the incoming SGB in terms of progress made on projects. Other participants indicated that

they thought the information disclosed in the financial statements was complete and that it was sufficient for decision-making.

The treasurer of school C, the principals of schools C and D, as well as the finance officer of school D mentioned the lack of skills as a result of insufficient training and illiteracy as some of the challenges they face as governing bodies. The treasurer of school D mentioned that the grant received by schools from the state is not sufficient to cover the daily operation of the school and that they experience difficulties when trying to supplement the school's resources. He also mentioned that the SGB's three-year term is not sufficient and that it should be increased to at least five years. He indicated that three years is too short. He also mentioned that the DoE delays in offering some trainings to the SGBs, and by the time those trainings are offered the SGBs terms are closer to the end. Therefore, the extension would give the DoE sufficient time to train the SGBs and allow the SGBs to do their work. The principal of school E added that interpretation of financial statements by members of the governing bodies is a very serious challenge that needs attention.

5.3.2 DATA OBTAINED BY INTERVIEWING THE DISTRICT OFFICIALS

This section reflects on the information regarding the training provided by the DoE to the members of the SGBs (also see section 2.1 of Annexure C).

5.3.2.1 INFORMATION ON SGB TRAINING

As discussed in section 5.3.1.1 above, the DoE is required to provide for induction and continuous training for SGBs. Results indicated that introductory training is provided by the districts when new members of the SGBs are elected as prescribed by section 19(a) of the SASA. All district officials indicated that the SGBs are trained. In districts 2 and 4, the SGBs were trained only when they were elected. In districts 1 and 5, training was done once and twice every year, respectively. In district 3, the training was only done once, in February 2017, the last year of the SGB's term of office. All districts indicated that they provided training on financial management and roles and responsibilities. In district 3, the training on financial management was only provided in the third year of the SGB's term of office, while in district 2, the training was provided in the second year of the SGB's term of office. This is concerning as the SGB's term is only three years. One may ask how these SGBs were expected to operate and submit proper reports to stakeholders without having been given proper training. District 4 indicated that they provided training on SIPs, as well as on nine focus areas.

The researcher asked whether there were any follow-ups on the training provided by the DoE and whether there was any monitoring in terms of compliance. The duty to provide continuous and additional training on other aspects, such as financial management, was delegated to third parties. This is acceptable in terms of section 19(4a) of the SASA (RSA, 1996b). According to this section, the HOD may request a recognised governing body association or other appropriate training authority to train members of a governing body of a particular school or group of schools. Districts 1, 2 and 3 indicated that there were no regular follow-ups. Districts 4 and 5 have follow-up training done through the Matthew Goniwe School of Leadership and Governance. District 5 also indicated that they organised special training for all the schools that experienced some challenges. Monitoring is another part that is lacking on the side of the department. District 2 only indicated that they checked compliance but did not say how. Districts 3, 4 and 5 allocated the duty to the institutional development and support officials (IDSOs) to follow up and monitor on compliance. It is not clear whether the IDSOs do their work as expected. One district official said:

Though it is not done regularly because you know what happens is that schools do have the institutional development and support officials. In the main, those officials in fact often they do not check on how schools manage finances. The only time we come up is when there are complaints, there are reports there are allegations it is then that we zoom in, in to how the finances are managed. But often – as I am a circuit manager – they report to me. But it is very seldom that you will pick up voluntary information around the financial management of a school. It is only when there are fights at the school then we get to know that there are financial challenges in schools.

It would not be possible for the DoE to ensure that there is compliance if there is no monitoring. Proper monitoring will also ensure that some risks and challenges are identified on time. District 5 mentioned that the finance department unit monitors monthly expenditure statements that are submitted by schools.

5.3.2.2 PREPARATION AND SUBMISSION OF FINANCIAL STATEMENTS BY SGBs

In this section (also see section 2.2 of Annexure C), the researcher discusses information from the participants regarding the preparation and submission of financial statements by SGBs. The researcher also reports on an evaluation of the effectiveness of the existing guidelines and examining whether these guidelines were used by schools. This assisted the researcher to obtain more information that was used when developing the recommended practice guidelines for the schools.

The district officials were asked about the accounting standards or guidelines used by the schools in keeping the accounting records and when preparing the financial statements. Just like principals, treasurers and finance officers, as indicated in section 5.3.1.3 above, none of the district officials mentioned the Financial Regulations, Guidelines and Standard Chart of Accounts. This might be an indication that the district officials were not aware of the existence of these guidelines. It would therefore not be possible for the SGBs to receive training on these guidelines if the district officials do not know about the existence of the guidelines. District 1 indicated that the schools were talking about GAAP. District 2 indicated that there were no financial guidelines. Districts 3 and 5 indicated that the schools used the PFMA. District 5 also referred to treasury regulations, general guidelines as well as circular 13, while district 4 indicated that schools used the National Education Policy Act (NEPA) (No. 27 of 1996) (RSA, 1996c). On the question whether the schools complied with the said guidelines, districts 1, 3 and 4 indicated that their schools did not comply while district 5 was not sure.

The researcher also asked whether the schools' financial statements were consistent year on year and whether they were consistent across the province. Districts 1, 2, 3 and 4 indicated that the schools' financial statements were not consistent year on year. Only district 5 indicated that their school's financial statements were consistent. Districts 1 and 2 indicated that there was no consistency of financial reporting across the districts. District 4 did not know and district 5 could not comment as they said they did not make any comparison with other districts. The use of different accounting standards is an indication and evidence that, at the time of this research, the financial statements of schools across the districts were not consistent with one another. Results indicate that there is a need for uniform reporting standards or guidelines to be used by all public schools across the country. The training on the use of these guidelines is also of high importance.

As indicated in section 5.3.2.1 above, there was lack of monitoring by the DoE at the time, which resulted in many of the schools not complying with the SASA. Section 5.2.2.2 above indicates that only two schools out of the four schools had their financial statements audited, while the other two schools had their financial statements examined by accounting officers. The two schools whose financial statements were examined by accounting officers did not obtain prior approval from the MEC as required by section 43(2b) of the SASA. It is also a concern that schools should have options to submit their financial statements either for audit or for examination. Only district 5 agreed that the information disclosed in the financial statements of the schools was sufficient for the DoE to take decisions while districts 2, 3 and 4 indicated that

the information disclosed was insufficient. These three districts indicated that the audit reports that were submitted by the schools, were not comprehensive and that they did not include recommendations for improvement. The DoE was therefore not able to attend to the problems experienced by the schools and was unable to identify any training needs.

The official from district 1 indicated that she doubted whether the DoE even looked at these financial statements. She said:

Well, I am not sure if the department also in its decision-making is looking at the information in the financial statements. Funds are not allocated based on how the school has managed the finances for the previous financial years.

There was also an indication that even if the school had not submitted the annual financial statements, the funds would still be allocated to the school. In short, there were no consequences for not submitting financial statements. This participant also indicated that the financial statements of the school should include a report on all assets and their condition.

The researcher asked whether the schools were trained or attended workshops on the guidelines issued and gazetted on 14 August 2014 (RSA, 2014b). These guidelines are called the Financial Regulations, Guidelines and Standard Chart of Accounts (RSA, 2014b). Districts 1 and 2 indicated that there was no training. District 3 agreed that there was training, but only referred to the preparation of a budget. District 5 also indicated that there was training and that they were part of general training on finances while the participant from district 4 indicated that she was not sure as she had just joined the district.

Four district officials had the same opinion, that there should be only one guideline used by all schools across the country, irrespective of the province in which the school is located. The district officials said the following:

District official 1:

South Africa is a unitary state with one minister and therefore provinces must use guidelines that are from the Department of Basic Education.

District official 2:

[L]ook, I think we are one state. We should have one guideline.

District official 4:

It doesn't sit well with me. We are under one ministry of education. We were supposed to be operating the same. Using same guidelines. Why should provinces operate in silos?

District official 5:

It would be of help if across the country we are subjected to the same guidelines. It would standardise practice and operation.

Only one district official indicated that, since provinces are different based on infrastructure, it is appropriate for each province to have its own guidelines. The official said:

Some provinces, like Eastern Cape, would warrant them to guide schools differently due to infrastructure. Based on the principles of PFMA and national norms and standards for schools funding it is ok for all of us.

The district officials were asked to give their opinions on the use of SA-SAMS by schools. All district officials indicated that SA-SAMS is a good and handy system and that the schools are happy and find it user-friendly. Districts 1 and 4 indicated that some of the schools have started using the financial module of the SA-SAMS although they were still experiencing challenges with other schools. These districts mentioned that they experienced challenges, mostly with ex-model C schools, who were using their own systems in keeping the accounting records and preparing the financial statements. District 5 indicated that the financial module of SA-SAMS was there, but their schools had not started using it as they had not yet been trained.

The researcher asked the district official whether the schools should be given a choice to submit audited financial statements or have the financial statements examined by an accounting officer. Although district 3 felt that the National Treasury should take over the audit of schools, and district 4 said that the DoE should provide for the audit, all five district officials indicated that all schools should be audited. District official 1 added that the audit digs deeper than the financial statement examination. District official 2 said that the audit would reduce the cost of forensic investigations for the DoE.

5.3.3 DATA OBTAINED BY INTERVIEWING THE SCHOOLS' AUDITORS

In this section, data obtained from interviews of the schools' auditors are presented.

5.3.3.1 INFORMATION ON THE AUDITOR'S APPOINTMENT AND SCHOOLS' INTERNAL CONTROLS

As indicated in sections 3.4.6, the governing body of a public school is required to appoint a person registered as auditor to audit the financial statements of the school or a qualified accountant to examine the financial statements, in case the audit is impracticable. The researcher asked the auditors when they were appointed (see section 2.1 of Annexure D). Out of the five

participants who were interviewed, only two were registered auditors who issued audit reports and three were registered with other professional bodies and they issued accounting officers' reports.

The accounting officers of schools D and E were appointed for five and eight years respectively. The accounting officer for school A and the auditors of schools B and C were appointed for three or fewer years, respectively. Section 31 of the SASA indicates that the term of office of the qualifying member of the governing body is three years. The GDE issued circular 01/2015, which forbade the governing bodies to enter into any contract that exceeds the three-year term of office. However, it is possible that the above-mentioned accounting officers were appointed for a period exceeding the SGB's term of office. In the guidelines from Mpumalanga, it is indicated that the governing body may not appoint an auditor for four consecutive years, which is also in line with the above statement that governing bodies may not enter into any contract exceeding its three-year term of office. The appointment of an auditor for a longer period may compromise the auditor's independence. The issue of an auditor's independence and ethics was in the media after the release of the state capture report by the previous public protector, Advocate Thuli Madonsela in which KPMG South Africa was also implicated (see Public Protector, South Africa, 2016). It is therefore appropriate for each SGB to appoint its own auditors. The auditor must be appointed on an annual basis. This therefore means that there must be an engagement letter signed by both the governing body and the auditor for each financial period.

All three accounting officers and two auditors interviewed in the current research indicated that they were issued with appointment letters and engagement letters. The two auditors indicated that they were appointed to prepare and audit the financial statements of the schools. The three accounting officers also indicated that they were appointed to prepare and review the financial statements of the schools.

The researcher asked the participants to comment on the internal controls of South African schools in general. Auditors A and C indicated that the internal controls of the schools for which they were responsible looked good and were impressive and that they could not comment on the internal controls of other schools to which they had not been exposed. Accounting officers B, D and E indicated that the internal controls of some schools were good while some schools had no proper or no controls at all.

5.3.3.2 INFORMATION ON SGBs TRAINING

In this section, the researcher discusses the opinions of the auditors and accounting officers regarding SGBs training (see section 2.2 of Annexure D). Regarding the training that was offered to members of the SGBs at the time of this research, auditor A and accounting officer D indicated that the SGBs had knowledge and that they received proper training from the DoE and from other external parties appointed or recommended by the DoE. Accounting officer B and auditor C indicated that the training was not adequate as the SGBs were only informed on how to keep their financial records, while accounting officer E indicated that the seminars were too theoretical and that more practical training was needed.

5.3.3.3 PREPARATION AND SUBMISSION OF FINANCIAL STATEMENTS BY SGBs

In this section, the researcher reflects on information obtained from the auditors and accounting officers and information regarding the preparation and audit of schools' financial statements (see section 2.3 of Annexure D). Auditors and accounting officers confirmed that the participating schools were not using the Financial Regulations, Guidelines and Standard Chart of Accounts which were prescribed by the MEC for education as required by section 42b of the SASA (RSA, 1996b). The auditors and accounting officers indicated that they were not aware of the existence of such guidelines. Table 3.2 indicated that an auditor expresses reasonable assurance on whether the financial statements have been prepared in accordance with an appropriate accounting framework. This means that the auditors of these schools were expected to establish whether the governing bodies of the schools complied with section 42b of the SASA in terms of the guidelines to be used in preparing the financial statements.

The researcher asked the auditors and accounting officers, as preparers and auditors or reviewers of financial statements, which standards or guidelines were used by the schools when preparing the financial statements. The auditor of school A and the accounting officers of schools B, D and E indicated that they used GAAP. The information given by the auditor of school C differed from what the researcher found when examining the financial statements of school C. The auditor indicated that they used the SASA and the IFRS while the financial statements of school C, which were prepared by the same auditors, did not indicate compliance with any standards or guidelines. The financial statements prepared by the auditor of school A and the accounting officers of schools B and D also indicated that they complied with GAAP. The auditor of school A and the accounting officers of schools D and E indicated that the schools complied with the said accounting standards. The auditors of schools A and C and the accounting officer of school

E indicated that the financial statements of the schools were consistent year on year although they could not comment on the consistency and comparability of financial statements of schools across the district as well as across the province. They indicated that they could only comment on the financial statements of the schools for which they were doing the work. These results confirm the results obtained by the researcher when analysing the financial statements of these schools as discussed in section 5.2.2.1 above, that the financial statements of the individual schools were consistent when compared year on year. The accounting officers of schools B and D indicated that the financial statements of the schools were not consistent year on year. This is a matter of concern, as these accounting officers are the ones preparing the financial statements for the schools.

Although the auditors and accounting officers indicated that they were satisfied that the information disclosed in the financial statements was sufficient for decision-making, the researcher is of the opinion that more information should be disclosed, because the governing body of the school owes its accountability to various stakeholders. Therefore, it should ensure that the information disclosed in the financial statements is sufficient. Section 3.4.1 indicates that the DoE, in its budget, makes provision for day-to-day maintenance, learning and teaching support material (LTSM) and municipal services. The LTSM, which includes textbooks and stationery, forms the bigger part of the allocation. Section 5.2.2.1 above indicates that the majority of schools do not disclose the inventory in their financial statements. This renders the information in the financial statements to be incomplete, and financial statements may be understated. The issue of inventory was also mentioned by the principal of school B. He indicated that the inventory showing the textbooks and their condition should be disclosed in the financial statements, while the principal of school E also indicated that the progress reports on the status of the projects should also be disclosed as part of the financial statements. The following should be disclosed as inventory in the notes to the financial statements:

- stationery not issued to the learners;
- stationery not used at the end of the year;
- textbooks (and their condition);
- cleaning material not used at the end of the year; and
- trading stock (tuck shop) not sold at the end of the year.

The auditor of school C thought that a more detailed breakdown of some of the amounts (e.g. income and transport fees) should be disclosed. The accounting officer of school E also argued

that more information on the number of employees and learners should be disclosed. This is in line with the discussion in section 3.5 where it is reported that Coy et al. (2001:17) state that schools' stakeholders may benefit from disclosure of information, such as trend information about enrolled learners, learners who passed exit grades, expenditure per learner, learner–teacher ratios, workshop expenditure per teacher, and learners' feedback on subjects.

The researcher asked the auditors and accounting officers whether they thought it appropriate to have uniform guidelines for all provinces, and all five agreed that it is appropriate. The researcher also asked the auditors and accounting officers to comment on having different financial reporting guidelines in various provinces. The auditor of school A responded as follows:

[T]he guideline should be consistent and especially if you have different set of rules for different provinces.

The accounting officer of school B responded as follows:

[Y]es, it is a very serious challenge; it is a problem. Because schools are all getting funds, especially those that are funded by the department, from one source. So common standards will go a long way for schools and for saving money for the department.

The auditor of school C said:

[I]t does not make sense at all. It should be one across the country.

The accounting officer of school D said:

[N]o, I think that is not good because all these schools falls under one umbrella that is Department of Education. So they must have one guideline.

The accounting officer of school E responded as follows:

[N]o, it should be the same because there should not be different guidelines.

The researcher asked a question based on section 42 of the SASA, which requires SGBs to appoint an auditor to audit the financial statements and financial records of the school or to appoint an accounting officer to examine such books. The auditors of schools A and C, as well as the accounting officer of school D, indicated that they were in favour of the financial statements and accounting records of the schools being audited instead of being examined. The accounting officer of school B also agreed with an audit, but he raised a concern regarding the high costs of an audit. The accounting officer of school E indicated that an audit is complex and that it is a burden to most of the schools. He indicated that, according to him, an accounting officer's report is still acceptable for schools.

The use of different guidelines by South African governing bodies when preparing accounting records and financial statements of schools seemed to be a main concern to the accounting officers and the auditors of the schools. Results indicate that, at the time of this research, there was a need for uniform guidelines for South African public schools. There was also serious concern about the audit of the financial statements of the schools. The auditors were concerned that some of the schools might not be able to afford the cost of audit which may force the auditors to compromise on the audit fees. A compromise on the audit fees may, at some point compromise the independence of the auditor. Results in section 5.2.2.1 above indicate that the average percentage of accounting fees to total expenditure for some of the schools is higher than the average percentage of audit fees to total expenditure for other schools. This means that on average, some of the schools who appointed accounting officers might have been paying more accounting fees than those schools who appointed auditors. This therefore indicates that the audit of financial statements might be affordable.

5.4 SUMMARY AND CONCLUSION

In this chapter, it was established based on the analysis of documents and interviews, that there is a need for recommended practice guidelines. Firstly, the guidelines from various provinces were compared to determine whether they were consistent with each other. Secondly, the guidelines were compared to the SASA, GRAP, IPSAS, IFRS and PFMA to determine whether they were in line with best practice. The comparison focused on keeping of accounting records, preparation of financial statements and the audit and examination of financial statements. The financial statements of selected schools were also analysed. The financial statements were first compared to determine whether they were consistent with one another. The financial statements were then compared to the provincial guidelines to determine whether there was compliance with the guidelines in terms of record-keeping, preparation of financial statements as well as the audit and examination of financial statements. Lastly, various participants were interviewed. These participants were the schools' principals, finance officers, SGB treasurers and the schools' auditors as well as district officials.

Findings indicate that there was non-compliance in the following areas:

- Three of the schools appointed accounting officers without obtaining prior approval from the MEC. This was non-compliance with section 43(2)(b) of the SASA, by these schools;
- Table 5.15 indicates that three schools appointed accounting officers while two appointed auditors. The accounting officers and auditors were appointed to prepare the financial

statements, and they also performed the examination or audit of the same financial statements. They did what is referred to as a self-review. This is in contravention of circular M1 of 2017, issued by the DBE. This also affects the independence of the auditors. The schools' SGBs took the easier route by appointing accounting officers rather than auditors.

Although the results as per Table 5.12 indicate the opposite, the interviews indicated that the district officials and the SGBs were opting for the appointment of accounting officers due to the high cost charged by auditors. It will be in the best interest of the schools if the appointment of auditors can be allocated to AGSA. It is a general practice that the audit of the public sector is allocated to AGSA. This practice of schools being audited by the auditor general is also applied in New Zealand (see Controller and Auditor General, 2012).

The majority of participants seemed to be unaware of their roles and responsibilities as prescribed by the SASA. The governing body members were not aware that they were responsible for development and implementation of policies, formation of different sub-committees, drafting of the budget, keeping of accounting records and preparation of financial statements. They seemed not to be aware that they were also responsible for appointment of auditors and they therefore delegated this duty to principals. As discussed in section 1.5, this challenge was also identified in Zimbabwe. According to Nyandoro et al. (2013), the effectiveness of financial management is affected by a lack of knowledge and understanding of the roles and responsibilities by school development committees.

