

WEBINAR MATERIAL

SCHOOLS – AUDIT, EXAMINATION AND FINANCIAL REPORTING: 6 JULY 2021

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1. INTRODUCTION



As Nelson Mandela said, “Education is the most powerful weapon which you can use to change the world.” Education is the key to eliminating gender inequality, to reducing poverty, to creating a sustainable planet, to preventing needless deaths and illness, and to fostering peace.”

Abbreviations used:

SGB = School Governing Body

SASA = South African Schools Act, No 84 of 1996

BELA = Basic Education Laws Amendment

PIE = Public Interest Entity

IRBA = Independent Regulatory Board for Auditors

There are over 25 000 public schools in South Africa.

By 31 March all SGBs are required to appoint relevant accounting and auditing professionals and within 3 months of their year end present financial statements.

Public schools engage professionals to assist them with their financial management duties in terms of the SA Schools Act 84 of 1996 (SASA).

These professionals include:

1. Bookkeepers to help prepare the source document to trial balance.
2. Accountants that assist with preparation of financial statements, and filing of tax returns.
3. Accounting officers performing an examination of the schools’ financial statements.
4. Auditors performing an audit of the schools’ financial statements.

The purpose of this webinar is to update professionals as to the requirements of the SASA, BELA, regulations and recently issued circulars relevant to the services they offer.

a. ROOT CAUSES

Some of the root causes for mismanagement in schools have been identified as:

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

Mismanagement occurs through:

- Misappropriation
- Fraud
- Pilfering of cash

- Theft
- Improper control of financial records
- Financial mismanagement
- Abuse of school funds
- Procurement irregularities

Refer to Lucky Ronald Menoe's presentation on this topic

b. SCHOOLS AS PUBLIC INTEREST ENTITIES

IRBA issued a new definition of a PIE (Public Interest Entity) on 4 March 2016, and also issued final amendments to the IRBA Code of Professional Conduct for Registered Auditors relating to the definition of Public Interest Entities.

Internationally, Public interest entities established under special laws include religious organisations established under the Religious Juridical Persons Act, schools established under the School Education Act and the Private Schools Act and hospitals and other medical care organisations established under the Medical Care Act.

IRBA issued a rule prescribing that auditors of public interest entities in SA must comply with mandatory audit firm rotation with effect from 1 Apr 2023.

A summary of the IRBA definition of PIE is available to you as a Source Document

c. SGBs

There are over 25 000 public schools in South Africa and every school has a School Governing Body (SGB) that is democratically elected. By participating in the SGB elections, every parent has the chance to be part of Government's drive to improve learning outcomes and reach the goal of quality education in all our schools.

This is your chance as a parent or member of the community to make a difference to our schools.

(i) Composition of an SGB

An SGB is made up of:

- Elected members;
- The Principal by virtue of his or her official capacity; and
- Co-opted members.

Elected members of the SGB comprise the following members:

- **Parents or guardians of learners at the school**

A parent means the biological parent or guardian of a learner or the person legally entitled to custody of a learner. A parent also means the person who undertakes to fulfil the obligations of a parent or guardian, or the person legally entitled to custody of a learner.

A parent who is employed at the school may not represent parents on the governing body.

- **Educators at the school**

An educator is a person who teaches, educates or trains other people, or who provides professional educational services, including professional therapy and educational psychological services at an institution. This includes educators employed by the school.

- **Learners in Grade 8 or higher**

Only learners in Grade 8 or higher who are elected members of the Representative Council of Learners (RCL) can serve on the SGB. Learners with special educational needs Grade 8 or higher can also be elected if this is reasonably practicable.

- **Members of staff who are not educators**

These members are all institutional staff members appointed according to the Public Service Act, 1994 (Act 103 of 1994), who are not educators at the institution, including those employed by the school.

The SGB of a special school should be composed as follows:

- Parents of learners enrolled at the school, if reasonably practicable;
- Educators at the school;
- Members of staff at the school who are not educators;
- Learners in Grade 8 or higher, if reasonably practicable;
- Representatives of:
 - Organisations of parents of learners with special education needs, if applicable;
 - Sponsoring bodies, if applicable; and
 - Organisations of disabled persons, if applicable;
- Disabled persons, if applicable;
- Experts in relevant fields of special needs education; and
- The Principal by virtue of his or her official capacity.