A lack of sufficient training of members of the governing body is another thorny matter that needs to be addressed by the DoE – especially as financial management and financial accounting and auditing are specialised skills. This matter has also been raised in previous studies, as mentioned in section 1.3 (Mbatsane, 2006:38; Ngidi, 2004:236; Xaba, 2011:202). During the June 2018 SGB summit held at the Rhema Bible Church, a representative from Absa Bank announced a financial management programme initiative which aims at training SGBs on financial management. During this summit, representatives from SAICA made some presentations on the topic involving financial management. A provisional training plan was issued to SGBs, which contained a list of training to be delivered by the Matthew Goniwe School of Leadership during 2018 and 2019. Included in the list are financial management training. According to the plan, the training for financial management is planned only for one day. It is, however, questionable whether the training will be effective in addressing all matters regarding

the financial management, as it has been mentioned by other researchers that financial management is a specialised skill and some of the members of the SGBs are not literate and may have challenges in understanding some of the accounting terms.

The members of the schools' governing bodies, district officials as well as schools' auditors and accounting officers seemed not to be aware of the existence of the guidelines (Financial Regulations, Framework and Standard Chart of Accounts for Public Schools). During the interviews, none of them mentioned that the schools should comply with these guidelines. The participants made it clear that they did not even know whether guidelines existed.

The guidelines developed by various provinces seemed to be inconsistent with each other and this may therefore result in schools across the country presenting financial statements that are also not consistent. It has been established that various guidelines require different accounting records. These guidelines also require different components of financial statements. As already mentioned by one of the district officials (see section 5.3.2.2) and supported by the views of auditors and accounting officers (see section 5.3.3.3), it is inappropriate for schools which report to one minister of education to use different guidelines.

Some guidelines still refer to GAAP. This is an indication that the guidelines are not being updated regularly as it has already been indicated in section 5.2.1.1 that South Africa has adopted the IFRS in 2005, including the IFRS for SMEs, which might not be appropriate and suitable for adoption by South African public schools. The researcher agrees with the interview participants that there is therefore a need to develop guidelines that could be used by all South African public schools. As discussed in section 3.8, schools in Australia, New Zealand and England are applying the same guidelines, as opposed to the South African schools, which apply various provincial guidelines. Results indicated in Table 5.8 suggest that the provincial guidelines are not in line with best practice. The researcher is of the opinion that the schools' guidelines should also be in line with the IPSAS, GRAP and IFRS in order to be in line with best practice.

It was further established that the use of the financial module of SA-SAMS in schools is not encouraged by the DoE as schools are allowed to use different accounting packages for record-keeping and preparation of financial statements. The researcher is of the opinion that the use of the SA-SAMS for keeping of financial records and producing financial statements should be compulsory for all public schools. This will save schools the costs of outsourcing the bookkeeping function. The majority of schools submit their financial statements for examination, instead of audit. This is in contravention of section 43 of the SASA and circular M1 (of 2017). In

order to comply with section 43 of the SASA, all schools should be subjected to the audit of financial statements. It should therefore be compulsory for the schools to submit their financial statements for audit instead of examination by accounting officers. It is also important to ensure that approval is granted by the MEC for education, in cases where the financial statements are examined and the accounting officer's report is issued instead of the audit report. In section 3.4.6, the aim of an audit of financial statements was discussed which, according to Whittington and Pany (2016:4) and Doussy and Doussy (2014:32), is to provide users of financial statements with the assurance that the financial statements are reliable and to enhance the degree of confidence in the financial statements. The difference between an audit report and the accounting officer's report were shown in Table 3.3. In the next chapter, the recommended practice guidelines that were developed based on the literature review and information collected from the analysis of documents as well as interviews will be discussed.

CHAPTER 6

DEVELOPMENT OF RECOMMENDED PRACTICE GUIDELINES

6.1 INTRODUCTION

The previous chapter dealt with the presentation and interpretation of data collected from document analysis and interviews. In section 1.4, the researcher discussed the need for uniform accounting and reporting guidelines.

As discussed in section 4.10, in this chapter, the researcher reports how he used the data collected from the literature review (Chapters 2 and 3) as well as the data collected from the analysis of guidelines and interviews in order to develop the recommended practice guidelines.

The researcher found common ground with other researchers, such as Coy et al. (2001:22), Bordoloi and Bordoloi (2013:25), Koppeschaar et al. (2018:11), that there is a need for uniform accounting standards or guidelines in order to enable entities to produce reliable, consistent and comparable financial statements. In sections 5.3.2.2 and 5.3.3.3, it was shown that the district officials, the auditors and finance officers of the schools agreed with Bordoloi and Bordoloi, Koppeschaar et al. and Coy et al. above. The authors and the interview participants are of the opinion that there should be uniform reporting guidelines across the country.

In section 5.2.1.1, the researcher compared the guidelines of various provinces and found that those guidelines are not consistent. In section 5.2.1.2, the researcher also reported that only four out of eight guidelines were close to best practice. Through comparison of selected schools' financial statements, the researcher established that these financial statements were not consistent. The researcher also interviewed schools' principals and finance officers, SGB treasurers, district officials and schools' auditors. At the time of this research, the auditors as well as district officials confirmed that there was a need for uniform reporting guidelines for South African public schools. In this chapter, the researcher will report how he developed the recommended practice guidelines. The researcher first discusses the factors he considered when developing recommended practice guidelines. These factors were the users of schools' financial statements and their needs as well as the information gathered by the researcher through the literature review, document analysis and interviews.

6.2 FACTORS CONSIDERED WHEN DEVELOPING RECOMMENDED PRACTICE GUIDELINES

In developing the guidelines for South African public schools, the researcher considered the following:

- the users of schools' financial statements, and their needs;
- the skills needed to implement the guidelines; and
- the information gathered by the researcher through the literature review, document analysis and interviews.

6.2.1 USERS OF SCHOOLS' FINANCIAL STATEMENTS AND THEIR INFORMATION NEEDS

Section 2.4 discusses two categories of users of schools' financial information, namely primary and other users. Unlike the objectives of the general purpose financial statements, the guidelines should address the specific needs of primary users of financial statements (the government, donors, parents of learners, learners, staff and auditors). As stated in section 3.6.2 above, like the IFRS for SMEs, the guidelines should satisfy the following requirements:

- priority should be given to the primary users of the schools' financial statements;
- the costs of applying the guidelines should not exceed the benefits (cost/benefit considerations); and
- the guidelines should be applied without complexities.

6.2.2 SKILLS NEEDED TO IMPLEMENT THE GUIDELINES

Section 1.3 emphasises the lack of financial management skills as one of the major challenges facing South African SGBs. As indicated in section 1.3 by Xaba (2011:202), Mbatsane (2006:38), Ngidi (2004:263) and Mngoma (2009:51), financial management and accounting are special fields which require specialised skills.

The DoE should appoint persons with formal education qualifications in accounting or financial management in the positions of school's financial officers. These persons should also be trained how to use and operate the SA-SAMS. These persons should further be required to undergo a refresher course in accounting, finance and SA-SAMS on a regular basis.

6.2.3 INFORMATION GATHERED THROUGH THE LITERATURE REVIEW, DOCUMENT ANALYSIS AND INTERVIEWS

In order to ensure that the guidelines were in line with best practice, some of the information was taken from the SASA (RSA, 1996b), the PFMA (RSA, 1999), GRAP (ASB, 2012; 2013), MCS (National Treasury, 2015b), IFRS (IASB, 2018) and IPSAS (Deloitte, 2017). The researcher also considered the guidelines from other countries as discussed in section 3.8.

Existing guidelines were also considered for information in line with the required regulations and SA-SAMS (DBE, 2013). The SA-SAMS was first considered in developing the guidelines. The researcher was of the opinion that, where information is already provided by SA-SAMS, it would be cost-effective to apply the guidelines if such information forms part of the guidelines and to consider the already existing system rather than developing a new one. The existing system could therefore be upgraded where needed. This is because most of the schools across the country are already in a process of applying the system. Although not all the schools have been trained on the financial module of the SA-SAMS, the DoE is in the process of training the schools. The system has already been loaded or installed by the majority of the schools across the country. As indicated in section 5.2.1.2 and Table 5.8, the researcher found that the guidelines of provinces C, D, E and H were closely in line with best practice. These guidelines were also considered when developing the recommended practice guidelines.

The researcher further considered information gathered during the interviews for inclusion in the guidelines. However, the information was considered on the basis that it should also satisfy the requirements as discussed in section 6.2.1.

6.3 FINANCIAL RECORD-KEEPING AND REPORTING GUIDELINES FOR THE SOUTH AFRICAN PUBLIC SCHOOLS

In this section, the researcher discusses the development of the schools' best practice financial reporting guidelines

6.3.1 LEGISLATIVE PRESCRIPTS AND REGULATORY FRAMEWORK

The guidelines that were developed were mainly based on the following legislation and regulatory frameworks:

- GRAP (ASB, 2012; 2013);
- IPSAS (Deloitte, 2017);
- IFRS (IASB, 2018);

- SASA (Act 84 of 1996 as amended) (RSA, 1996b);
- MCS (National Treasury, 2015b);
- Circular M1 of 2017 (DBE, 2017);
- King IV report on Corporate Governance;
- PFMA (Act 1 of 1999) (RSA, 1999); and
- SA-SAMS (DBE, 2013).

6.3.2 THE OBJECTIVE OF THE GUIDELINES

The objective of the guidelines that were developed is to prescribe a basis for the presentation of the financial statements of the South African public schools, to ensure comparability both with the financial statements of the entity (i.e. the school) of previous periods and with the financial statements of other entities (schools) (see GRAP 1, paragraph 01).

6.3.3 SCOPE

The guidelines should be applied by all SGBs in preparing the financial statements of South African public schools.

6.3.4 DEFINITIONS

The definitions of the terms as indicated below were adapted from the GRAP, MCS, IFRS and IPSAS in order to ensure that they are in line with best practice, as indicated in section 6.2.2.

Accounting policies – specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Accrual basis – a basis of accounting under which transactions and other events are recognised when they occur (not only when cash or equivalent is received or paid). The transactions and events are therefore recorded in the accounting records and recognised in the financial periods to which they relate. An entity recognises items as assets, liabilities, equity, income and expenses when they satisfy the definitions and recognition criteria for those elements (IASB, 2016, IAS 1, paragraph 27–28).

Asset – a resource controlled by an entity as a result of past events and from which future economic benefits or service potential is expected to flow to the entity (New Zealand Accounting Standards Board, 2015, IPSAS 1, paragraph 7).

Cash – cash at the bank and cash on hand.

Cash equivalents – short-term, highly liquid investments that are readily convertible to known

amounts of cash and which are subject to insignificant risk of changes in value.

Cash flows – inflows and outflows of cash and cash equivalents.

Consolidated financial statements – the financial statements of an economic entity presented as those of a single entity. For the purpose of the South African public schools, consolidated financial statements will mean combining the financial statements of Grade R to those of the main stream (Grade 1 to Grade 7 if it is a primary school).

Expense – a decrease in economic benefit or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets or equity, other than those relating to distributions to owners (New Zealand Accounting Standards Board, 2015; IPSAS 1, par. 7).

Fair value – the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction (see IASB, 2010: paragraph 6.12).

Fruitless and wasteful expenditure – expenditure which was made in vain and would have been avoided had reasonable care been exercised (RSA, 1999).

Impracticable – situation when the entity cannot apply a requirement after making every reasonable effort to do so (New Zealand Accounting Standards Board, 2015, IPSAS 1 paragraph 7; IASB, 2016, IAS 1, paragraph 7;).

Irregular expenditure – expenditure, other than unauthorised expenditure, incurred in contravention of or which is not in accordance with the requirement of any applicable legislation (RSA, 1999).

Liability – a present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow from an entity of resources embodying benefits or service potential (New Zealand Accounting Standards Board, 2015, IPSAS 1 paragraph 7).

Material – omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances (New Zealand Accounting Standards Board, 2015, IPSAS 1 paragraph 7; IASB, 2016, IAS 1 paragraph 7;).

Net assets – the residual measure in the statement of financial position (New Zealand Accounting Standards Board, 2015, IPSAS 1, paragraph 14). It is a residual interest in the assets of the entity

after deducting all its liabilities (IASB, 2016, IAS 1, par. 14).

Notes – contain information in addition to that presented in the statement of financial position, statement of income and expenditure, statement of changes in net assets and statement of cash flows. Notes provide narrative descriptions or disaggregation of items disclosed in those statements and information about items that do not qualify for recognition in those statements (New Zealand Accounting Standards Board, 2015, IPSAS 1, paragraph 7).

Recognise – to present both in words and figure, an item in the financial statements.

Prior period errors – omissions from and misstatements in the financial statements of the entity for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- was available when financial statements for those periods were authorised for issue; and
- could reasonably be expected to have been obtained and taken into account in the preparation and presentation of financial statements.

Such errors include the effect of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Reporting date – the date of the last day of the reporting period to which the financial statements relate. In terms of South African public schools, the reporting date means 31 December (RSA, 1996a, section 44).

Related parties – include circumstances in which one party has the ability to exercise significant influence over the other party (National Treasury, 2015b:127). Related parties are the following:

- entities that directly or indirectly through one or more intermediaries, control or are controlled by the reporting entity;
- associates and joint ventures;
- individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individuals;
- key management personnel, and close members of the family of key management personnel; and
- entities in which substantial ownership interest is held, directly or indirectly, by any person described above, or over which such a person is able to exercise significant influence.

Revenue – the gross inflow of economic benefits or service potential during the reporting period

when those inflows result in an increase in net assets or equity, other than increases relating to contributions from owners (New Zealand Accounting Standards Board, 2015, IPSAS, 1 paragraph 7).

Unauthorised expenditure – expenditure not in accordance with the purpose of a budget or not in accordance with the purpose of the school (RSA, 1999).

6.3.5 RECORD-KEEPING

Section 4.3.1.1 refers to Figure 3.3, which describes the accounting cycle. Reference is also made to section 42 of the SASA, which requires the SGB to keep records of all funds received and spent by a public school.

In section 5.4, the researcher concluded that the use of the SA-SAMS for keeping of financial records and producing financial statements should be compulsory for all public schools in order to save costs of outsourcing the bookkeeping function by schools. As mentioned in section 6.2.2, the SA-SAMS should be used for bookkeeping by all public schools. In section 3.4.2, it was indicated that schools with Grade R receive separate allocations for Grade R and main stream (Grade 1–7). These schools should keep separate records for Grade R and for the main stream.

6.3.5.1 SOURCE DOCUMENTS

For the purpose of good governance and accountability, schools should keep at least the following source documents for a minimum period of five years (SAICA, 2016:16):

- receipts;
- EFT (electronic funds transfer) slips;
- cheque counterfoils and returned cheques;
- monthly bank statements;
- cheque requisitions (for every cheque issued by the school);
- invoice (for all goods or services purchased);
- contracts for every contract entered into (including contracts for all staff hired and/or paid by the SGB);
- proof of travelling by staff, and workshop attendance;
- proof of incurrence of expenditure (for all reimbursements);
- proof of approval from the MEC (for payments made in terms of section 38A of the SASA);
- stock-take certificates;

- proof of approval from the MEC (in terms of appointment of the accounting officer to examine the financial statements instead of audit as per section 43(2)(b) of the SASA); and
- the audit engagement letter or appointment letter of the accounting officer.

6.3.5.2 ACCOUNTING RECORDS

The schools should keep the following accounting records (Free State, 2001; Gauteng Provincial Government, 2014a:8, section 2; KwaZulu-Natal Department of Education, 2014:139–148; Mpumalanga, 2017: Annexure A and WCED, 2013a:16–43):

Table: 6.1 Accounting records and source documents

| No. | Accounting records | Explanation |
|-----|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Cash-book | A cash-book is used to record all cash received and paid by the school. The cash-book should commence with an opening bank balance. All receipts will be recorded on the debit (receipts) side, while all payments will be recorded on the credit (payments) side. At the end of every month, the cash-book must be balanced off. |
| 2. | Bank reconciliation statement | At the end of every month, the bank reconciliation statement must be prepared. The balance as per bank statement must be reconciled to the balance as per the cashbook in 1 above. All reconciling items should be noted and investigated. |
| 3. | Petty cash journal | The petty cash journal should be kept to record all purchases of small items. These items normally require a small amount of cash, for which a cheque cannot be issued. An imprest system of petty cash must be used. This means that the petty cash should be replenished at the end of the month and the petty cash journal must be balanced at the end of every month. Therefore, the petty cash amount should be the same at the beginning of every month. |
| 4. | Debtors' ledger | The debtors' ledger may replace the debtors' journal and debtors' allowances journal. Records of all outstanding school fees should be kept. This ledger must be updated every time a payment is made. Interest on overdue balances, if charged, should also be recorded in this account. |
| 5 | Creditors' ledger | The creditors' ledger may replace the creditors' journal and creditors' allowances journal. Records of all amounts owed to creditors should be kept. This ledger should be updated every time a payment is made to creditors. Interest on overdue balances, if charged, should also be recorded in this account. |
| 6 | Fixed assets register | All schools must have a fixed asset register and maintain it. The register should reflect allocations for cost of asset, quantity, date of purchase, supplier, serial number and description of the asset, depreciation for the year, accumulated depreciation, quantity and carrying value of assets disposed during the year, carrying value at the beginning of the year, carrying value at the end of the year, and the location where the asset is kept. |
| 7 | Inventory register | All schools must have an inventory register and maintain it. The register should reflect allocations for cost of asset, quantity, date of purchase, supplier, description, quantity and value issued during the year, quantity and value at the beginning of the year, quantity and value at the end of the year and the location where the asset is kept. |

Table: 6.1 Accounting records and source documents (continued)

| No. | Accounting records | Explanation |
|-----|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 8 | Budget | SA-SAMS allows the school to print a monthly budget report. The report must show the budget figures for the current year; actual figures for the current year, the variances between the budgeted and actual figures, explanation of the variances, and budget figure for the following year. The schools should produce these reports on a monthly basis, with explanation of variances and the way the material variances are dealt with. |
| 9 | Standard chart of accounts | SA-SAMS contains the standard chart of accounts that the school should maintain. The general chart of accounts includes, amongst others: <ul style="list-style-type: none"> • school fees; • government transfer (textbooks, stationery, administration, maintenance, improvements); • donations (general, sponsorships, conditional); • rental income (tuck shop, vendor rental, school hall, swimming pool, tennis courts, fields); • sales (uniform, stationery); • investment income; • income from hostels; • other income; • administration expenses (accommodation, accounting fees, after-care, audit fees, bank charges, catering, salaries); and • teaching and learning (development and training, exams and assessment material, workshops and seminars). <p>The system allows the school to add an account and delete those accounts which may not be relevant to that particular school. Refer to Annexure L, for a proposed list of the general chart of accounts.</p> |
| 10 | Trial balance | All schools should produce a trial balance at the end of every month. SA-SAMS allows the schools to print monthly trial balances. |

Source: Author's own compilation

6.3.6 PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

In addition to the requirements of section 42 of the SASA, mentioned in section 6.3.5, the SGB is required to draw up the financial statements of a public school within three months after the end of the financial period of the public school in accordance with the guidelines developed by the MEC for education. The financial statements should be in line with best practice (refer to Annexures J and K).

6.3.6.1 PURPOSE OF FINANCIAL STATEMENTS

In addition to keeping records of funds received and spent, section 42(a) of the SASA requires the governing body of a public school to keep records of assets, liabilities and financial transactions of a public school. It is therefore appropriate to indicate that the purpose of the financial statements is to provide users with information about the financial position (assets and liabilities), financial performance (funds received and spent) and cash flows (financial

transactions) of a school (New Zealand Accounting Standards Board, 2015, IPSAS 1, paragraph 15; IASB, 2016, IAS 1, paragraph 9). In section 3.3, the researcher and the ASB (2013:2) agree that the financial statements serve as the instruments by which the results of the SGB's stewardship of resources entrusted to it are shown (Ernst & Young, 2018:5; IASB, 2018). The financial statements allow the primary users of the school's financial statements to review the school's performance. These primary users are the principal, teachers, non-teaching staff, parents, learners, government, donors and auditors (see Table 2.3). In order to meet this objective, the financial statements should provide the following information about the school (New Zealand Accounting Standards Board, 2015, IPSAS 1, paragraph 17; IASB, 2016, IAS 1, paragraph 9): assets, liabilities, net assets, revenue, expenses, gains and losses, and cash flows.

6.3.6.2 OVERALL CONSIDERATIONS OR GENERAL FEATURES OF FINANCIAL STATEMENTS

The following overall considerations or general features were adapted from GRAP 1, MCS, IPSAS 1 and IFRS (IAS 1):

→ Fair presentation and compliance with the guidelines

Financial statements shall present the financial position, financial performance, and cash flows of an entity fairly. Fair presentation requires the faithful representations of the effects of the transactions, other events and conditions in accordance with the definitions and recognition criteria of assets, liabilities, revenue and expenses set out in GRAP, IPSAS, IFRS (New Zealand Accounting Standards Board, 2015, IPSAS 1, paragraph 27; IASB, 2016, IAS 1, paragraph 15;).

→ Going concern

The financial statements of the public school should be prepared with the assumption that the school will not cease operating in the foreseeable future. When the SGB is aware of the DoE's intention to close the school within the next 12 months, that fact shall be disclosed, together with the basis on which the financial statements are prepared (New Zealand Accounting Standards Board, 2015, IPSAS 1, paragraph 38–39; IASB, 2016, IAS 1, paragraph 25).

→ Accrual basis of accounting

A public school shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting (IASB, 2016, IAS 1, paragraph 27). All elements in the statement of financial position and the statement of comprehensive income and expenditure shall be accounted for using the accrual basis, except for revenue, which will be accounted for on a

modified cash basis. Revenue will be recognised in terms of the MCS (National Treasury, 2015b:50–51).

→ **Consistency of presentation**

The presentation and classification of items in the financial statements shall be retained from one period to the next (New Zealand Accounting Standards Board, 2015, IPSAS 1, paragraph 42; IASB, 2016, IAS 1, paragraph 45).

→ **Frequency of reporting**

A public school shall present a complete set of financial statements (including comparative information) at least annually (IASB, 2016, IAS 1, paragraph 36). Reference should also be made to section 42(b) of the SASA.

→ **Reliability**

For the information presented in the financial statements to be reliable, it must be complete, accurate, not contain material errors, and be free from bias (National Treasury, 2015:13). The users of financial statements should be able to rely on the information as a faithful representation of the transactions, balances and events that it purports to present (National Treasury, 2015:13). ‘Reliability’ refers to information that users can trust. It does not mean absolute accuracy (National Treasury, 2015:13).

→ **Substance and legal form**

For the information to be fairly represented in the financial statements of the school, a substance rather than the legal form of the transactions or events should be considered.

→ **Materiality and aggregation**

Each material class of similar items shall be presented separately in the financial statements. Items of dissimilar nature or function shall be presented separately, unless they are immaterial (New Zealand Accounting Standards Board, 2015, IPSAS 1, paragraph 45; IASB, 2016, IAS 1, paragraph 29).

→ **Comparative information**

Comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements (New Zealand Accounting Standards Board, 2015, IPSAS 1, paragraph 53; IASB, 2016, IAS 1, paragraph 38). Additional considerations suggested by Coy et

al. (2001:21) are the following:

- Accessibility and distribution

In terms of sections 43(6) and 59(2) of the SASA, the accounting records and other information should be made available for inspection on request by an interested party, or the provincial head of the DoE or the Director-General of the national DBE.

In section 3.6.1, it was stated that Coy et al. (2001:21) recommend that, in order to raise the awareness of the schools' stakeholders about the availability of the audited financial statements, these financial statements should be published through media, such as the press and internal newsletters. The financial statements should be made available to stakeholders through libraries, information offices, the principal's office, the internet or printed copies during meetings. This practice is also applied in New Zealand (see section 3.6.1).

- Offsetting

Assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by the guidelines (New Zealand Accounting Standards Board, 2015, IPSAS 1, paragraph 48; IASB, 2016, IAS 1, paragraph 32).

6.3.6.3 IDENTIFICATION OF FINANCIAL STATEMENTS

Each component of financial statement shall be identified clearly by displaying, in addition, the following information (New Zealand Accounting Standards Board, 2015, IPSAS 1, paragraph 63; IASB, 2016, IAS 1, paragraph 51):

- the name of the reporting entity (school);
- whether the financial statements cover only the main stream, pre-primary or both;
- the reporting date or period covered by the financial statements, whichever is appropriate to the component of financial statements;
- the presentation currency; and
- the level of rounding used in presenting amounts in the financial statements.

6.3.6.4 COMPONENTS OF FINANCIAL STATEMENTS

The researcher considered the components or a complete set of financial statements as required by the SA-SAMS. Consideration was also given to the components of financial statements as indicated in the guidelines of provinces C, D, E and H, as well as the guidelines for schools in New Zealand, Australia and England (see Table 3.5). In deciding which items to include in the

best practise guidelines, the researcher drafted an annexure (see Annexure I). Annexure I indicates the inclusion criteria of the items in the recommended practice guidelines. The researcher included the examples of the school's annual financial statements (see Annexure J). In order to meet the needs of the stakeholders, and to be in line with best practice, a complete set of financial statements of a public school comprises the following:

(a) A statement of responsibility (Annexure K)

The governing body is responsible for preparing the financial statements in terms of section 42(b) of the SASA. Should the governing body resolve in its meeting to appoint a bookkeeper, the governing body must ensure that the decision to appoint a bookkeeper is properly minuted, and that the person so appointed as bookkeeper:

- is not the same person appointed as the auditor in terms of section 43(1) of the SASA; or
- is not the same person appointed as the accounting officer in terms of 43(2)(a) of the SASA.

This statement should be signed by the principal, the chairperson and the treasurer of the governing body. By signing this statement, they acknowledge that the preparation, accuracy and completeness of financial statements remain the responsibility of a governing body. The statement should also state that the establishment and maintenance of the system of internal control to safeguard the assets of the school remain with a governing body (see section 3.3; GDE, undated (a)).

(b) A statement of financial position as at the end of the period (Annexure K)

A statement of financial position shows the balances of all the assets and liabilities of the school at a specific date (see section 3.6.1; ASB, 2010: paragraph 62; New Zealand Accounting Standards Board, 2014: paragraph 70).

(c) A statement of comprehensive income and expenditure for the period (Annexure K)

A statement of comprehensive income and expenditure shows all income and expenses of the school over the financial period (see section 3.6.1; ASB, 2010: paragraph 91; New Zealand Accounting Standards Board, 2014: paragraph 98).

(d) A statement of changes in net assets (Annexure K)

A statement of changes in net assets or equity shows the value of the state's investment in the school and the surplus or loss over the course of the financial year (see section 3.6.1; ASB, 2010:

paragraph 113; New Zealand Accounting Standards Board, 2014: paragraph 118).

(e) A statement of cash flows for the period (Annexure K)

A statement of cash flows shows all inflows and outflows of cash for the financial period. A cash flow statement shows the cash flows from operating, investing and financing activities (see ASB, 2010: paragraph 121; New Zealand Accounting Standards Board, 2014: paragraph 126).

(f) A budget variance report (Annexure K)

A budget variance report shows how income, expenditure and purchase of assets were budgeted for, and the actual cash that has been spent on all the budgeted items. This report shows whether the school has managed to operate within the funding received (see Deloitte, 2017:33; New Zealand Accounting Standards Board, 2014: paragraph 25).

(g) Notes to the financial statements (Annexure K)

The notes to the financial statements provide additional information that is not provided on the face of a statement of financial position, a statement of comprehensive income and expenditure, a statement of changes in net assets and equity and a statement of cash flows (see section 3.6.1; ASB, 2010: paragraph 122; New Zealand Accounting Standards Board, 2014: paragraph 127).

(h) Comparative information in respect of the preceding period (Annexure K)

The financial statements of a school should include comparative information. As indicated in section 6.3.5, where a school comprises Grade R and main stream (Grade 1–7), such a school must:

- compile a separate set of financial statements for Grade R;
- compile a separate set of financial statements for the main stream (Grade 1–7); and
- compile a consolidated set of financial statements

In terms of IPSASA, respectively, the entity may use titles for the statements other than those used in these standards (see New Zealand Accounting Standards Board, 2014: paragraph 22). However, for the purpose of uniformity and consistency, all public schools reporting in terms of these guidelines are required to use the titles as used in these guidelines (Annexure J).

6.3.7 INFORMATION TO BE DISCLOSED ON THE FACE OF THE FINANCIAL STATEMENTS OR IN THE NOTES

The next section indicates which information should be disclosed on the face of the financial statements and which should be disclosed in the notes to the financial statements.

6.3.7.1 STATEMENT OF FINANCIAL POSITION

The following minimum information should be disclosed in the statement of financial position:

(a) Property, plant and equipment (PPE)

According to the GRAP statement of property, plant and equipment (PPE), IPSAS 17 (Deloitte, 2017), IAS 16 (IASB, 2018) and Koppeschaar et al. (2018:211), PPE comprise all the tangible assets of an entity. These were previously referred to as fixed assets (see GDE, 2014a:10). The fixed assets for a school will, among others, comprise land, school buildings, hostel buildings, printing, photocopying and fax machines, office furniture, classroom furniture, sports fields, computer equipment, garden equipment and school vehicles.

→ Recognition

The researcher is of the opinion that the school should recognise an item of property, plant and equipment in its statement of financial position as an asset, in terms of the revised conceptual framework (see IASB, 2018:A51). The item of property, plant and equipment shall be recognised in the school's statement of financial position if it meets the definition of an asset which is a present economic resource controlled by the entity as a result of past events (IASB, 2018: paragraph 5.6). According to the revised conceptual framework, the measurement requirement is no longer applicable as a recognition criterion (IASB, 2018: paragraph 5.6; Koppeschaar et al., 2018: 17). Section 10 of the MCS (see National Treasury, 2015: 84) lists three components which have to be satisfied in order for an item to meet the definition of an asset, namely:

- the power and capacity of the entity (the school) to control the service potential or future economic benefits;
- it must have arisen from past transactions or past events; and
- the asset should have future service potential or economic benefit for the entity (the school).

Buildings owned by the state may not be recognised in the school's statement of financial position (Ministry of Education, 2018:65; RSA, 1996c: section 13 of the SASA). However, the school may capitalise any improvement to these buildings, provided these improvements had

been approved by the DoE. Buildings that are built by the school, using school funds, should be recognised in the school's statement of financial position as it satisfies the recognition criteria in terms of the IASB's conceptual framework (IASB, 2018:A51).

Assets transferred from the DoE or another school, should be credited to the net assets of the school, and debited to the assets of the school. Assets received as donation from other parties have to be recognised as assets in the statement of financial position, and the same amount should be recognised as income in the statement of comprehensive income and expenditure.

All other assets purchased from the school funds should be recognised as assets in the statement of financial position, with a credit to the bank account (IASB, 2018:A52; RSA, 1996c). Scheduled or normal replacement of parts, restoration to original look and regular repairs and maintenance should be recognised as an expense in the statement of comprehensive income and expenditure.

→ Measurement

The assets transferred from the DoE or other schools, or received as donation should initially be recognised at fair value. All other assets purchased should initially be recognised at cost (National Treasury, 2015:92; Deloitte, 2017:25).

According to section 72 of the MCS (National Treasury, 2015:91), the cost consists of:

- the purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating as intended by the school's management.

Examples of directly attributable costs include cost of site preparation, initial delivery and handling costs, installation and assembly costs, costs of testing whether the asset is functioning properly, professional fees, compensation of employees directly involved in the construction or acquisition of asset to the extent that the school can reliably estimate the amount to be capitalised (National Treasury, 2015:91).

All assets will subsequently be measured at carrying value, which is a cost less accumulated depreciation and impairment losses (Deloitte, 2017:25; RSA, 2016:10). The depreciation on these assets will be written off as follows:

- land, which should be separated from buildings, has an unlimited useful life and is therefore not depreciated;

- buildings, on a straight-line basis, over an estimated period of 20 years;
- sports fields, on a straight-line basis, over an estimated period of 20 years
- garden equipment, on a straight-line basis, over an estimated period of 10 years
- office furniture, on a straight-line basis, over an estimated period of five years;
- computer equipment, on a straight-line basis, over an estimated period of three years;
- printing, photocopying and fax equipment, on a straight-line basis, over an estimated period of five years;
- classroom furniture, on a straight-line basis, over an estimated period of eight years;
- vehicles, on a straight-line basis, over an estimated period of five years; and
- textbooks and library books, on a straight-line basis, over an estimated period of three years

Assets acquired through a transfer from any of the government departments, or from another school, or donated by another entity, should be measured at cost or fair value. The transferor has the responsibility to fair value the asset prior to transfer, and the documentation supporting the value at which the asset was transferred should accompany the transferred asset (National Treasury, 2015:92). These assets should, subsequently, be measured at carrying value, which is fair value less accumulated depreciation and impairment losses.

→ De-recognition

The school should remove, from its statement of financial position, and from its asset register, an item of PPE:

- on disposal; and
- when no future economic benefits or service potential is expected from its use or disposal.

The gain or loss arising from the de-recognition of an item of PPE should be recognised as ‘other income’ in the statement of comprehensive income and expenditure.

(b) Impairment of property, plant and equipment

A reduction in the value of an asset may be an indication of an asset being impaired (Deloitte, 2017:30). The value of an asset may decline due to the following:

- physical damage to an asset or an asset wearing out earlier than expected;
- changes in technology that makes an asset obsolete; or
- changes in the school curriculum that makes textbooks to be obsolete.

Each year, the governing body must consider the following as per the IAS 36 (Koppeschaar et al., 2018:234; Deloitte, 2017:29-30) whether –

- there are any indications that asset values have declined significantly, more than expected, as a result of passage of time or normal usage;
- there are indications of an asset being impaired, then calculate the asset's recoverable amount which is the higher of an asset's fair value less cost of disposal and its value in use.
- If the carrying amount of the asset is higher than the asset's recoverable amount, then recognise an impairment loss in a statement of comprehensive income and expenditure.

(c) Library resources

Library and teaching resources that include books, periodicals, kits, maps and posters should be recognised as fixed assets if their costs are equal to or more than the school's asset capitalisation limit (Gauteng Provincial Government, 2014a:16; Ministry of Education, 2018:65; National Treasury, 2015:86). The following year-end procedures are recommended (adapted from Ministry of Education, 2018:66):

- ensure that the amount and quantities at the beginning of the year are the same as those at the end of the previous financial year;
- add purchases and donations of the current year to the gross amount of books;
- carry out a stock-take to establish the value and quantity of books on hand and those lost or damaged, which must be written off;
- calculate average resource values and calculate the cost of and depreciation on books written off; and
- calculate the depreciation for the current year on those books on hand at the end of the year.

(d) Intangible assets

According to IAS 38, an intangible asset is an identifiable non-monetary asset without physical substance (Koppeschaar et al., 2018:386). Schools may have intangible assets such as websites, software for student management or accounting software.

→ Recognition

A school should account for the intangible assets in terms of IPSAS 31 and GRAP. The school should recognise an intangible asset if it is probable that the future economic benefits or service

potential that are attributable to the asset will flow to the entity, and the cost or fair value of the asset can be measured reliably. Internally generated goodwill shall not be recognised as an asset.

Where a school pays an annual rental or licence fee, rather than purchasing a software program, the software cannot be recognised as an intangible asset. The school shall therefore:

- recognise the purchased software as an expense in a statement of comprehensive income and expenditure when the purchase price is less than the school's threshold for asset capitalisation limit; and
- recognise the purchased software as an intangible asset in a statement of financial position when the purchase price is equal to or exceeds the school's threshold for asset capitalisation limit.

All research and development costs incurred by the school should be charged directly to the statement of comprehensive income and expenditure when incurred. Internally generated software and website costs should not be recognised as an intangible asset (Ministry of Education, 2018:70; RSA, 2016:10; National Treasury, 2015:88-89).

(e) Investments

The financial assets of a school will comprise investments. As stated in section 3.4.3, a public school is required to have only one bank account. Should a school require additional bank accounts, approval must be granted by the MEC for education. It therefore means that, should a school require to invest surplus funds, prior approval is required from the MEC for education.

→ Measurement

A public school should measure the investments at fair value. Where the fair value cannot be measured reliably, the investment shall be measured at cost. If there is any evidence of the investment being impaired, the impairment loss shall be recognised in a statement of comprehensive income and expenditure. Any revaluation surplus should be recognised as an expense in a statement of comprehensive income and expenditure (Deloitte, 2017:41).

→ Disclosure

The researcher is of the opinion that for the benefit of the users of financial statements, a reconciliation showing the opening balance, the movement during the financial period and the closing balance of the investment must be disclosed in the notes (Koppeschaar et al., 2018:242).

(f) Inventory/stock

As discussed in section 5.2.2.1, Table 5.10 indicates that only one of the participating schools had disclosed inventory in its financial statements. This was also indicated as concern in section 5.3.3.3, where a participating school principal raised the issue of the disclosure of inventory in the financial statements of the schools. Inventories of a school may comprise stationery on hand, cleaning material on hand, NSNP stock on hand, consumable stores on hand, tuck shop goods on hand, and school uniforms on hand.

→ Measurement

Initially, inventory should be measured at cost and then, subsequently, at a lower of cost and net realisable value. The cost of inventory includes all purchase costs, convention costs, and other costs incurred to bring the inventory to its present location (Deloitte, 2017:20; National Treasury, 2015:99; RSA, 2016:9). Trade discounts, rebates and other similar items are deducted in determining the cost of purchase. The cost of inventory shall be determined on a first-in-first-out (FIFO) method (Deloitte, 2017:20; National Treasury, 2015:99; RSA, 2016:9). A weighted average method (WAM) may be used for identical non-perishable items (Deloitte, 2017:20; National Treasury, 2015:99; RSA, 2016:9). The net realisable value is the estimated selling price in the ordinary course of business activities less the estimated costs necessary to make the sale.

Where an inventory has been acquired through a non-exchange transaction (e.g. through a transfer from a government department or donated to the school), the cost should be measured as fair value as at date of acquisition (New Zealand Accounting Standards Board, 2015). The value of goods received as donation should be recognised as an asset and as an income.

The write-downs (see Deloitte, 2017:21; National Treasury, 2015:99; RSA, 2016:9) to net realisable value are recognised as expenses in the period during which the loss occurred and should be accounted for in the statement of comprehensive income and expenditure.

→ Disclosure

The school should disclose the following in its notes with regard to inventories (National Treasury, 2015:101):

- the accounting policies adopted in measuring inventories, including the cost formula used;
- the total cost or net realisable value of each category of inventory disclosed in the face of the statement of financial position; and

- the movement in the total value of the inventory for the reporting period per major classification.

(g) Accounts receivable

The accounts receivable for a school should reflect cash owed to the school in respect of items for which the school has issued invoices or which accrued to the school. These include school fees and government grants, rental and other cash accrued to the school and not received at the end of the financial period (KwaZulu Natal Department of Education, 2014:156).

→ Recognition

Trade and other receivables are recognised in the statement of financial position.

→ Measurement

Receivables should initially be measured at fair value and subsequently measured at the amount which the school realistically expects to receive (KwaZulu Natal Department of Education, 2014:159; Ministry of Education, 2018:63; Deloitte, 2017:41). All receivables which are considered to be uncollectable, should be written off in the financial period in which they are considered to be uncollectable. Provision for doubtful debts should be based on objective evidence that the school will not be able to collect the amount owing (KwaZulu Natal Department of Education, 2014:159; Ministry of Education, 2018:63-64).

→ Disclosure

A school should disclose receivables per category, with a description of the class and the value thereof (National Treasury, 2015:63). A separate list of individual receivables in terms of school fees should be kept by a school, as a reconciliation between the amount disclosed in the notes and the total of individual balances.

(h) Cash and cash equivalents

Cash includes cash in the bank, petty cash kept in the safe, the cash float in the tuck shop, and other short-term investments that the MEC has approved (KwaZulu Natal Department of Education, 2014:159). Cash equivalents, highly liquid investments that are readily converted to known amounts of cash and which are subject to an insignificant risk and change in value (Ministry of Education, 2018:63).

→ Disclosure

A school should disclose in the notes, the balance of significant classes of cash and cash equivalents separately at the end of the financial period (GDE, 2014a: 35; KwaZulu Natal Department of Education, 2014: 159; Ministry of Education, 2018:63).

(i) Provisions

Some South African public schools were facing legal battles with other parties, including the DoE (see section 1.3). An example is the case between Hoërskool Overvaal and the MEC for Education, Gauteng DoE, in which the judge ruled in favour of the SGB. The case between Schoonbee and Others and the MEC for education, Mpumalanga and Others (Mestry, 2014:126), as well as the case between SGB teachers and the Eastern Cape DoE where the court ruled in favour of the SGB teachers (Mail & Guardian, 2019).