(ii) Duties of an SGB

A SGB must ensure that the school is governed in the best interest of all the stakeholders. All SGB members must always put the best interest of the school before any personal interests. The South African Schools Act stipulates that a SGB must:

- Promote the best interest of the school and ensure its development
- Adopt a constitution setting out how the SGB will operate
- Adopt a mission statement for the school
- Adopt a code of conduct for learners at the school which sets out disciplinary procedures
- Help the principal, educators and other staff members to perform their professional functions
- Decide on school policy which should include amongst others admissions, language and finance
- Administer and control the property of the school, buildings and grounds

- Encourage parents, learners, educators and other staff members at the school, to offer voluntary services to the school

The SGB may apply to the Head of Department, in writing requesting to be allocated any of the following functions:

- To maintain and improve the school’s property, buildings and grounds
- To buy textbooks, educational materials and equipment for the school
- To pay for services rendered to the school.

Some key responsibilities of the SGB are:

- Decision Making
- Planning
- Conflict Management
- Team Building
- Negotiation
- School Finances

What is a Section 20 school?

- The provincial education department can decide to give additional management functions to school governing bodies that function well and have proved that they are capable of improving their schools. Section 21 schools have greater powers and responsibilities than Section 20 schools.

What is a Section 21 school?

- Section 21 schools are those schools that manage their own finances. The Department deposits the school allocation into the schools' account at the beginning of every financial year. This happens after the school has submitted an audited annual financial statement report.

(iii) Some other topics re Powers of SGBs (discussed by Lucky Ronald Menoe):

- Roles and responsibilities
- Continuous support (Capacity building)
- Section 20/21 status
- Separation of powers
- Financial roles (Treasurer, Finance Officer, Finance Committee, etc.)
- Allocation of budget
- Management of donations
- Fundraising

(iv) Some other topics in Conclusion (discussed by Lucky Ronald Menoe):

- Capacity building of SGBs
- General understanding of financial management processes is essential before elections and post elections.
- The role of DBE in ensuring there is continuous support

- Role of SGB associations, trade unions, private sector and NGOs
- Fragmentation
- Regulations

d. SOME AUDIT-RELATED TOPICS (DISCUSSED BY LUCKY RONALD MENOE):

- What is a financial statement?
- Very complex process for SGBs
- When is the audit performed?
- Who conducts these audits?
- Who prepares the statements?
- Are SGB aware of Auditing firms to use?
- What happens when Auditors hide financial mismanagement?
- SGBs see this as a final stage and most cases don't know how to escalate issues from this stage.
- Bookkeeper, accountant, accounting officer and auditor.

e. WORKSHOPS CONDUCTED IN SCHOOLS (DISCUSSED BY DAVID MACHABA):

- Induction of School Principals, Chairpersons, Treasures, Finance officers, Parents, co-opted members and SGB constituency.

f. CHALLENGES IN PUBLIC SCHOOLS (DISCUSSED BY DAVID MACHABA):

- The Principals, Teachers and SGB members are perpetrators of various financial mismanagement activities related to financial mismanagement.
- Lack of knowledge of legislation and skills, poor monitoring and control of funds, unavailability of financial policies in schools, lack of honesty and openness.
- Conflict of interest: SGB serve for too long in their position and no segregation of duties between bookkeepers and auditors.
- No accounting manuals in place, poor internal controls of compliance with SASA.
- Insufficient documentations.

g. THE NEED FOR ACCOUNTANTS TO REMEDY THE SITUATION (DISCUSSED BY DAVID MACHABA):

- Business Accountants in Practice (BAP), Professional Accountants (PA) and Chartered Accountants (CA) to guide schools on school governance.
- NB - There has to be illustrative engagement letter.
- Internal controls.
- Revenue/Income.

- Inventory and Assets.
- Budgeting.
- Financial Reporting (Bookkeepers, Accountants, Accounting Officer and an Auditor).
- Illustrative report.

2. LEGAL FRAMEWORK: OBLIGATIONS OF SCHOOLS

Schools have defined obligations that are set out in the relevant laws & regulations

a. SA SCHOOLS ACT

The South African Schools Act No. 84 of 1996 stipulates that schooling is compulsory for all South Africans from the age of seven, starting at grade 1, to the age of 15, or the completion of grade 9.

The SASA governs the responsibilities of the SGB.

This Act has been updated to *Government Gazette* 34620 dated 19 September, 2011.

(i) Contents of the 1996 & 2011 SASA:

Chapter 1 DEFINITIONS AND APPLICATION OF ACT

1. Definitions
2. Application of Act

Chapter 2 LEARNERS

3. Compulsory attendance
4. Exemption from compulsory attendance
5. Admission to public schools
6. Language policy of public schools
- 6A. Curriculum and assessment
7. Freedom of conscience and religion at public schools
8. Code of conduct
9. Suspension and expulsion from public school
10. Prohibition of corporal punishment
- 10A. Prohibition of initiation practices
11. Representative council of learners