→ Recognition

In cases where the school is expected to incur or suffer a loss relating to a contingent liability (see Deloitte, 2017:27), a provision should be recognised. Such provision should be recognised only when (New Zealand Accounting Standards Board, 2015):

- a past event has created a present legal or constructive obligation;
- an outflow of resources embodying economic benefits or service potential to settle the obligation is probable; and
- the amount of the obligation can be estimated reliably.

→ Measurement

According to IAS 37, paragraph 14(c), the amount recognised as a provision is the best estimate of a settlement amount of the expenditure required to settle the obligation at reporting date (see Deloitte, 2017:27, SAICA, 2018:A1502). The provision should be reviewed at each reporting date to adjust for changes to reflect the current best estimate.

→ Reversal of a provision

If it is no longer probable that an outflow of resources embodying economic benefits or service potential is required to settle an obligation, the provision should be reversed (see Deloitte, 2017:27; SAICA, 2018: A1506).

(j) Liabilities

The following types of liabilities should be disclosed:

loans and/or borrowings

Section 36(2) of the SASA prohibits a governing body to enter into any loan or overdraft agreement without the written approval of the MEC for education. Clause 19 of the Bill of Education Law Amendment (13 October 2017) (see DBE, 2017) seeks to amend section 36(2) of the SASA, to include leases. In terms of this clause, governing bodies would need to get the written approval from the MEC for Education in order to enter into any lease agreement (DBE, 2017:clause 19).

→ Recognition

The school shall recognise a liability only when:

- a past event has created a present legal or constructive obligation;
- an outflow of resources embodying economic benefits or service potential to settle the obligation is probable;
- the amount of the obligation can be measured reliably; and
- the transaction has been approved in writing by the MEC for education.

→ Measurement

After recognition, a liability should be measured at the original recorded amount less principal repayments and amortisation (Deloitte, 2017:41; New Zealand Accounting Standards Board, 2015).

→ Disclosure

The following should be disclosed with regard to loans:

- the value of each class of loans;
- a reconciliation showing the opening balance, new loans acquired during the year, repayments and loans written off; and
- a statement indicating whether the loans were approved by the MEC for education or not, and reasons for non-approval (see section 36 (2) of the SASA).

The age analysis per category, showing the following classifications (Eastern Cape Provincial Government, 2015:64), should also be disclosed:

- one to two years;

- two to three years; and
- older than three years

(k) Accounts payable

These include outstanding balances of amounts owed to service providers or suppliers of goods and services for goods or services received by the school. In this case, the school has been invoiced, and therefore should recognise both the expense and the operating creditor (liability) (ASB, 2010: paragraph 5; IASB, 2018: paragraph 4.26). Other payables are the school fees and other income received in advance, as well as accruals. Accruals relate to services received, but where the school has not been invoiced (KwaZulu Natal Department of Education, 2014:156; Ministry of Education, 2018:72). In this case, a best estimate of the expected cost of expenditure incurred will be raised as an expenditure and an accrual (liability).

Accounts payable shall be measured at originally recorded amounts less principal repayments and amortisation (Deloitte, 2017:41).

(l) Employee benefits – salaries

Schools should report a liability for annual leave and long-term service leave for their governing body staff.

→ Classification of assets and liabilities into current and non-current

A public school supplies services within a clearly operating cycle, and therefore the current and non-current assets, and current and non-current liabilities should be presented as separate classifications in the statement of financial position (ASB, 2010, GRAP 1, paragraphs 62 and 64; New Zealand Accounting Standards Board, 2015). According to IPSAS 1, paragraph 72 and GRAP 1, paragraph 72, this classification would provide useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the long-term operations of the entity.

(m) Leases

The school should account for a lease transaction, in terms of IFRS 16, paragraphs 22–60. The school should therefore adhere to the following:

→ Recognition

At the commencement of the lease, the school should recognise a right-of-use asset and a lease liability

→ Measurement

In terms of IAS 16 (IASB, 2016a), the school should:

- initially measure a right-of-use asset and a lease liability on a present value basis including non-cancellable lease payments, and payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease or not exercise an option to terminate the lease.
- include initial direct costs, lease payments made on or before the commencement date, less any lease incentives received, and estimates of costs to be incurred by the lessee in dismantling and removing the underlying asset or restoring the site on which it is located in the carrying amount of the right-of-use asset.
- discount the lease payments over the lease term using the interest rate implicit in the lease, if that rate can be readily determined. If this rate cannot be readily determined, the lessee shall determine and use his or her own incremental borrowing rate.
- subsequently measure the right-of-use asset similarly to other non-financial assets. The right-of-use asset shall be depreciated and tested for impairment.
- subsequently measure the lease liability similarly to other financial liabilities. Reflect the interest on lease liability, and deduct lease payments to reflect capital redemption portion when the payment is made.

→ Presentation

The school shall disclose the following (Deloitte, 2017:21; IASB, 2016c: paragraph 47)–

- right-of-use assets in the statement of financial position, separately from other assets;
- lease liabilities in the statement of financial position, separately from other liabilities; and
- the interest expense on lease liability (as a component of finance costs) separately from the depreciation charge for the right-of-use asset (IASB, 2016, IFRS 16).

6.3.7.2 STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE

The following minimum information should be disclosed in the statement of comprehensive income and expenditure:

(a) Revenue

Public schools generate their revenue mainly from state grants and school fees (RSA, 1996b).

→ School fees

In terms of school fees, a net amount, after deducting the exempted amount, and adding the school fees exemption compensation, should be disclosed. School fees which have been received, but which relate to the next financial period, should be deferred and recognised as a liability in the statement of financial position (ASB, 2010: paragraph 5; GDE, 2014a:10 & 52; KwaZulu Natal Department of Education, 2014:156; Ministry of Education, 2018:72; WCED, 2013:58).

→ State grants/government transfers

In terms of grants, only unconditional grants, or those grants where the school has met the conditions may be recognised as income (KwaZulu Natal Department of Education, 2014:156; Ministry of Education, 2018:57; WCED, 2013:58). Where grants have been received, but the school still has to meet some conditions, and where those conditions are not satisfied by the end of the financial period, the school may be required to pay back the grant(s) if those conditions are not satisfied, should be deferred and recognised as liability in the statement of financial position (KwaZulu Natal Department of Education, 2014:156).

→ Other income

‘Other income’ comprise of donations, gifts, bequests, rental income, net sales from tuck shop, investment income, fundraising income, hostel fees and profit on sale of assets. Donations, gifts and bequests are recognised as revenue when their receipt is formally acknowledged by the school. Any donation of goods and services should be recognised at fair value of those goods or services (Ministry of Education, 2018:58).

If a school receives donations or bequests from individuals or organisations for specific purposes, these gifts can only be used in accordance with the specific purpose(s) stated (Ministry of Education, 2018:58; WCED, 2013:70). Restricted income should be credited to a liability account and may only be transferred to the income account once the conditions or restrictions are

met. In some cases, the donor or grantor may require a financial report to assess compliance (Ministry of Education, 2018:58; WCED, 2013:70).

(b) Expenses

Expenses shall be classified into teaching and learning (LTSM), auxiliary services, nutrition (NSNP), maintenance, sports and culture, and other administrative and operating expenditure (GDE, 2014a:15; KwaZulu Natal Department of Education, 2014:164; RSA, 2016:7; WCED, 2013:58).

6.3.7.3 STATEMENT OF CHANGES IN NET ASSETS

The statement of changes in net assets should indicate the balance as at the beginning of the financial period, the surplus or deficit for the year, transfers to reserves, and the balance as at the end of the financial period (RSA, 2016:5).

6.3.7.3 STATEMENT OF CASH FLOWS FOR THE PERIOD

Section 1.3 highlighted reports of mismanagement and embezzlement of school funds by the SGBs and school principals. Section 36(1) of the SASA mandates SGBs to take reasonable measures within their means to supplement the resources supplied by the government in order to improve the quality of education provided by the school. Users of financial statements would therefore be interested in assessing the ability of the SGB to generate cash and cash equivalents (New Zealand Accounting Standards Board, 2015). In this case, the researcher considers cash to be attached to more risks than other assets. The use of cash needs more accountability. Users would also like to assess the need of the SGB to utilise the cash flows. In terms of paragraph 126 of IPSAS 1, a statement of cash flows should disclose the cash flows from operating, investing and financing activities (Deloitte, 2017:12).

6.3.7.4 BUDGET VARIANCE REPORT

In terms of IPSAS 24, public sector entities that are required to make their approved budget publicly available are required to present a comparison of budget amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented (Deloitte, 2017:33; GDE, 2014a:36; KwaZulu Natal Department of Education, 2014:152 & 153; Ministry of Education, 2018:26).

Section 38 of the SASA mandates the governing body to draft an annual budget and present it for approval at a general meeting of parents. According to IPSAS 24, a public school therefore has to present a budget report disclosing the following (Deloitte, 2017:33; New Zealand Accounting

Standards Board, 2015; GDE, 2014a:36; KwaZulu Natal Department of Education, 2014:152 & 153; Ministry of Education, 2018:26):

- the original and final budget amounts;
- the actual amounts on a comparable basis;
- the variances (in amounts and in percentages); and
- by way of note, an explanation of material differences between the budget and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements.

6.3.7.5 NOTES TO THE FINANCIAL STATEMENTS

The notes should contain:

- information about the basis of preparation of the financial statements and the specific significant accounting policies used; and
- disclosure of the information not presented on the face of the statement of financial position, statement of comprehensive income and expenditure, and the statement of cash flows, and is relevant to an understanding of any item (ASB, 2010: paragraph 122; GDE, 2014:35; KwaZulu Natal Department of Education, 2014:159; WCED, 2013:59).

(a) Contracts

Details of significant contracts entered into which expire beyond the term of the current SGB should also be disclosed in the notes.

(b) Related party disclosure

The school should disclose the following information with regard to related parties (National Treasury, 2015b):

- total balances of receivables and payables that arose from related party transactions;
- the balance of loans made to or from related parties;
- breakdown of any guarantees issued to related parties;
- breakdown of any other contingent liabilities between a school and the related parties;
- information about any in-kind goods or services received from or provided to a related party;
- summary of payments made to governing body employees;
- summary of payments made to members of the SGB, the SMT and other sub-committees;
- total payments made to close family members of the SGB, the SMT and other

subcommittees members; and

- number of individuals serving on the SGB, the SMT and other sub-committees.

(c) Unauthorised, irregular and fruitless and wasteful expenditure

In section 3.2.3, reference was made to the consolidated AGSA 2018 audit report for the national and provincial government departments, which revealed a considerable increase in unauthorised, irregular and fruitless and wasteful expenditures (Eyewitness News, 2018). In the report, the AGSA pointed out a serious concern on the deteriorating financial health of the education, health and public works departments. Increasing unauthorised, irregular and fruitless and wasteful expenditures are an indication of a lack of proper accountability and responsibility by management. It is against this background that the researcher deems it necessary that the SGB should disclose the following information in the financial statements (see National Treasury, 2015: 66-67):

- The total amount of unauthorised expenditure, until such time as the expenditure is either approved by the relevant authority (the SGB or the MEC) or transferred to receivables for recovery.
- The total amount of fruitless and wasteful expenditure when it is confirmed. The fruitless and wasteful expenditure is removed from the notes when resolved or transferred to receivables for recovery. The receivables amount will be equal to the amount expected to be recovered.
- The total amount of irregular expenditure is recorded in the notes when it is confirmed. It is removed when transferred to receivables for recovery or when it is condoned by relevant authority (the SGB or the MEC), and is not recoverable.

The SGB may choose to disclose additional information such as financial ratios, such as total expenditure per learner, learner/teacher ratio, total workshop expenditure per teacher. The literature study (see section 3.5) and the interviews results (see section 5.3.3.3), indicate that the disclosure of more information about enrolled learners, learners who passed exit grades, expenditure per learner, learner–teacher ratios, workshop expenditure per teacher, and learners’ feedback on subjects may benefit the stakeholders.

6.3.8 AUDIT AND EXAMINATION OF THE ANNUAL FINANCIAL STATEMENTS

The appointment of auditors remains a challenge for the SGBs of South African public schools. Section 5.4 concludes that there has been non-compliance in terms of section 43 of the SASA, as

well as circular M1/2017 (DBE, 2017b).

In terms of section 43(1) of the SASA, the SGB must appoint a person registered as an auditor in terms of the Audit Profession Act (No. 26 of 2005) to audit the records and financial statements of a public school (RSA, 1996c). As discussed in section 3.4.6, AGSA (2016) found that a sample of schools did not use auditors who were registered, as required by section 43(1) of the SASA and that some of the schools did not use persons who were approved by the MEC as required by section 43(2)(b) of the SASA. According to section 5.3.2.2, interview data from districts 2, 3 and 4 indicated that the schools' audit reports were not comprehensive and that they did not include recommendations for improvement. According to officials from districts 2, 3 and 4, the DoE was therefore not able to attend to the problems experienced by the schools and was unable to identify any training needs. The official from district 2 indicated that there is a fear that these audit reports might have been from the unqualified auditors.

According to Table 5.15 and section 5.3.3.1, some schools appointed accounting officers for a term exceeding three years, which is more than the SGB's term of office as per section 31 of the SASA. This may also compromise the accounting officer's independence. Research done by Ruiz-Barbadillo, Gomez-Aguilar and Carrera (2009:116) indicates that a company is more likely to retain its auditor when the auditor gives a company a clean audit. This is also in contravention of the GDE circular 01/2015 (see GPE, 2015) which forbade the governing bodies to enter into any contract that exceeds the three-year term of office. Although, the audit firm rotation is not mandatory in South Africa, the King IV report on Corporate Governance recommends the disclosure of the tenure of an audit firm with regard to the independence of the auditors (IoDSA, 2016:32).

The researcher is of the opinion that an alternative to audit or examine the financial statements of the schools, which is provided for in section 43 of the SASA, might be the root of this non-compliance. As discussed in section 5.4, the high cost of audit is purported to be the reason for submitting the financial statements for examination instead of an audit.

Clause 11 of the Basic Education Law Amendment (BELA) Bill (13 October 2017) (see DBE, 2017a), seeks to amend section 21 of the SASA to empower the head of the DoE to procure learner support material centrally (DBE, 2017a:7). Clause 23(b) of the BELA Bill also seeks to amend section 43 of the SASA to empower the head of department of education to request AGSA to undertake an audit of the records and financial statements of a public school (DBE, 2017a:10). The researcher is of the opinion that the amendment will be in line with best practice

as the audit of public sector entities is undertaken by AGSA. This is also practice in New Zealand (see Ministry of Education, 2018). The schools in New Zealand are audited by the Auditor-General of New Zealand (see section 3.8).

6.3.9 SEGREGATION OF DUTIES BETWEEN THE PREPARATIONS OF FINANCIAL STATEMENTS AND THE AUDIT OR EXAMINATION THEREOF

Section 5.4 indicates that the auditors and the accounting officers appointed by the participating schools were doing a self-review in 2014 and 2015. They were appointed to prepare the accounting records, financial statements, as well as the audit and examination thereof, which is in contravention of circular M1 of 2017 (DBE, 2017b). According to SAICA, this may affect the independency of the auditors as the preparer of the financial statements of a client may not be allowed to be appointed as the auditor of the same client (SAICA, 2017:18). The governing body is responsible for preparing the financial statements in terms of section 42(b) of the SASA. Circular M1 of 2017 provides that, should the governing body resolve at its meeting to appoint a bookkeeper, the governing body must ensure (DBE, 2017b:2) that –

- the decision to appoint a bookkeeper is properly minuted; and
- the person so appointed as bookkeeper is not –
 - the same person appointed as the auditor in terms of section 43(1) of the SASA;
or
 - the same person appointed as the accounting officer in terms of section 43(2) of the SASA.

6.3.10 APPROVAL AND SUBMISSION OF THE AUDITED FINANCIAL STATEMENTS

The SGB of a public school should ensure that:

- the audited annual financial statements are approved by the governing body of a public school at a meeting convened for such purpose (see DBE, 2017b:3);
- the audited financial statements are approved by the parents at a special meeting convened for such purpose (see RSA, 1996c); and
- the audited financial statements, approved by both the governing body of the school and parents, are submitted to the DoE within six months after the end of the financial year as required by section 43(5) of the SASA (see RSA, 1996c).

6.4 SIMILARITIES AND DIFFERENCES BETWEEN GUIDELINES DEVELOPED IN THIS STUDY AND DRAFT GUIDELINES DEVELOPED BY SAICA

As mentioned in section 1.2 above, SAICA had started the process of developing the guidelines for schools' financial reporting in 2017. The researcher consequently compared the guidelines he developed in the course of the current study to SAICA's draft guidelines.

6.4.1 SIMILARITIES

The following similarities were identified:

- Both sets of guidelines adopted the definitions, general principles and qualitative characteristics of financial statements from the GRAP.
- Both sets of guidelines agree in terms of presenting the income and expenditure statement, accounting policies and explanatory notes as components of financial statements.
- Both sets of guidelines disclose incomes, expenses, assets, liabilities and equity as main elements of financial statements.
- Both sets of guidelines provide for the audit and examination of financial statements.

6.4.2 DIFFERENCES

The following were the differences identified by the researcher:

- The researcher included the types of source documents as well as the accounting records that should be kept by the public schools, while SAICA did not include such information in its guidelines.
- The researcher included learners and auditors as primary users of financial statements while SAICA excluded them as users of financial statements.
- The researcher included a statement of financial position as part of the components of the financial statements while SAICA included the statement of assets and liabilities.
- The researcher included a statement of responsibility by SGB, a statement of cash flow, statement of changes in net assets and budget variance report as part of the components of the financial statements while SAICA did not include them in the components of financial statements.
- The researcher made reference to the SA-SAMS while SAICA did not make any reference to the SA-SAMS.
- The guidelines developed by the researcher require that the assets and liabilities be

categorised into non-current and current, while according to SAICA, only a statement of assets and liabilities is required.

6.5 VALIDATION OF RECOMMENDED PRACTICE GUIDELINES

As mentioned in section 4.10 above, the researcher submitted the recommended practice guidelines for validation by external parties. The recommended practice guidelines were sent to SAICA and AGSA.

6.5.1 THE PROCESS FOLLOWED

The researcher sent emails to the office of AGSA and SAICA requesting them to validate or to comment on the recommended practice guidelines. Feedback was received from SAICA and AGSA by email. SAICA's comments were in the form of an appendix (see Annexure M) attached to an email, while AGSA's comments were presented in an email itself (see Annexure N). The names of the respondents were deleted to protect their identity and to comply with the ethical considerations discussed in section 4.9.2.

The researcher considered the comments from SAICA and AGSA in drafting the final recommended practice guidelines.

6.5.2 CONSIDERATION OF COMMENTS BY SAICA

The first three columns of Annexure M reflect the comments by SAICA while the last column is an indication of how the researcher considered the SAICA comments in finalising the recommended practice guidelines.

6.5.3 CONSIDERATION OF COMMENTS BY AGSA

Comments from AGSA were taken as such and no further action was required.

6.6 SUMMARY AND CONCLUSION

In section 1.4, the researcher stated that there is a need for uniform reporting standards. After a comparison of schools' financial reporting guidelines from various provinces and a comparison of selected schools' financial statements, the researcher noted some inconsistencies. Data gathered through interviews of various schools' stakeholders also indicated that there is a need for uniform reporting guidelines for use by South African SGBs in preparing the accounting records and annual financial statements of public schools.

In this chapter, the recommended practice guidelines that were developed for use by SGBs of public schools in South Africa when preparing the accounting records and annual financial

statements was discussed. A discussion on what to include in the guidelines was also done, and this discussion is reflected in Annexure I. In developing the guidelines, users of schools' financial statements, data gathered through the literature review, data obtained through document analysis, as well as data obtained through interviews were considered. The researcher based the development of the best practise guidelines mainly on the GRAP, IFRS, IPSAS and the SA-SAMS. This was to ensure that the guidelines are in line with best practice.

The objective and the scope of the guidelines were first discussed, followed by the definition of terms, which were adapted from GRAP, IFRS and the IPSAS. The researcher then discussed the types of source documents, the minimum accounting records that a school should keep, as well as the reports to be produced on a monthly basis. These source documents, accounting records, as well as the monthly reports were aligned to SA-SAMS. This was to ensure the cost-effectiveness and to reduce complexity in the implementation and application of the guidelines. The DoE had already installed the SA-SAMS program at schools. Therefore, no further costs would be incurred in terms of installation of the system or program. The researcher agrees with SAICA that the use of SA-SAMS might require provision of funding to appoint qualified accounting officers and to provide extended technical support (see Annexure M, comment 6.3.5).

The purpose, components of financial statements, as well as the elements of financial statements were also discussed, based on the IFRS, GRAP, MCS, IPSAS and SA-SAMS. The format and examples of the financial statements are reflected in Annexure J. In section 6.3.8, the requirements of the audit and the examination of the accounting records and annual financial statements were discussed. These were based on the requirements of the SASA and circular M1 of 2017.

Lastly, the feedback from SAICA and the AGSA with regard to the validation of the recommended practice guidelines was discussed. This discussion was based on how the comments were addressed in finalising the recommended practice guidelines.

CHAPTER 7

SUMMARY, CONCLUSION AND RECOMMENDATIONS

7.1 INTRODUCTION

The current study aimed at developing uniform best practice financial reporting guidelines to be used by SGBs of South African public schools when keeping their accounting records and preparing the annual financial statements. As stated in section 1.2, the researcher's interest in school governance emerged when he was elected as a member of the SGB and served first as treasurer and then as chairperson of the SGB. The researcher identified the lack of uniform financial recording and reporting guidelines for the SGBs of public schools in South Africa, which resulted in an inconsistent, non-comparable and unreliable financial reporting system in the reporting by South African schools. As stated in section 1.9.1 above, the study only focused on the preparation of accounting records, annual financial statements and the audit thereof by section 21 schools.

In order to achieve the main aim of the study, the following objectives were addressed:

1. to establish the existence of any accounting standards, legislation and guidelines in terms of financial record-keeping and reporting in various provinces;
2. to compare available financial reporting guidelines from various provinces in South Africa, and to establish whether they were consistent and comparable with each other and whether they were in line with best practice;
3. to examine financial statements of selected schools for consistency and comparability with each other;
4. to examine the financial statements of selected schools for compliance with provincial guidelines; and
5. to develop recommended practice guidelines or to contribute by improving existing guidelines to be used by SGBs in order to improve compliance, comparability and consistency in financial reporting.

To address the above objectives, a literature review was conducted (see Chapters 2 and 3). In order for the researcher to gain a good understanding on how the finances of the schools are being handled and managed, interviews were conducted at selected schools in Gauteng. The data obtained from the interviews could not be used to generalise the findings as the data was

obtained by means of a qualitative study in one province. As discussed in section 4.3.1.2 above, the researcher used the data collected from the analysis of schools' financial statements and interviews to supplement the data collected by analysing the guidelines. The researcher obtained the main data from document analysis (analysis of financial reporting guidelines from provinces).

In the previous chapter, the researcher applied the information obtained from the literature review, document analysis and interviews to develop the recommended practice guidelines. In this chapter, the researcher presents a summary of the study by first outlining important aspects of the literature review. The researcher will discuss how the research objectives were addressed, the contribution of the study, and then give recommendations for future research. The chapter is then concluded with the conclusions resulting from the study.

7.2 SUMMARY OF CHAPTERS

Chapter 1

Chapter 1 of this study dealt with the orientation of the study. A short history of school governance in South Africa was discussed. The discussion was mainly based on how the school committees dominated prior to 1994, and the formation of SGBs in 1996. The researcher gave a background of his interest in conducting a study on school governance, which was influenced by his participation in school governance as the SGB treasurer and chairperson.

A lack of financial management skills, insufficient training and a lack of understanding of the role and responsibilities of the SGB were highlighted as some of the challenges facing SGBs of public schools in South Africa. The lack of financial management skills might have led to financial mismanagement, improper financial record-keeping and reporting, as indicated by the Corruption Watch reports for 2014, 2015 and 2016 (Corruption Watch, 2014; 2015 & 2016).

The lack of uniform financial reporting standards was identified as the main problem to be addressed by this study. In this chapter, the need for uniform reporting guidelines was discussed. Coy et al. (2001:22), Bordoloi and Bordoloi (2013:25), Doussy and Doussy (2014:34), Riahi-Belkaoui (2007:99) and Koppeschaar et al. (2018:12) agree that there is a need for uniform accounting standards in order to achieve consistency, comparability, reliability and fair representation of financial information, in order to enable the users of these financial statements to make informed decisions. The research objectives and questions were also formulated in order to achieve the research aim and reflected in this chapter.

Chapter 2

In section 2.3, it was shown that Tooley and Guthrie (2007:352) emphasise the importance of disclosing sufficient and meaningful financial information in the schools' annual reports to enable stakeholders to obtain a comprehensive understanding of the school's performance. The researcher identified two theories, the accountability theory and the stakeholder theory, as the theories relevant for the study.

Farrell and Law (1999:6) referred to accountability and responsibility as non-separable. Those who are given responsibility are also expected to be accountable. Lastly, the researcher discussed who the schools' stakeholders are. Government, donors, parents, learners, the principal, teachers, non-teaching staff and auditors are regarded as primary users of financial statements of the school. The chapter also identified the broader community as other stakeholders.

Chapter 3

This chapter first outlined the legislative framework on which the schools' financial reporting is based. The South African Constitution, which is regarded the supreme law of the country, was discussed as a base of other Acts and regulations. The Constitution puts the responsibility to provide education on the DoE, through a Bill of Rights, which states that citizens have a right to basic education. The SASA, which is the main Act with which SGBs should comply, gives some responsibilities, including financial responsibilities, to SGBs. The researcher is of the opinion that schools are part of public entities as defined by the PFMA. According to the PFMA, the prevention of incurring fruitless and wasteful expenditure is the responsibility of the schools' accounting officer and the SGB.

Section 3.3 emphasised the responsibility assigned to school principals and the SGBs in preparation of the budgets, supplementing the schools' resources by raising funds, purchasing of assets and textbooks, maintenance of school buildings and preparation of financial records, as well as financial statements. All the above-mentioned responsibilities fall within the ambit of financial management. SGBs are therefore responsible for the financial planning (budgeting and strategy), financial control (internal controls) and financial monitoring (record-keeping, analysis and reporting), i.e. developing the schools' financial policy, preparing the budget, managing the school funds, keeping of accounting records and preparation of financial statements. Section 1.4 indicates that section 42 of the SASA requires SGBs to prepare the accounting records and

financial statements using the guidelines developed by the MECs for education. The researcher is of the opinion that the guidelines prepared by the MECs should be in line with the best practice. In this case, the researcher discussed the GRAP, IFRS and the IPSAS. South African public schools were also provided with an administration system, the SA-SAMS. According to the discussion in section 3.4.5, this system was designed to simplify both the administration work and financial recording at school level. The IFRS for SMEs were discussed, and the researcher is of the opinion that these standards are not suitable for schools as they are considered to be complex.

Lastly, the financial reporting guidelines of schools in other countries were obtained and analysed. As opposed to the requirements of the SASA, which require that each province develop its own financial guidelines, schools in Australia, New Zealand and England apply uniform guidelines.

Chapter 4

Chapter 4 presented the research methodology. The qualitative research approach, which the researcher considered most suitable to achieve the research aim, was discussed. This was followed by a discussion of the data collection instruments, i.e. document analysis and individual interviews. The researcher then discussed the population, sampling, reliability and validity, limitations of the study as well as data analysis and interpretation. Lastly, the ethical considerations were discussed. The procedure that was followed in developing the recommended practice guidelines was also discussed.

Chapter 5

This chapter outlined the presentation, analysis and interpretation of data collected by means of document analysis and individual interviews. First, data collected from the analysis of guidelines were presented and interpreted. The guidelines were compared in order to examine whether the guidelines were consistent with each other. Second, the guidelines were compared to GRAP, IFRS and IPSAS to determine whether these guidelines are in line with best practice. The guidelines were also compared to the SASA to determine the level of compliance.

Then data collected from the analysis of the school's financial statements were presented and interpreted. Firstly, the financial statements of selected schools were compared to determine the level of consistency. Secondly, the financial statements were compared to the provincial guidelines to determine the level of compliance with the prescribed guidelines. Lastly, the data

collected from an analysis of the transcribed individual interviews were presented and interpreted. Lastly, conclusions were drawn from the above data. The relationship between data collected from analysis of guidelines and schools' financial statements, data collected from the analysis of individual interviews and data obtained by means of the literature review was also discussed.

The guidelines and the financial statements were found to be not consistent. Some of the guidelines were not signed by the MECs for education as proof of being approved for use, while some of the guidelines were not updated. It was also found that the financial statements did not comply with the prescribed provincial guidelines and the SASA.

Chapter 6

In this chapter, the researcher discussed how he developed the recommended practice guidelines to be used by SGBs of South African public schools in preparing the accounting records and financial statements. In developing the guidelines, the needs of the primary users of financial statements and skills requirements were considered. The information gathered from the literature review, data collected from the analysis of the provincial guidelines, as well as the data collected from the interviews was also considered when developing the guidelines. The guidelines cover the keeping of accounting records, the preparation of financial statements, as well as the audit and examination of financial statements. The researcher requested external professional bodies to validate the guidelines. Feedback from SAICA and AGSA was received, and was considered in finalising the guidelines.

Regarding the keeping of accounting records, the guidelines indicate the types of accounting records, such as a cash-book, the bank reconciliation statements, petty cash journal, debtors' ledger, creditors' ledger, a fixed assets register, inventory register, a budget, standard chart of accounts or general ledger, and the trial balance. The SGB is also required to keep the source documents in a safe place. These source documents could be receipts, EFT slips, cheque counterfoils and returned cheques, monthly bank statements, cheque requisitions, invoices, contracts, proof of approvals from the MEC, as required by section 38A and section 43(2)(b) of the SASA, stock certificates, as well as the audit engagement letters or appointment letters of the accounting officers.

Regarding the financial statements, SGBs are required to prepare a statement of income and expenditure, a statement of financial position, a statement of changes in net assets or equity, a statement of cash flows, a budget variance report, as well as the notes to the financial statements.

Annexure I reflects the format and example of the financial statements.

The financial statements should be approved at a meeting by the SGB. The SGB is also responsible for appointing an auditor to audit the financial statements. The examination of the financial statements in terms of section 43(2)(b) of the SASA may only be done with approval of the MEC for education.

7.3 SUMMARY OF HOW THE RESEARCH OBJECTIVES WERE ACHIEVED

The discussion below outlines how the research objectives were addressed:

7.3.1 RESEARCH OBJECTIVE 1: to establish the existence of any accounting standards, legislation and guidelines in terms of financial record-keeping and reporting in various provinces

Section 1.4 mentioned that various provinces developed the financial reporting guidelines in order to comply with the section 42 of the SASA. Sections 3.2.1 and 3.2.2 discussed the SASA and the PFMA, respectively, as part of the legislative framework. As mentioned in section 1.4, section 42 of the SASA requires the SGB to keep records and prepare the financial statements of the school according to the guidelines developed by the MEC for education. In this case, Colditz et al. (2017) did not rule out the possibility of some provinces not having these guidelines. As mentioned in section 4.3.1.1, the researcher was able to obtain the guidelines from eight provinces. This is an indication that there are guidelines in terms of financial record-keeping and reporting in various provinces. This is also an indication that there is legislation in terms of financial record-keeping and reporting in various provinces.

7.3.2 RESEARCH OBJECTIVE 2: to compare available financial reporting guidelines from various provinces in South Africa to establish whether they are consistent and comparable with each other and whether they are in line with best practice.

The guidelines developed by the MECs for education in the various provinces in terms of section 42 of the SASA, were found to be inconsistent with each other. As confirmed in section 5.2.1.1, the guidelines from the different provinces do not require similar information with regard to record-keeping, preparation of financial statements as well as audit or examination of financial statements. The guidelines from various provinces are not in line with best practice (see section 5.2.1.2 and Table 5.8). The results therefore confirmed that the use of various guidelines would result in production of inconsistent financial statements.

7.3.3 RESEARCH OBJECTIVE 3: to examine financial statements of selected schools for consistency and comparability with each other.

The financial statements of public schools were found to be consistent year on year. However, these financial statements were found not to be consistent with each other. This is supported by data obtained from the document analysis (section 5.2.2.1) and information obtained from interviews (sections 5.3.2.2 & 5.3.3.3). This means that it was not possible to analyse the financial statements of the performance of different schools relative to performance of schools within the district, province and the country, as mentioned by Koppeschaar et al. (2018). As confirmed in section 7.3.2, the application of different guidelines would result in inconsistencies in the financial statements.

7.3.4 RESEARCH OBJECTIVE 4: to examine the financial statements of selected schools for compliance with provincial guidelines.

The financial statements of the selected schools did not comply with the set guidelines. Sections 5.3.1.3, 5.3.2.2 and 5.3.3.3 revealed that the members of the SGBs, school principals and district officials representing the DoE, as well as the auditors and accounting officers of the schools were not aware of the existence of the guidelines. It is not possible for the schools to comply with the guidelines of whose existence they do not know. The districts could not arrange for the SGBs to be trained on the application of the guidelines as the officials themselves were not aware of the existence of the guidelines. The auditors could not give an opinion on compliance of SGBs with section 42 of the SASA as they also did not know of the existence of these guidelines. The schools did not comply with the guidelines in terms of the audit of financial statements. The majority of schools appointed finance officers instead of auditors, without even complying with section 43(b) of the SASA. The guidelines developed by the MECs for education were therefore ineffective in addressing the challenges relating to financial reporting by SGBs of South African public schools.

7.3.5 RESEARCH OBJECTIVE 5: to develop recommended practice guidelines or to contribute by improving existing guidelines to be used by SGBs in order to improve compliance, comparability and consistency in financial reporting.

As mentioned in section 1.2, the researcher experienced some difficulties when preparing the financial statements of the school where he served as the SGB treasurer. This problem however seems to be not unique at one school only. The researcher also identified that, at the time of this research, there was no proper financial reporting in South African public schools. In section 1.3,

the researcher discussed various challenges facing the governing bodies, such as financial mismanagement, fraud, and corruption that resulted in the prosecution of some principals and members of the SGBs. The challenge of financial mismanagement is not unique to South African schools only. Section 1.5 indicates that schools in Kenya and Zimbabwe had also experienced the same challenges. According to the researcher and previous research, some of these challenges may have resulted from the lack of proper financial reporting guidelines.

In sections 1.4 and 6.1, the researcher discussed the need for uniform accounting reporting guidelines for South African public schools. This need is supported by the uniformity in reporting by schools in Australia, New Zealand and England, as discussed in section 3.8. In section 6.3.2, the researcher showed that the inconsistencies in financial statements result from the use of different guidelines, as confirmed in section 6.3.3. In the light of this the researcher developed the recommended practice guidelines for use by governing bodies of public schools in South Africa.

As a by-product of the research, the secondary findings unveiled that –

- the district officials do not have the required knowledge on schools' finances;
- district officials do not check the correctness, completeness and accuracy of the financial statements, on submission by the SGBs, as submission is only done for ticking the box; and
- monitoring is not done by districts to enforce compliance with regulations.

7.4 CONTRIBUTION TO KNOWLEDGE

The current study yielded the results expected by the researcher. The researcher developed recommended practice guidelines, which will contribute to the preparation of consistent, comparable and reliable accounting records and financial statements of public schools in South Africa. The quality of financial reporting by public schools will also be enhanced. The application of these guidelines will further improve the efficient utilisation of resources by governing bodies and improve accountability, responsibility and transparency. The guidelines encourage the use of the already existing system, namely the SA-SAMS. This is an example of the efficient utilisation of resources that may lead to saving of state funds and therefore an enhancement of free, quality education.

The results of this research study will be made available to the DoE in a prescribed report format. As mentioned in section 1.5, very little research has been conducted in terms of schools' financial reporting as compared to schools' financial management. The thesis resulting from the

current research will also contribute to the literature on schools' financial accounting and reporting, and it will be available to other scholars to be used as reference.

7.5 RECOMMENDATIONS FOR FURTHER STUDIES

The researcher recommends a further study into any of the following topics:

- the influence of formal educational financial qualifications on the effectiveness of SGB treasurers in school financial reporting;
- the effectiveness of the recommended practice guidelines that were developed in producing consistent, comparable and reliable schools' financial statements;
- the effectiveness of financial management training in addressing the financial reporting challenges of South African public schools; and
- the question whether an examination of schools' financial records and financial statements should still be considered and acceptable.

7.6 GENERALISABILITY OF THE RESULTS

The results of this study were mainly based on the analysis of guidelines. Guidelines from eight (of the nine) provinces were obtained. In order to obtain a better understanding of the phenomena, i.e. knowledge of the SASA, schools' financial management, schools' annual financial reporting, SGBs' training, appointment of auditors and accounting officers, as well as schools' internal controls, the researcher obtained further information from interviews and the analysis of financial statements of selected schools. As the study focused on developing the theory, the conclusions based on data collected are higher in validity than in reliability; therefore, the results cannot be generalised.

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ANNEXURE A Code report (ATLAS.ti)

Project: SA SGB FINANCIAL REPORTING

Report created by Hlongmt on 2018/03/14

Codes Report

(7) Codes in any of the groups:
ACCOUNTABILITY

● ACCOUNTABILITY

24 Quotations:

D 6: Int_DO_D1 - 6:8 But often as I am a circuit manager they report to me. (1842:1895)

But often as I am a circuit manager they report to me.

1 Codes:

- ACCOUNTABILITY

D 14: Int_Pri_D_LSN - 14:14 You see the SGB are the people who are accountable. They are the peop... (6559:6666)

You see the SGB are the people who are accountable. They are the people who are buying stuff here at school

1 Codes:

- ACCOUNTABILITY

D 15: Int_Pri_E_NFP - 15:9 when money is collected it is spend timeously we do not keep huge sums... (2797:3025)

when money is collected it is spend timeously we do not keep huge sums of money at the school. And ensure there is monthly reconciliation and to ensure also that there is monthly reporting to the district using the system itself

4 Codes:

- ACCOUNTABILITY / ● ACCOUNTING RECORDS / ● CONTROL MEASURES: CASH / ○ REPORTING

D 15: Int_Pri_E_NFP - 15:10 to keep a paper trail of assets and payments and liabilities of the sc... (3132:3816)

D 15: Int_Pri_E_NFP - 15:16 All cash is banked after collection. All cash collected is receipted... (7912:8102)

All cash is banked after collection. All cash collected is receipted that is accepting, there is banking and what is receipted on the day of banking (inaudible) we only use one receipt book.

5 Codes:

● ACCOUNTABILITY / ● ACCOUNTING RECORDS / ● CONTROL MEASURES: CASH / ● CONTROL MEASURES: INCOME & EXPENDITURE / ● DOCUMENTATION

D 15: Int_Pri_E_NFP - 15:19 So we do not keep cash in the school, we pay by cheque, when we do cla... (8594:8753)

So we do not keep cash in the school, we pay by cheque, when we do claims and produce like a ghost cheque, cover those claims. And also to reduce banking fees.

3 Codes:

● ACCOUNTABILITY / ● CONTROL MEASURES: CASH / ● DOCUMENTATION

D 17: Int_SFO_B_NFP - 17:16 And then I am doing the requisitions for the cheques, before the money... (3315:3527)

And then I am doing the requisitions for the cheques, before the money can be used. And then there is a signature for the principal, for the treasurer and for the chairperson of the SGB before it can be processed

3 Codes:

● ACCOUNTABILITY / ● ACCOUNTING RECORDS / ● DOCUMENTATION

D 17: Int_SFO_B_NFP - 17:25 I must if say a budget for maths is R20 000.00 I must always minus if... (6258:6533)

I must if say a budget for maths is R20 000.00 I must always minus if they have got something and then I must again in the SGB meeting before the departmental meeting

ANNEXURE B Interview guide (SGB treasurer, finance officer and the Principal)

SECTION ONE (information to be obtained prior to the interview)

CATEGORY and EXPERIENCE

| Category | SGB experience in years |
|------------------|-------------------------|
| SGB – Treasurer | |
| School principal | |
| Finance officer | |

SECTION TWO (interview questions)

2.1 Knowledge of the South African Schools Act (SASA)

- Do you have a copy of the South African Schools Act?
- Have you attended any training on the South African Schools Act?
- With the information acquired from the trainings, are you able to perform your duties as SGB member?
- Which areas do you still need training on?
- Which committees does the school have?
- What is the role of the SGB with regard to the development of policies?
- What other policies do you have?
- What role do you play in terms of preparation and audit of annual financial statements of the school?

2.2 Knowledge and understanding of Financial Management

- What do you understand by financial management?
- How do you prepare the school's budget?
- Who are the people responsible for preparing the budget in your school?
- When preparing the budget, do you take the departmental allocation into account?
- Does the school have the School Improvement Plan (SIP) and the School Development Plan (SDP)?
- What measures are put in place to ensure that objectives set on the SIP and SDP are achieved?

- How do you monitor and control the school's expenditure in ensuring that it is in accordance with the budget?
- What control measures do you have over the school's cash?
- Does the school prepare accounting records?

2.3 knowledge and understanding of annual reporting

- What do you understand by financial reporting?
- Which accounting standards or guidelines do you use when preparing the financial statements?
- What components or type of financial statements do you prepare?
- What other information (financial or non-financial) do you think it should be included in the school's financial statements?
- Why do you think this information will be useful?
- Do you think the information contained in the financial statements is sufficient for decision making?

ANNEXURE C Interview guide (District Officials)

SECTION ONE (information to be obtained prior to the interview)

| | |
|----------|--|
| District | |
| Province | |

SECTION TWO (interview questions)

2.1 SGB TRAINING

- When is training provided to the SGBs by the department?
- In which areas is training provided (e.g. finance, administration)?
- Is there any follow-up to these trainings?
- How is compliance monitored at schools?

2.2 PREPARATION AND SUBMISSION OF FINANCIAL STATEMENTS BY SGBs

- Which accounting standards or guidelines do SGBs use in preparing the financial records and financial statements for the schools?
- Do SGBs comply with these guidelines?
- Are the financial statements of these schools consistent year by year?
- Are the financial statements consistent for all schools within the district as well as with other districts within the province?
- Is the information provided in the financial statements sufficient for the department's decision making?
- What other information (financial or non-financial) do you think should be included in the financial report?
- How will the information be useful to the department or other stakeholders?
- Section 42 of the SASA requires the SGB's to prepare financial statements using guidelines determined by MEC's of Education in various provinces. As a result, in August 2014 the GDE gazetted the FINANCIAL REGULATIONS, GUIDELINES AND STANDARD CHART OF ACCOUNTS. **Was there any training provided to schools in applying these guidelines?**
- What is your opinion in having different financial reporting guidelines in various provinces?

- Do you think it is appropriate to have uniform guidelines for all provinces?
- What is your opinion regarding the use of SA-SAMS in preparing financial records and financial statements by schools?
- Public schools are also given a choice to have their financial statements audited or inspected by an accounting officer. **What is your opinion on these choices?**

ANNEXURE D Interview guide (Schools Auditors/accounting officers)

SECTION ONE (information to be obtained prior to the interview)

1.1 DESIGNATION

| | |
|---------------------------|--|
| Registered auditor (CASA) | |
| Accounting officer | |

1.2 TYPE OF REPORT ISSUED

| Financial year | 2014 | 2015 |
|-----------------------------|------|------|
| Audit report | | |
| Accounting officer's report | | |

SECTION TWO (interview questions)

2.1 AUDITOR'S APPOINTMENT AND SCHOOLS' INTERNAL CONTROLS

- When were you first appointed as auditor of this school?
- What functions were you appointed to perform?
- Were you given an appointment letter detailing all the functions to be performed?
- What is your opinion on the internal control measures of the public schools in South Africa?

2.2 SGB TRAINING

What is your opinion with regard to the trainings provided to the SGB's on the following?

- Financial management?
- Reporting?
- Application of the SASA and other regulations?

2.3 PREPARATION AND SUBMISSION OF FINANCIAL STATEMENTS BY SGBs

- Which accounting standards or guidelines do SGBs use in preparing the financial records and financial statements for the schools?
- Do SGBs comply with these guidelines?
- Are the financial statements of these schools consistent year by year?
- What your opinion on the consistency and comparability of schools' financial statements across the province and across the country?

- Is the information provided in the financial statements sufficient for the stakeholders' decision making?
- What other information (financial or non-financial) do you think should be included in the financial report?
- How will the information be useful to the department and other stakeholders?
- Section 42 of the SASA requires the SGBs' to prepare the financial statements of the schools using guidelines determined by MEC's of education in various provinces. This suggest that there will be different guidelines in each province. **What is your opinion in having different financial reporting guidelines in various provinces?**
- Do you think it is appropriate to have uniform guidelines to be used by all provinces?
- Public schools are also given a choice to have their financial statements audited or inspected by an accounting officer. **What is your opinion on these choices?**

ANNEXURE E Approval letter from the Head Office of the Department of Education

For administrative use only:
Reference no: D2017 / 335
enquiries: 011 843 6503



GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

GDE RESEARCH APPROVAL LETTER

| | |
|--------------------------------|----------------------------------------------------------------------------------------------------------------|
| Date: | 28 October 2016 |
| Validity of Research Approval: | 6 February 2017 to 29 September 2017 |
| Name of Researcher: | Hlongoane M.T. |
| Address of Researcher: | 32 Melmaby; 299 General Beyers Street; Pretoria North; 0182 |
| Telephone / Fax Number/s: | 084 231 5862; 081 584 5910 |
| Email address: | hlongmt@unisa.ac.za |
| Research Topic: | Financial accountability and reporting by Governing Bodies of Public schools in South Africa |
| Number and type of schools: | TWO Primary, TWO Secondary and TWO LSEN Schools |
| District/s/HO | Gauteng North; Gauteng West; Johannesburg Central; Johannesburg West; Tshwane South and GDE Head Office. |

Re: Approval in Respect of Request to Conduct Research

This letter serves to indicate that approval is hereby granted to the above-mentioned researcher to proceed with research in respect of the study indicated above. The onus rests with the researcher to negotiate appropriate and relevant time schedules with the school/s and/or offices involved. A separate copy of this letter must be presented to the Principal, SGB and the relevant District/Head Office Senior Manager confirming that permission has been granted for the research to be conducted. However participation is VOLUNTARY.

The following conditions apply to GDE research. The researcher has agreed to and may proceed with the above study subject to the conditions listed below being met. Approval may be withdrawn should any of the conditions listed below be flouted:

CONDITIONS FOR CONDUCTING RESEARCH IN GDE

1. *The District/Head Office Senior Manager/s concerned, the Principal/s and the chairperson/s of the School Governing Body (SGB.) must be presented with a copy of this letter.*

Hlongoane M.T. 31/10/2016

1

Making education a societal priority

Office of the Director: Education Research and Knowledge Management ER&KM)

2. The Researcher will make every effort to obtain the goodwill and co-operation of the GDE District officials, principals, SGBs, teachers, parents and learners involved. Participation is voluntary and additional remuneration will not be paid;
3. Research may only be conducted after school hours so that the normal school programme is not interrupted. The Principal and/or Director must be consulted about an appropriate time when the researcher/s may carry out their research at the sites that they manage.
4. Research may only commence from the second week of February and must be concluded by the end of the THIRD quarter of the academic year. If incomplete, an amended Research Approval letter may be requested to conduct research in the following year.
5. Items 3 and 4 will not apply to any research effort being undertaken on behalf of the GDE. Such research will have been commissioned and be paid for by the Gauteng Department of Education.
6. It is the researcher's responsibility to obtain written consent from the SGB/s; principal/s, educator/s, parents and learners, as applicable, before commencing with research.
7. The researcher is responsible for supplying and utilizing his/her own research resources, such as stationery, photocopies, transport, faxes and telephones and should not depend on the goodwill of the institution/s, staff and/or the office/s visited for supplying such resources.
8. The names of the GDE officials, schools, principals, parents, teachers and learners that participate in the study may not appear in the research title, report or summary.
9. On completion of the study the researcher must supply the Director: Education Research and Knowledge Management, with electronic copies of the Research Report, Thesis, Dissertation as well as a Research Summary (on the GDE Summary template). Failure to submit your Research Report, Thesis, Dissertation and Research Summary on completion of your studies / project – a month after graduation or project completion - may result in permission being withheld from you and your Supervisor in future.
10. The researcher may be expected to provide short presentations on the purpose, findings and recommendations of his/her research to both GDE officials and the schools concerned;
11. Should the researcher have been involved with research at a school and/or a district/head office level, the Director/s and school/s concerned must also be supplied with a brief summary of the purpose, findings and recommendations of the research study.

The Gauteng Department of Education wishes you well in this important undertaking and looks forward to examining the findings of your research study.

Kind regards



.....
Mrs F.L. Tshabalala

Acting Director: Education Research and Knowledge Management

DATE: 31/10/2016

ANNEXURE F Ethical clearance certificate from the University



COLLEGE OF ACCOUNTING SCIENCES RESEARCH ETHICS REVIEW COMMITTEE

Date: 24 January 2017

Ref: 2017_CAS_002

Name of applicant:

Mr Hlongoane

Student/Staff #: 31464955

Dear Mr Hlongoane

Decision: Ethics Approval

Name: Mr Hlongoane

hlongmt@unisa.ac.za

Title: FINANCIAL ACCOUNTABILITY AND REPORTING BY GOVERNING BODIES OF PUBLIC SCHOOLS IN SOUTH AFRICA

Qualification: Postgraduate student research

Thank you for the application for research ethics clearance by the College of Accounting Sciences Research Ethics Review Committee for the above mentioned research. Final approval is granted for the completion of the research.

For full approval: *The primary data application was reviewed in compliance with the Unisa Policy on Research Ethics by the College of Accounting Sciences Research Ethics Review Committee on 24 January 2017.*

The proposed research may now commence with the proviso that:

- 1) The researcher/s will ensure that the research project adheres to the values and principles expressed in the UNISA Policy on Research Ethics.*
- 2) Any adverse circumstance arising in the undertaking of the research project that is relevant to the ethicality of the study, as well as changes in the methodology, should be communicated in writing to the College of Accounting Sciences Research Ethics Review Committee. An amended application could be requested if there are substantial changes from the existing proposal, especially if those changes affect any of the study-related risks for the research participants.*



University of South Africa
Preller Street, Muckleneuk Ridge, City of Tshwane
PO Box 392 UNISA 0003 South Africa
Telephone: +27 12 429 3111 Facsimile: +27 12 429 4150
www.unisa.ac.za

3) *The researcher will ensure that the research project adheres to any applicable national legislation, professional codes of conduct, institutional guidelines and scientific standards relevant to the specific field of study.*

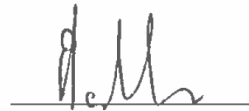
Note:

The reference number [top right corner of this communiqué] should be clearly indicated on all forms of communication [e.g. Webmail, E-mail messages, letters] with the intended research participants, as well as with the College of Accounting Sciences RERC.

Kind regards,



Ms L Grebe
(Chairperson of CAS RERC)
grebel@unisa.ac.za
(012) 429 4994



Prof Elmarie Sadler
(Executive Dean of CAS)

ANNEXURE G Letter to the district office: request for permission to conduct research at the schools within the district

University of South Africa
Preller Street
Muckleneuk Ridge
Pretoria
0003
6 November 2016

The District Director

Dear Sir/Madam

RE: REQUEST FOR PERMISSION TO CONDUCT RESEARCH AT THE SCHOOLS AND THE DISTRICT

I am a student (student number 3146 495 5) at the University of South Africa, registered for a Doctor of Philosophy in Accounting Sciences. I am currently doing research on the topic **“Financial Accountability and Reporting by Governing Bodies of Public Schools in South Africa”**.

I hereby request permission to conduct research on the above mentioned topic at the following schools and district office:

1. School A
2. School B

I have selected these schools and the district to participate in the study by means of individual interviews at the date and time to be communicated with you. The interviews will be conducted at the school premises as well as at the district office for estimated time of approximately forty (40) minutes per participant.

I therefore humbly request participation of the following:

- The Principal;
- SGB Treasurer;
- The school's Financial Officer;
- The school's Auditor; and
- The district Director/Official

The interview will adhere to ethical conditions for conducting research which will be outlined before the interview commences. The information acquired will solely be used for research purposes.

For any additional information I may be contacted at 084 231 5862/081 584 5910 or Email: hlongmt@unisa.ac.za

I am kindly awaiting your positive response and look forward to working with you.

Kind regards

Hlongoane MT (Mr)

Researcher

ANNEXURE H Letter to the SGB: Request for permission to conduct interviews at the school

University of South Africa
Preller Street
Muckleneuk Ridge
Pretoria
0003
6 November 2016

The Principal & SGB Chairperson

Dear Sir/Madam

RE: REQUEST FOR PERMISSION TO CONDUCT RESEARCH

I am a student (student number 3146 495 5) at the University of South Africa, registered for a Doctor of Philosophy in Accounting Sciences. I am currently doing research on the topic “**Financial Accountability and Reporting by Governing Bodies of Public Schools in South Africa**”.

I hereby request permission to conduct research on the above-mentioned topic at your school. I have selected your school to participate in the study by means of individual interviews at the date and time to be communicated with you. The interviews will be conducted at the school premises for an estimated time of approximately forty (40) minutes per participant.

I therefore humbly request participation of the following:

- The principal;
- SGB treasurer;
- The school’s financial officer; and
- The school’s auditor

The interview will adhere to ethical conditions for conducting research which will be outlined

before the interview commences. The information acquired will solely be used for research purposes.

For any additional information I may be contacted at 084 231 5862/081 584 5910 or Email: hlongmt@unisa.ac.za

I am kindly awaiting your positive response and look forward to working with you.

Kind regards

Hlongoane MT (Mr)

Researcher

ANNEXURE I Letter to the SGB: Request for the school’s audited annual financial statements

University of South Africa
Preller Street
Muckleneuk Ridge
Pretoria
0003
6 November 2016

The Chairperson: School Governing Body

Dear Sir/Madam

RE: REQUEST FOR SCHOOL’S DOCUMENTS

I wish to request permission to access the following finance documents for the school:

1. The cash book, general ledger and trial balance for 2014 and 2015 financial periods;
2. Annual financial statements for 2014 and 2015 financial periods.

The information acquired will solely be used for study purposes.

Kind regards

Hlongoane MT (Mr) (Researcher)

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| <p>entrusted to them. (province H).</p> <p>Ensure that the financial statements of a public school fairly present the financial position of the school as at 31 December of the financial year concerned, and contain sufficient particulars to enable any interested person to ascertain the financial position of the school reliably (province D).</p> | <p>Include</p> <p>Include</p> <p>Include</p> | <p>section 3.3), as well as section 55 of the PFMA (see section 3.2.3).</p> |
| <p>LEGISLATIVE PRESCRIPTS AND REGULATORY FRAMEWORK</p> <p>Generally accepted accounting practice (GAAP), (province H).</p> <p>The South African Schools Act, 1996 (Act 84 of 1996), sections 43 (1) and (2), (provinces H, D).</p> <p>Public Finance Management Act, 1999 (Act 1 of 1999), (provinces H, D).</p> <p>WECD Circular: 2007: Auditors appointment under section 43 (2) (b) of SASA (province H).</p> <p>WECD Circular: 205 of 2003: Annual Audited Financial Statements (province H).</p> <p>The National Norms and Standards for Schools Funding 2006, as amended (province D).</p> <p>Treasury Financial Regulations (province D).</p> | <p>Exclude</p> <p>Include</p> <p>Exclude</p> <p>Exclude</p> <p>Include</p> <p>Exclude</p> | <p>The guidelines of various provinces refer to GAAP. However, as mentioned in section 5.2.2.1, South Africa has since adopted the IFRS in 2015. Therefore, reference will be made to the IFRS instead of GAAP.</p> <p>As mentioned above, the South African public schools are expected to comply with regulations such as the SASA, PFMA and other circulars issued by the Department of Education. In these guidelines, only circulars issued by the National Department of Education will be considered. Therefore, provincial circulars will be excluded as they relate to specific provinces.</p> |
| <p>QUALITATIVE CHARACTERISTICS</p> <p>The following characteristics need to be met (province E):</p> <p>Understandability</p> | <p>Include</p> | <p>In preparing the financial statements, the preparer should ensure that the financial statements are of good quality. These financial statements should meet certain characteristics, which were previously referred to as</p> |

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| <p>Relevance</p> <p>Materiality</p> <p>Reliability</p> <p>Substance over form</p> <p>Prudence</p> <p>Completeness</p> <p>Comparability</p> <p>Timeliness</p> <p>Balance between benefit and cost</p> | | <p>qualitative characteristics. The IPSAS and GRAP refer to these characteristics as the overall considerations, while in IFRS they are referred to as general features. These overall considerations should therefore be included in the guidelines for the preparers of financial statements to consider when preparing the financial statements of the schools. According to GRAP, IFRS and IPSAS, the overall considerations include the following:</p> <ul style="list-style-type: none"> • fair presentation and compliance with the prescribed guidelines (in the above mentioned standards, reference is made to compliance with BPE standards, IFRSs and GRAP); • going concern; • accrual basis of accounting; • consistency of presentation; • materiality and aggregation; • offsetting; • comparative information; • frequency of reporting. |
| <p>COMPONENTS OF FINANCIAL STATEMENTS</p> <p>A statement of financial position (provinces H, E)</p> <p>Balance sheet (provinces D, C)</p> <p>A statement of financial performance (provinces H, E)</p> <p>Income and expenditure statement (provinces D, C)</p> <p>A statement of changes in surpluses and reserves (province E)</p> <p>Budget report (income and expenditure variance report) (provinces D, C)</p> | <p>Include</p> <p>Include</p> <p>Include</p> | <p>The financial statements of a school should provide information for the users as far as possible to facilitate oversight and decision-making (MCS, section 13). The components of financial statements provide the users with information on the utilisation of appropriated funds, the collection of school's own funds, the management of resources as well as the resources available to offer education services, future commitments and or savings, how the funds have been used and to what extent funds have been made available to deliver educational services, and the utilisation of donor funding (MCS, par 13).</p> |

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| <p>A cash flow statement (provinces H, E)</p> <p>Audit report (province H)</p> <p>An inventory of assets (province C)</p> <p>Notes or schedules comprising a summary of significant accounting policies and other explanatory notes (provinces H, D, E, C)</p> <p>Reconciliation of paper budget, NSNP and LTSM information and ratios as additional disclosure items (province E)</p> <p>A declaration by the SGB and the principal on the annual report (province E)</p> <p>Comparative information should be presented on all statements and notes</p> | <p>Include</p> <p>Include</p> <p>Include</p> <p>Include</p> <p>Include</p> <p>Include</p> <p>Include</p> <p>Include</p> <p>Include</p> | <p>In terms of the GRAP 1, MCS, IAS 1 and the IPSAS 1, a complete set of financial statements comprises the following:</p> <ul style="list-style-type: none"> • a statement of financial position (GRAP 1, MCS, IAS 1 & IPSAS 1); • a statement of financial performance (GRAP 1), a statement of comprehensive income (IAS 1 and IPSAS); • a cash flow statement (GRAP 1, GRAP 2, IPSAS 1, IPSAS 2), a statement of cash flows (IAS 1 and IAS 7); • notes, comprising a summary of significant accounting policies and other explanatory notes (GRAP, IAS 1 & IPSAS 1); • a statement of the financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or reclassifies items in its financial statements (IAS 1); and • information on whether resources were obtained and used in accordance with the legally adopted budget (GRAP 1, MCS and IPSAS 1). Governments and other public sector entities that adopted accrual basis of accounting, and also make their approved budgets publicly available, are required to include a comparison of budget and actual amounts in the financial reports and an explanation of any material differences between budget and actual amounts (IPSAS 24). <p>The financial statements serves as instruments by which the results of the SGB's stewardship of resources entrusted to it, are shown. The users of financial statements will be able to assess and review the</p> |
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| | | <p>performance of the school.</p> <p>The entity may use titles for the statements other than those used in the standards (GRAP 1, paragraph 10 and IPSAS 1, paragraph 22).</p> |
| <p>INFORMATION TO BE PRESENTED ON THE FACE OF A STATEMENT OF FINANCIAL POSITION</p> <p>NON-CURRENT ASSETS (provinces H, D, E, C)</p> <ul style="list-style-type: none"> • Equipment • Vehicles <p>CURRENT ASSETS (provinces H, D, E, C)</p> <ul style="list-style-type: none"> • Cash and cash equivalents • Investments • Inventory • Accounts receivable/debtors (only province D) <p>ACCUMULATED FUNDS (provinces D, C)</p> <ul style="list-style-type: none"> • Transfer of assets from the department • Balance from the previous year • Surplus of income and expenditure <p>NON-CURRENT LIABILITIES (provinces H, D, E, C)</p> <ul style="list-style-type: none"> • Long-term loans • Interest-bearing borrowings • Long-term loans, with approval from the MEC (province D) <p>CURRENT LIABILITIES (provinces H, D, E, C)</p> <ul style="list-style-type: none"> • Accounts payable | <p>Include</p> <p>Include</p> <p>Include</p> <p>Include</p> | <p>This section highlights the information which should be included in the components of financial statements (see section on components of financial statements above). In order to enable the users of financial statements to facilitate oversight and decision-making, information should be provided on how the appropriated funds were used, the source and amount of own revenue collected by the school, the availability of resources to deliver valuable education to the children, as well as how those resources are managed, the availability and use of funds and the utilisation of donor funding. Section 42 of the SASA requires that records be kept on funds received and spent, assets, liabilities and financial transactions of the school. These pieces of information are disclosed on the face of the financial statements or in the notes.</p> <p>According to GRAP 1, IPSAS 1 and IAS 1, the following minimum information should be presented on the face of a statement of financial position:</p> <ul style="list-style-type: none"> • property, plant and equipment; • investment property; • intangible assets; • financial assets; |

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| <ul style="list-style-type: none"> • Provisions • Bank overdraft (only province H) • SARS:tax | <p>Include</p> | <ul style="list-style-type: none"> • investments accounted for using the equity method; • inventories; • other receivables from non-exchange transactions; • trade and other receivables from exchange transactions; • cash and cash equivalents; • taxes and transfers payable; • trade and other payables from exchange transactions; • provisions; • financial liabilities; • minority interest, presented within net assets; • net assets. <p><i>[W]hen an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those in the entity's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period" (IAS 1, paragraph 62; IPSAS 1, paragraph 72 and GRAP 1, paragraph 64).</i></p> <p>According to GRAP 1, paragraph 85; IPSAS 1, paragraph 94, the entity may disclose the following information either on the face of a statement of financial position, or in the notes:</p> <ul style="list-style-type: none"> • items of property, plant and equipment, disaggregated into classes according to GRAP 16, IAS 16 or PBE IPSAS 17); |
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| | | <ul style="list-style-type: none"> • receivables; • inventories, according to GRAP 12, PBE IPSAS 12 or IAS 2); • provisions; • taxes and transfers payable; and • components of net assets analysed and disaggregated into contributed capital, accumulated surpluses and deficits and other reserves. |
| <p>INFORMATION TO BE PRESENTED ON THE FACE OF A STATEMENT OF CASH FLOWS</p> <p>OPERATING ACTIVITIES (province E)</p> <ul style="list-style-type: none"> • Principal revenue-producing activities of the entity <p>INVESTING ACTIVITIES (province E)</p> <ul style="list-style-type: none"> • Acquisition and disposal of long-term assets and other investments not included in cash equivalent <p>FINANCING ACTIVITIES (province E)</p> <ul style="list-style-type: none"> • Results in changes in the size and composition of the contributed paper budget and other funding and borrowing of equity | <p>Include</p> <p>Include</p> <p>Include</p> <p>Include</p> | <p>According to GRAP 1, paragraph 118, IPSAS 1, paragraph 126, and IAS 1, paragraph 111, the cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. The cash flow statement of the entity should be prepared in accordance with the requirements of GRAP 2 <i>on cash flows</i>, IAS 7 or PBE IPSAS 2.</p> <p>The users will be able to identify the sources of the cash inflows of the school, the items on which the cash was expended during the reporting period and the cash balances as at the reporting date.</p> |

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| <p>INFORMATION TO BE PRESENTED ON THE FACE OF A STATEMENT OF FINANCIAL PERFORMANCE</p> <p>REVENUE/INCOME (province H)</p> <p>School fees (provinces H, D, C)</p> <p>Other operating income (province H)</p> <p>Government allocations (provinces H, D, C)</p> <p>Other income (provinces H, D, C)</p> <p>Donations & Grants (provinces D, C)</p> <p>Rental income (provinces D, C)</p> <p>Sales (provinces D, C)</p> | <p>Include</p> | <p>The following minimum information should be disclosed on the face of the statement of financial performance (GRAP 1), or statement of comprehensive income (IAS 1), or statement of comprehensive revenue and expenses (IPSAS 1):</p> <ul style="list-style-type: none"> • revenue; • finance costs; • share of surplus or deficit (profit or loss) of associates and joint ventures accounted for using the equity method; • tax expense; • surplus or deficit (profit or loss) for the period (including all items of revenue and expenses recognised in a period). <p>An entity shall present, either on the face or in the notes, an analysis of expenses using a classification based on either the nature of an expense or their function within the entity, whichever provides information that is faithfully representative and more relevant.</p> |

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| Investment income (provinces D, C) | | |
| Fund raising income (provinces D, C) | | |
| Income from hostels (provinces D, C) | | |
| School fee exemption compensation (province C) | | |
| EXPENDITURE (provinces H, D) | | |
| Administration expenses (provinces H, D, C) | | |
| Personnel expenditure (province H) | Include | |
| Teaching and learning (provinces D, C) | | |
| Auxiliary services (provinces D, C) | | |
| Sport and culture (provinces D, C) | | |
| SURPLUS/DEFICIT FOR THE YEAR (provinces H, D, C) | Include | |

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| | | <p>The following information should be disclosed in the statement of changes in net assets/equity (GRAP 1 and IPSAS 1), or statement of changes in equity (IAS 1):</p> <ul style="list-style-type: none"> • surplus or deficit for the period (GRAP 1) or total comprehensive revenue and expense for the period showing separately the total amounts attributable to owners of parent and to non-controlling interest (IPSAS 1 and IAS 1); • each item of revenue and expense that, as required by GRAP, is recognised directly in net assets, and the total of these items; • total revenue and expense for the period, showing separately the total amounts attributable to net asset holders of the controlling entity and to minority interest; and • for each component of net assets, the effect of changes in accounting policies and the correction of prior period errors. |
| <p>NOTES TO THE FINANCIAL STATEMENTS</p> <p>ACCOUNTING POLICIES (provinces H, D, E)</p> <p>Basis of presentation (provinces H, D)</p> <p>Fixed/tangible assets and depreciation (provinces H, D)</p> <p>Property, plant and equipment (province E)</p> <p>Intangible assets other than goodwill (province E)</p> <p>Impairment of assets (province E)</p> <p>Leases (province E)</p> | <p>Include</p> <p>Include</p> | <p>According to GRAP 1, IAS 1 and IPSAS 1, the entity, shall in the notes:</p> <ul style="list-style-type: none"> • Present information about the basis of preparation of the financial statements and the specific accounting policies used; • Disclose the information required by the statements of GRAP, IFRSs and IPSAS that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets or statement of cash flows; and |

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| <p>Provisions and contingencies (province E)</p> <p>Inventory (provinces H, D, E)</p> <p>Revenue/Income (provinces H, D, E)</p> <p>Grants, excluding paper budget (province E)</p> <p>Interest received (provinces H, D)</p> <p>Accounts receivable (provinces H, D)</p> <p>Cash and cash equivalents (province D)</p> <p>Accounts payable (provinces H, D)</p> <p>Employee benefits (governing body posts) (provinces H, D)</p> <p>Taxation (provinces H, D)</p> <p>Events after balance sheet date (province E)</p> <p>Related party disclosure (province E)</p> <p>The National Treasury is responsible for the development of accounting policies in line with standards of GRAP as issued by the Accounting Standards Board. Any deviation from these policies should be brought to the attention of the office of the Accountant General at the National Treasury (province D).</p> | | <ul style="list-style-type: none"> • Provide additional information that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets or statement of cash flows, but is relevant to an understanding of any of them. |
| <p>ACCOUNTING PACKAGE</p> <p>Where an institution cannot afford a dedicated accounting software package, the state will provide it (province H)</p> | | <p>The National Department Education has developed an accounting system (SA-SAMS), that the schools should use when preparing the accounting records and financial statements.</p> |

ANNEXURE K: Examples of the annual financial statements of a school

MTH SECONDARY SCHOOL

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

| | Notes | 2018 | 2017 |
|-------------------------------------|-------|-------------|-------------|
| ASSETS | | | |
| Non-current assets | | xxx | xxx |
| Property, plant and equipment | 3 | xx | xx |
| Leased assets (right-of-use-assets) | 4 | xx | xx |
| Intangible assets | | xx | xx |
| Lab apparatus | 5 | xx | xx |
| Library resources | 5 | xx | xx |
| Investments | | xx | xx |
| Current assets | | xxx | xxx |
| Inventory | 6 | xx | xx |
| Accounts receivable | 7 | xx | xx |
| Cash and cash equivalents | 8 | xx | xx |
| Total assets | | xxxx | xxxx |
| EQUITY AND LIABILITIES | | | |
| NET ASSETS | | xxx | xxx |
| Accumulated funds | | xx | xx |
| Reserves | | xx | xx |
| LIABILITIES | | | |
| Non-current liabilities | | xxx | xxx |
| Long-term loan/borrowings | 9 | xx | xx |
| Lease liabilities | 10 | xx | xx |
| Current liabilities | | | |
| Accounts payable | 11 | xx | xx |
| Total equity and liabilities | | xxxx | xxxx |

**STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED 31
DECEMBER 2018**

| | Notes | 2018 | 2017 |
|--------------------------------------------|-------|-------------|-------------|
| REVENUE | | xxx | xxx |
| Government transfer | 2.1 | xx | xx |
| Net income from school fees | 2.2 | xx | xx |
| Hostel income | | xx | xx |
| Other income | | xxx | xxx |
| Donations received | | xx | xx |
| Rental income | | xx | xx |
| Trip income | | xx | xx |
| Net sales (tuck shop/uniforms) | | xx | xx |
| Fund raising income (concert/other events) | | xx | xx |
| Profit on sale of assets | | xx | xx |
| Total income | | xxxx | xxxx |
| Less EXPENSES | | | |
| Administrative expenses | | xxx | xxx |
| Gifts and awards | | xx | xx |
| Accounting fees | | xx | xx |
| Audit fees | | xx | xx |
| SGB expenses | | xx | xx |
| Travel and subsistence | | xx | xx |
| Workshops, affiliation/registrations | | xx | xx |
| Staff costs (SGB employees) | | xx | xx |
| Bank charges | | xx | xx |
| LTSM Expenses | | xxx | xxx |
| Stationery used | | xx | xx |
| Printing | | xx | xx |
| Teacher development and training | | xx | xx |
| Text books written off | | xx | xx |
| Auxiliary services | | xxx | xxx |
| Computer expenses/labour-saving devices | | xx | xx |
| Water | | xx | xx |
| Electricity | | xx | xx |
| Municipal services | | xx | xx |
| Post office box | | xx | xx |
| Telephone | | xx | xx |
| Fax/internet | | xx | xx |

| | | |
|---------------------------------------------------------------|-----------------|-----------------|
| Cleaning materials used | XX | XX |
| Accounting software | XX | XX |
| Website development and maintenance | XX | XX |
| National school nutrition programme | XXX | XXX |
| Stipend (food handlers) | XX | XX |
| Gas | XX | XX |
| Other | XX | XX |
| Maintenance | XXX | XXX |
| Buildings maintenance/minor improvements | XX | XX |
| Machinery and equipment maintenance/repairs | XX | XX |
| Grass cutting and garden services | XX | XX |
| Other expenditure | XXX | XXX |
| Fund raising expenditure | XX | XX |
| Trip/excursion expenditure (transport/entrance fees/catering) | XX | XX |
| Depreciation | XX | XX |
| Impairment losses | XX | XX |
| Credit losses | XX | XX |
| Loss on sale of assets | XX | XX |
| Total expenses | XXXX | XXXX |
| Net surplus (deficit) before investment income | XXXXXX | XXXXXX |
| plus investment income (interest income) | XX | XX |
| Net surplus (deficit) before finance costs | XXXXXXXX | XXXXXXXX |
| less finance costs | XXX | XXX |
| Surplus (deficit) for the year | XXXXXX | XXXXXX |

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 DECEMBER 2018

| | Accumulated funds | Reserves | Total |
|-------------------------------------------------------|-------------------|----------|--------|
| Balance at the beginning of the year (1 January 2017) | xxxx | xx | xxxxxx |
| Assets transferred from the department/other school | xxx | 0 | xxx |
| Assets transferred to the department/other school | (xx) | 0 | (xx) |
| Transfer to reserves | (xx) | xx | 0 |
| Transfer from reserves | xx | (xx) | 0 |
| Surplus (deficit) for the year | xxxxx | 0 | |
| Balance at the end of the year (31 December 2018) | xxxxxx | xx | xxxxxx |

BUDGET VARIANCE REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

| | Budget | Actual | Variance | Variance % |
|--------------------------------------------|---------------|---------------|-----------------|-----------------------|
| REVENUE | xxx | xxx | xxx | x% |
| Government transfer | xx | xx | xx | x% |
| Net income from school fees | xx | xx | xx | x% |
| Hostel income | xx | xx | xx | x% |
| Other income | xxx | xxx | xxx | x% |
| Donations received | xx | xx | xx | x% |
| Rental income | xx | xx | xx | x% |
| Trip income | xx | xx | xx | x% |
| Net sales (tuck shop/uniforms) | xx | xx | xx | x% |
| Fund raising income (concert/other events) | xx | xx | xx | x% |
| Profit on sale of assets | xx | xx | xx | x% |
| Total income | xxxx | xxxx | xxxx | x% |
| Less EXPENSES | | | | |
| Administrative expenses | xxx | xxx | xxx | x% |
| Gifts and awards | xx | xx | xx | x% |
| Accounting fees | xx | xx | xx | x% |
| Audit fees | xx | xx | xx | x% |
| SGB expenses | xx | xx | xx | x% |
| Travel and subsistence | xx | xx | xx | x% |
| Workshops affiliation/registrations | xx | xx | xx | x% |
| Staff costs (SGB employees) | xx | xx | xx | x% |

| | | | | |
|--------------------------------------------------------------------|------------|------------|------------|----|
| Bank charges | XX | XX | XX | x% |
| LTSM Expenses | XXX | XXX | XXX | x% |
| Stationery used | XX | XX | XX | x% |
| Printing | XX | XX | XX | x% |
| Teacher development and training | XX | XX | XX | x% |
| Text books written off | XX | XX | XX | x% |
| Auxiliary Services | XXX | XXX | XXX | x% |
| Computer expenses/labour-saving devices | XX | XX | XX | x% |
| Water | XX | XX | XX | x% |
| Electricity | XX | XX | XX | x% |
| Municipal services | XX | XX | XX | x% |
| Post office box | XX | XX | XX | x% |
| Telephone | XX | XX | XX | x% |
| Fax/internet | XX | XX | XX | x% |
| Cleaning materials used | XX | XX | XX | x% |
| Accounting software | XX | XX | XX | x% |
| Website development and maintenance | XX | XX | XX | x% |
| National school nutrition programme | XXX | XXX | XXX | x% |
| Stipend (food handlers) | XX | XX | XX | x% |
| Gas | XX | XX | XX | x% |
| Other | XX | XX | XX | x% |
| Maintenance | XXX | XXX | XXX | x% |
| Buildings maintenance/minor improvements | XX | XX | XX | x% |
| Machinery and equipment maintenance/repairs | XX | XX | XX | x% |
| Grass cutting and garden services | XX | XX | XX | x% |
| Other expenditure | XXX | XXX | XXX | x% |
| Fund raising expenditure | XX | XX | XX | x% |
| Trip/excursion expenditure (transport/entrance fees/catering,etc.) | XX | XX | XX | x% |

| | | | | |
|-------------------------------------------------------|----------------|----------------|----------------|----|
| Depreciation | XX | XX | XX | x% |
| Impairment losses | XX | XX | XX | x% |
| Credit losses | XX | XX | XX | x% |
| Loss on sale of assets | XX | XX | XX | x% |
| Total expenses | XXXX | XXXX | XXXX | x% |
| Net surplus (deficit) before investment income | XXXXXX | XXXXXX | XXXXXX | x% |
| plus investment income (interest income) | XX | XX | XX | x% |
| Net surplus (deficit) before finance costs | XXXXXXX | XXXXXXX | XXXXXXX | x% |
| less finance costs | XXX | XXX | XXX | x% |
| Surplus (deficit) for the year | XXXXXX | XXXXXX | XXXXXX | x% |

STATEMENT OF CASH FLOWS AS AT 31 DECEMBER 2018

| | 2018 | 2017 |
|----------------------------------------------------------------------------|---------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | xxxx | xxxx |
| Surplus (deficit) for the year | xx | xx |
| Adjustment for: | | |
| depreciation | xx | xx |
| (profit) loss on sale of assets | (xx) | xx |
| investment income | (xx) | (xx) |
| finance costs | xx | xx |
| increase (decrease) in payables | xx | xx |
| decrease (increase) in receivables | xx | xx |
| decrease (increase) in inventory | (xx) | (xx) |
| Cash generated from operations | xxx | xxx |
| investment income received | xx | xx |
| interest paid | (xx) | (xx) |
| CASH FLOWS FROM INVESTING ACTIVITIES | xxx | xxx |
| Cash paid for improvements (capitalised)/acquisition of non-current assets | (xxx) | (xxx) |
| Sale of assets | xx | xx |
| Acquisition of investments | (xxx) | (xxx) |
| Sale/maturity of investments | xxx | xxx |
| CASH FLOWS FROM FINANCING ACTIVITIES | (xxx) | (xxx) |
| Acquisition of long-term loans/borrowings/lease liabilities | xxx | xxx |
| Repayment of long-term loans/borrowings/lease liabilities | (xx) | (xx) |
| NET CASH AND CASH EQUIVALENTS FOR THE YEAR | xxxx | xxxx |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | xxxxxx | xxxxxx |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | xxxxxx | xxxxxx |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. Accounting policies

The financial statements are prepared to comply with the requirements of the financial record keeping and reporting guidelines for South African public schools and the South African Schools Act (Act 84 of 1996).

The financial statements have been prepared on a going-concern basis and the accounting

policies have been applied consistently throughout the period. These financial statements have been prepared on historical cost and are presented in South African Rands.

2. Summary of significant accounting policies

2.1 The following significant policies should be part of the notes to the financial statements of the schools.

Government transfers

Government transfers consist of or cover the following:

| | |
|--------------------------------------------|-------------|
| LTSM (textbooks, stationery, printing) | xxx |
| Administration | xxx |
| Maintenance | xxx |
| Services | xxx |
| Improvements | xxx |
| National school nutrition programme (NSNP) | <u>xxxx</u> |
| | <u>xxxx</u> |

Only those grants for which the school has met its conditions, may be recognised as income. Grants which have been received, and the school still has to meet some conditions, and those conditions are not satisfied by the end of the financial period, and the school may be required to pay back if those conditions are not satisfied, should be deferred and recognised as liability in the statement of financial position.

2.2 Net income from school fees

| | |
|--------------------------------------------------------|--------------|
| Gross school fees receivable | xxxx |
| Plus: outstanding fees | xxxx |
| Less: exempt portion | (xxx) |
| Less: school fees received for the next financial year | <u>(xxx)</u> |
| | xxxx |
| Plus: school fees exemption compensation received | <u>xxxx</u> |
| | <u>xxxx</u> |

The school fees which cannot be recovered must be written off as credit losses in the statement of income and expenditure.

2.3 Property, plant and equipment

Buildings owned by the State may not be recognised in the school's statement of financial position. Improvements made by the school on these buildings are capitalised, provided these improvements were approved by the Department of Education.

Buildings that are acquired by the school, using the school funds, or through donations, are recognised in the statement of financial position of the school.

Assets transferred from the Department of Education or another school, shall be credited to the equity of the school, and debited to the assets of the school.

Assets received as donations from other parties shall be recognised as assets in the statement of financial position, and the same amount shall be recognised as income in the statement of income and expenditure.

All other assets purchased from the school funds are recognised as assets in the statement of financial position, with a credit to the bank account.

Scheduled or normal replacement of parts, restoration to the original look and regular repairs and maintenance shall be recognised as an expense in the statement of income and expenditure.

Assets purchased shall initially be recognised at cost. All assets will subsequently be measured at carrying value, which is a cost less accumulated depreciation and impairment losses. The depreciation on these assets will be written off on a straight line basis, as follows:

Land, which should be separated from buildings, has an unlimited useful life and is therefore not depreciated.

Buildings, 5% per annum;

Sport fields, 5% per annum;

Garden equipment, 10% per annum;

Office furniture, 20% per annum;

Computer equipment, 33.33% per annum;

Printing, photocopying and fax equipment, 20% per annum;

Classroom furniture, 12.5% per annum;

Vehicles, on a straight-line basis, 20% per annum;

Text books and other library resources, 33.33% per annum;

2.4 Library resources

Library and teaching resources that include books, periodicals, kits, maps and posters are recognised as fixed assets costs. Text books and other library resources are subsequently recorded at the carrying amount (cost less accumulated depreciation and impairment losses). Lost and damaged items are written off to the statement of income and expenditure.

2.5 Leases

The school shall recognise the right-of-use asset and a lease liability at present value. Subsequently, the right-of-use asset shall be measured at cost, less accumulated depreciation and impairment losses, while the lease liability shall subsequently be measured at amortised costs.

3. Property, plant and equipment

Owned assets

| | Buildings/imp rovements | Classroom furniture | Office furniture | Computer equipment | Garden equipment | Vehicles | Total |
|-----------------------------------------------------------------|------------------------------------|--------------------------------|-----------------------------|-------------------------------|-----------------------------|-----------------|--------------|
| Carrying value at the beginning of the year (1 Jan 2017) | Xxxx | xxxx | xxxx | xxxx | xxxx | xxxx | xxxx |
| Cost price | Xx | xx | xx | xx | xx | xx | xx |
| less accumulated depreciation | (xx) | (xx) | (xx) | (xx) | (xx) | (xx) | (xx) |
| Movement during the year | Xx | xx | xxxx | xx | xxxx | xxxx | xxxx |
| Purchase of assets at cost | Xx | xx | xx | xx | xx | xx | xx |
| Assets transferred from the department | | xx | xx | xx | xx | xx | xx |
| Assets transferred to the department/other schools | | (x) | (x) | | | (x) | (x) |
| Sale of assets at carrying value | | (xx) | (xx) | | (xx) | (xx) | (xx) |
| Depreciation for the year | (xxx) | (xxx) | (xxx) | (xxx) | (xxx) | (xxx) | (xxx) |
| Impairment loss | (x) | (x) | (x) | (x) | (x) | (x) | (x) |
| Carrying value at the end of the year (31 Dec 2018) | Xxxx | xxxx | xxxx | xxxx | xxxx | xxxx | xxxx |
| Cost price | Xxxx | xxxx | xxxx | xxxx | xxxx | xxxx | xxxx |
| less accumulated depreciation | (xxx) | (xxx) | (xxx) | (xxx) | (xxx) | (xxx) | (xxx) |

4. Right-of-use assets (leased assets)

| | Photocopying machines | Vehicles | Total |
|-----------------------------------------------------------------|--------------------------|-------------|-------------|
| Carrying value at the beginning of the year (1 Jan 2017) | xxxx | xxxx | xxxx |
| Cost price | xx | xx | xx |
| less accumulated depreciation | (xx) | (xx) | (xx) |
| Movement during the year | xx | xxxx | xxxx |
| Purchase of assets at cost | xx | xx | xx |
| Depreciation for the year | (xxx) | (xxx) | (xxx) |
| Impairment loss | (x) | (x) | (x) |
| Carrying value at the end of the year (31 Dec 2018) | xxxx | xxxx | xxxx |
| Cost price | xxxx | xxxx | xxxx |
| less accumulated depreciation | (xxx) | (xxx) | (xxx) |

5. Other assets

| | Lab apparatus | Library resources | Total |
|-----------------------------------------------------------------|------------------|----------------------|-------------|
| Carrying value at the beginning of the year (1 Jan 2017) | xxxx | xxxx | xxxx |
| Cost price | xx | xx | xx |
| less accumulated depreciation | (xx) | (xx) | (xx) |
| Movement during the year | xx | xxxx | xxxx |
| Purchase or replacement of assets at cost | xx | xx | xx |
| Lost assets | (xx) | (xx) | (xx) |
| Depreciation for the year | (xxx) | (xxx) | (xxx) |
| Impairment loss | (x) | (x) | (x) |
| Carrying value at the end of the year (31 Dec 2018) | xxxx | xxxx | xxxx |
| Cost price | xxxx | xxxx | xxxx |
| less accumulated depreciation | (xxx) | (xxx) | (xxx) |

6. Inventory

The inventory is measured at the lower of cost and net realisable value, using the first-in-first-out basis. The cost of inventory includes the purchase price, convention costs, and other costs incurred to bring the inventory to its present location. Items of inventory consist of:

| | |
|----------------------------|-------------|
| Stationery on hand | xxxxx |
| Tuck shop stock on hand | xxxxx |
| Cleaning materials on hand | <u>xxxx</u> |

XXXX

7. Accounts receivable

Government transfer accrued XXXX

School fees accrued (less provision) XXXX

XXXX

Receivables are measured at the amount which the school realistically expect to receive. Provision for doubtful debts is based on the objective evidence that the school will not be able to collect the amount owing.

Cash and cash equivalents

The cash and cash equivalents consist of:

Cash in bank XXXX

Cash float (Tuck shop) XXXX

Petty cash XXXX

Short term deposit XXXX

XXXX

8. Long-term borrowings

Balance owed at the beginning of the year XXXXX

Loan acquired during the year XXXXX

Repayment made during the year XXXXX

Balance owed at the end of the year XXXXX

9. Lease liabilities

Balance owed at the beginning of the year XXXXX

Loan acquired during the year XXXXX

Repayment made during the year XXXXX

Balance owed at the end of the year XXXXX

10. Accounts payables

| | |
|---------------------------------------|--------------|
| Accrued expenses | xxxxx |
| School fees received in advance | xxxxx |
| Conditional grants/donations received | <u>xxxxx</u> |
| | <u>xxxxx</u> |

11. Budget variance report

Explanation of variances above 10%.

12. Additional information (optional)

Number of learners enrolled in the current year (prior year figure)

Number of learners who passed exit grade in the current year (prior year figure)

Total expenditure per learner (prior year figure)

Learner/teacher ratio (prior year figure)

Total workshop expenditure per teacher (prior year figure)

ANNEXURE L Examples of standard chart of accounts and their classification

The following standard chart of accounts was compiled from various provincial guidelines, as well as from the annual financial statements of the selected schools (see section 5.2.2.1).

| INCOMES | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><u>School fees</u></p> <ul style="list-style-type: none"> -gross school fees -exempt portion -school fees exemption compensation received <p><u>Rental income from:</u></p> <ul style="list-style-type: none"> -tuck shop -vendors -school hall -swimming pool -tennis court -school bus -hawkers <p><u>Fund raising income</u></p> <ul style="list-style-type: none"> -concert(sale of tickets) -sport events -arts & culture -farewell functions -other | <p><u>Government transfer</u></p> <p>In respect of:</p> <ul style="list-style-type: none"> -textbooks -stationery -administration -maintenance -improvements <p><u>Sales income</u></p> <ul style="list-style-type: none"> -tuck shop -uniforms -text books -school magazine -school photographs <p><u>Other income</u></p> <ul style="list-style-type: none"> -hostel accommodation -hostel meals -others | <p><u>Donations & grants</u></p> <ul style="list-style-type: none"> -general donations -sponsorships -conditional grants <p><u>Investment income</u></p> <ul style="list-style-type: none"> -interest received -dividends received |

EXPENSES**ADMINISTRATIVE**

- accounting fees
- advertising
- after care
- office stationery
- audit fees
- awards
- credit losses
- bank charges
- catering
- meals and refreshments
- tuck shop expenditure
- consulting fees
- trips and tours (transport/entrance fees/catering)
- depreciation (office equipment)
- entertainment
- first aid
- governing body expenses
- insurance
- insurance claims costs
- legal fees
- rental of equipment
- salaries and wages

LTSM

- teachers development & training
- classroom stationery
- teachers enrichment
- lab chemicals
- printing and stationery (learner & teacher material)
- salaries (SGB appointed)
- rental of photocopying machines
- development & training
- exams & assessment material
- workshops & seminars
- education supplies
- depreciation: printing machines
- intervention programme (SSIP)

AUXILIARY**SERVICES**

- computer expenses
- labour saving devices
- water & electricity
- municipal services
- post office box
- telephone & fax
- internet
- cleaning material
- rates and taxes
- accounting software
- website development and maintenance
- staff safety clothing

| | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> -security -special events -sports consumables -hostel expenses -travel and subsistence | | |
| <p><u>NATIONAL SCHOOL NUTRITION PROGRAMME (NSNP)</u></p> <ul style="list-style-type: none"> -stipend (food handlers) -gas -consumables -other | <p><u>MAINTENANCE</u></p> <ul style="list-style-type: none"> -buildings maintenance -minor improvements -maintenance & repairs of -machinery and equipment -grass cutting -garden services -yard cleaning | <p><u>SPORTS & CULTURE</u></p> <ul style="list-style-type: none"> -salaries (coach) -cleaning: sports fields -maintenance: sports fields -depreciation: sports equipment -affiliation fees: school teams -trips & tours: sports |
| <p><u>OTHER EXPENDITURE</u></p> <ul style="list-style-type: none"> -fundraising expenses -loss on sale of assets -loss on sale of investments -farewell expenses | | |

ANNEXURE M Validation of recommended practice guidelines: from SAICA



28 November 2018

Moses Hlongoane
Senior Lecturer
College of Accounting Sciences
Tel: 012 429 4459
Cel: 084 231 5862
Email: hlongmt@unisa.ac.za

Dear Mr Hlongoane

COMMENT ON PROPOSED FINANCIAL REPORTING GUIDELINES FOR PUBLIC SCHOOLS

The South African Institute of Chartered Accountants (SAICA) is South Africa's pre-eminent accountancy body which is widely recognised as one of the world's leading accounting institutes. The Institute provides a wide range of support services to more than 42 000 members who are chartered accountants [CAs(SA)] and hold positions as CEOs, MDs, board directors, business owners, chief financial officers, auditors and leaders in their spheres of business operation.

Our work in the public sector goes beyond member support but also includes a significant focus on providing public finance management capacity building support to public sector institutions to support the achievement of sustainable service delivery.

We welcome the opportunity to comment on your Proposed Financial Reporting Guidelines for Public Schools. Our comments are included in the Appendix to this letter.

Should you require further clarity on any of the comments raised in our letter, please feel free to contact me directly.

Yours sincerely,

In this annexure, a covering letter, the first three columns (Ref, Comment and Reason for comment) are the comments from SAICA. The last column (consideration by the researcher) is the response from the researcher on how the comments from SAICA were considered in finalising the recommended practice guidelines.

| REF | COMMENT from SAICA | REASON FOR COMMENT FROM SAICA | CONSIDERATION BY THE RESEARCHER |
|-------|-------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6.2.1 | Consider the suitability of the requirement for the guidelines to be “easy” to apply. | Easy is a very relative term and, considering the level of financial literacy in the public school governors and administrators, the meaning of the term “easy” will vary significantly from one school to another. | The researcher implied that there should not be complexities in applying the guidelines. The statement was corrected as such. |
| 6.2.2 | The list of best practice pronouncements does not include Modified Cash Standards (MCSs). | Modified Cash Standards are applied by departments in South Africa and are a compromise between Accrual basis of accounting and Cash basis of accounting. Given that public school are still in the infancy in terms of financial reporting, a guidelines more closely aligned to the Modified Cash Standards may be appropriate. | After careful consideration, the researcher included the Modified Cash Standards (see section 6.3.1). Although the researcher is of the opinion that the schools should apply the accrual basis of accounting, he thinks that the schools may apply the modified cash basis when accounting for school fees. All references to RSA (2015b) are references to the Modified Cash Standards (MCSs). |
| 6.3.4 | The reference to “Equity” in relation to a public school may need to be re- considered | Public school do not have equity as defined in the accounting standards of GRAP, IFRS and IPSAS. A consistent reference to Net assets may be more appropriate. | The GRAP, IFRS and IPSAS define ‘equity’ as the residual interest of an entity after deducting all its liabilities. This definition, according to the researcher, is also suitable for public schools as they also have assets and liabilities. When developing the recommended practice guidelines, the researcher initially used the words ‘equity’ or ‘net assets’. The researcher adopted the term ‘net assets’ as recommended. This will promote uniformity in the |

| | | | |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | reporting by schools. |
| | The reference to the Consolidated Financial Statements as including “combining the financial statements of Grade R to those of the main stream...” may need to be re-considered. | The definition of a public school in the South African Schools Act already include Grade R, and thus the financial statements of a public school would be incomplete if they did not include Grade R. The definition reads as follows: “school” means a public school or an independent school which enrolls learners in one or more grades from grade R (Reception) to Grade twelve; | Although grade R is supposed to be an integral part of the foundation phase, the current situation seems as if grade R operates as a separate entity. This is because the Department of Education issues separate allocations for Grade R and Grades 1 to 7. This means that the school must prepare separate budgets for Grade R and Grades 1 to 7. It therefore means that there will be separate financial records for Grade R and Grades 1 to 7. The researcher is therefore of the opinion that where there are separate financial statements, consolidated financial statements should also be prepared. |
| | The following reference may need to be re-considered: <ul style="list-style-type: none"> - Expense definition: “Other than those relating to distributions to owners” - Revenue: “Other than increases relating to contributions from owners”. | Public schools do not have owners, and as such, no distributions to owners or contributions from owners can be incurred. | According to section 6.3.7.1, assets transferred from the Department of Education or another school, shall be credited to the net assets of the school. As all public schools are owned by the Department of Education, any transfer to or from the school, of assets is considered to result in a change to net assets. This change is considered by the researcher to be an increase or reduction in net assets by the owners (Department of Education). The researcher considers the definitions appropriate for public schools. |
| | The inclusion of “revenue” as one of the items in the financial statements may need to be reconsidered. | The term “revenue” is mostly used to describe economic benefits from trading or rendering services. As none of the economic benefits that the school received is from trading, a more suitable term may need to be considered. | According to section 56 of the Modified Cash Standards (MCSs) revenue is defined as a gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than an increase relating to capital contributions to net assets. According to section 58 of the MCS, revenue arises from the course of the operating activities of the department (RSA, 2015b:16). |

| | | | |
|---------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | When a school conducts activities that are similar to trading or rendering of services, they do so only to raise funds and not to make a profit in the manner intended by ordinary businesses. | The researcher considers the term appropriate for public schools. |
| 6.3.5 | The recommendation that making the use of SA-SAMS compulsory for keeping financial records and producing financial statement will lead to savings on costs of outsourcing the bookkeeping function by the schools, requires further elaboration. | <p>The challenges faced by the school with regard to recordkeeping, are not only limited to the fact that the use of SA-SAMS is not compulsory as in some schools where the SA-SAMS programmes are installed, the school do not have competent individuals to use the system for recordkeeping. Other factors that need to be considered include the following.</p> <ul style="list-style-type: none"> -The provision of funding to appoint qualified finance officers at all public schools. Currently some, if not most, of finance officers do not have financial management education and are thus unable to understand basic bookkeeping principles that are embedded in the system. - Ensuring that the technical support on SA-SAMS is readily available to schools when glitches are experience on the system. | <p>The assertion that the use of SA-SAMS will save costs for the department was made considering that the department will not incur extra costs in installing the accounting system.</p> <p>The researcher has referred to section 1.3 which discussed the lack of financial management skills as one of the challenges facing the SGBs. In section 6.2.2 the researcher has included the need for training as a requirement for implementing the guidelines. Therefore, the researcher agrees with SAICA with regard to skills needed.</p> |
| 6.3.7.1 | The listing of the number of years that each category of property, plant and equipment must be depreciated is not in line with the concept of depreciating assets over their estimated useful life. | The estimated useful life of the same type of asset may be different, depending on the way that the asset is used. For example, a truck that is used to carry stationery may have a longer | <p>The researcher is of the opinion that all schools are using the assets for the same purposes.</p> <p>The researcher had therefore, deleted the words “estimated useful life”.</p> |

| | | | |
|-------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | useful life compared to a similar truck that is used to delivery construction material. | |
| 6.3.8 | The finding quoted that “some of the schools did not use auditors who were approved by the MEC ...” is not in line with the South African Schools Act requirements. | <p>The approval of the MEC is not required when a public school appoints a registered auditor.</p> <p>The approval is required when the public school appoints a person who is neither an auditor, nor a person qualified to be an accounting officer of a close corporation to examine and report of the financial statements of a public school. (SASA, 43(2)(c).</p> | The researcher is of the opinion that the AGSA report had a misprint and agrees with SAICA. The guideline (section 6.3.8) and literature review (section 3.4.6) were corrected to agree with section 43(2)(b). |
| | <p>It appears that the term “accounting officer” and “auditor” are used interchangeably.</p> <p>E.g. “According to Table 5.15 and section 5.3.3.1 some schools appointed the accounting officers for the term exceeding three years, which is more than the SGB’s term of office as per section 31 of the SASA and may also compromise the auditor’s independence.”</p> | The two terms are difference and would rather be mentions together that be used as if they mean the same thing. | Paragraph 6.3.8 has been corrected and clarified as per recommendation. |
| 6.4.1 | The SAICA draft guidelines do not provide for the audit or examination of financial statements. | The SAICA draft guidelines only address the financial statement preparation. The audit and examination guidelines are a project we will only embark on once the financial statements preparation guidelines are completed. | Noted. |
| An | The explanation and motivation | The decision to include or exclude | In section 6.2.2, the researcher referred to section |

| | | | |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| next ureI | provided for including and excluding items in the reviewed guidelines in the proposed recommended practice guidelines appears to only justify the inclusion and exclusion based on whether the item is already included in existing frameworks. | items in the financial statements should be mainly influenced by the information needs of users in the public school environment. Consideration should be given to adding additional justification for including or excluding items based on the information needs of users. | 5.2.1.2 and Table 5.8 that indicated that the guidelines of provinces C, D, E and H to be closely in line with best practice (GRAP, IFRS, IPSAS and SASA). Reference is also made to relevant sections of various accounting standards, supporting the inclusion of items in the recommended practice guidelines. The fact that an item is included in either the IFRS, GRAP, IPSAS or MCS is reason enough for inclusion in the recommended practice guidelines. The researcher has included some of the motivations and explanations in the relevant sections of the recommended practice guidelines. |
| Annexure J | The reference to “Equity” as an item on the financial statements should be re-considered as public schools do not have equity holders. | | See explanation on “REF” 6.3.4 above |
| General | The guidelines appear to infer that the PFMA is applicable to public schools. | Our understanding is that the PFMA is not applicable to public schools. The South African Schools Act is the one that is applicable to public school. The PFMA applies to the Department of Education and the schools are not legally connected to the departments. | PFMA has no direct applicability to schools, but that does not forbid any province to prescribe certain sections deemed necessary. As stated in section 3.2.3, Mestry (2004:128) is of the opinion that schools should apply certain sections of the PFMA. The Western Cape Department of Education had also prescribed the PFMA for the schools. In 6.2.2 above, SAICA recommended the use of MCSs which also make reference to the PFMA. The accounting treatment of unauthorised, irregular and fruitless and wasteful expenditure is also addressed in the PFMA. The researcher therefore, is of the opinion that some sections of the PFMA are applicable to schools. |
| | It is not clear who the primary users of the | | The researcher included the primary users. See |

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|--|-------------------------------------------------------------------------------------------------------------|--|---------------------------------------------------------|
| | public school financial statements have been considered to be. Please consider including in the guidelines. | | section 6.3.6.1 of the recommended practice guidelines. |
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ANNEXURE N Validation of recommended practice guidelines: from AGSA

Cc: Hlongoane, Moses <Hlongmt@unisa.ac.za>;

Subject: FW: ASSISTANCE WITH THE GUIDELINES

Dear ...

I committed to assist with the request below but when I go through the documentations supplied, it is purely accounting practices. I concur with the authors assertions on school income and expenditures items, what is your view, is there anything missing.

Please help it is needed asap

Regards

Senior Manager • Auditor-General of South Africa

Auditing to build public confidence