Chapter 3 PUBLIC SCHOOLS

12. Provision of public schools
- 12A. Merger of public schools
13. Public schools on State property
14. Public schools on private property
15. Status of public schools
16. Governance and professional management of public schools
- 16A. Functions and responsibilities of principal of public school
17. Governing body serving two or more schools
18. Constitution of governing body
- 18A. Code of conduct of governing body
19. Enhancement of capacity of governing bodies
20. Functions of all governing bodies
21. Allocated functions of governing bodies

22. Withdrawal of functions from governing bodies
23. Membership of governing body of ordinary public school
24. Membership of governing body of public school for learners with special education needs
25. Failure by governing body to perform functions
26. Recusal by members of governing body
27. Reimbursement of members of governing body
28. Election of members of governing body
29. Office-bearers of governing bodies
30. Committees of governing body
31. Term of office of members and office-bearers of governing bodies
32. Status of minors on governing bodies of public schools
33. Closure of public schools
- 33A. Prohibition of political activities during school time

Chapter 4 FUNDING OF PUBLIC SCHOOLS

34. Responsibility of State
35. Norms and standards for funding of public schools
36. Responsibility of governing body
37. School funds and assets of public schools
38. Annual budget of public school
- 38A. Prohibition of payment of unauthorised remuneration, or giving of financial benefit or benefit in kind to certain employees
39. School fees at public schools
40. Parent's liability for payment of school fees
41. Enforcement of payment of school fees
42. Financial records and statements of public schools
43. Audit or examination of financial records and statements
44. Financial year of public school

Chapter 5 INDEPENDENT SCHOOLS

45. Establishment of independent school
- 45A. Admission age to independent school
46. Registration of independent school
47. Withdrawal of registration of independent school
48. Subsidies to registered independent schools
49. Declaration of independent school as public school
50. Duties of Member of Executive Council relating to independent schools
51. Registration of learner for education at home

Chapter 6 TRANSITIONAL PROVISIONS

52. Transitional provisions relating to schools other than private schools
53. Transitional provisions relating to private schools
54. Transitional provisions relating to governing bodies
55. Transitional provisions relating to immovable property of certain schools

- 56. Transitional provisions relating to public schools on private property
- 57. Transitional provisions relating to private property owned by religious organisation

Chapter 7 GENERAL PROVISIONS

- 58. Expropriation
- 59. Duty of schools to provide information
- 60. Liability of State
- 61. Regulations
- 62. Delegation of powers
- 63. Repeal and amendment of laws
- 64. Short title and commencement
- Schedule 1
- Schedule 2 Amendment of Educators' Employment Act, 1994, by section 63

The 56-page SASA is available to you as a Source Document



(ii) Section 42 of SASA – Financial records and statements of public schools

The governing body of a public school must –

- (a) keep records of funds received and spent by the public school and of its assets, liabilities and financial transactions; and
- (b) as soon as practicable, but not later than three months after the end of each financial year, draw up annual financial statements in accordance with the guidelines determined by the Member of the Executive Council.



(iii) Section 43 of SASA – Audit or examination of financial records and statements

- (1) The governing body of a public school must appoint a person registered as an accountant and auditor in terms of the Public Accountants and Auditors Act, 1991 (Act No. 80 of 1991), to audit the records and financial statements referred to in section 42.
- (2) If the audit referred to in subsection (1) is not reasonably practicable, the governing body of a public school must appoint a person to examine and report on the records and financial statements referred to in section 42, who –
 - (a) is qualified to perform the duties of an accounting officer in terms of section 60 of the Close Corporations Act, 1984 (Act No. 69 of 1984); or
 - (b) is approved by the Member of the Executive Council for this purpose.
- (3) No person who has a financial interest in the affairs of the public school may be appointed under this section.
- (4) If the Member of the Executive Council deems it necessary, he or she may request the Auditor-General to undertake an audit of the records and financial statements of a public school.
- (5) A governing body must submit to the Head of Department, within six months after the end of each financial year, a copy of the annual financial statements, audited or examined in terms of this section.
- (6) At the request of an interested person, the governing body must make the records referred to in section 42, and the audited or examined financial statements referred to in this section, available for inspection.

(iv) Section 44 of SASA – Financial year of public school

The financial year of a public school commences on the first day of January and ends on the last day of December of each year.

b. SOME GREY AREAS...

<https://www.accountancysa.org.za/audit-and-examination-of-public-school-financial-statements/>

Article: Accounting Weekly

1 May 2018

Public schools are required to draw up their annual financial statements in accordance with guidelines determined by the Member of the Executive Council (MEC) and submit the audited or examined set to the head of department within six months after the end of each financial year. The financial year of a public school commences on the first day of January and ends on the last day of December.

The South African Schools Act (SASA) requires that only a person registered as an auditor in terms of the Auditing Profession Act 26 of 2005 may audit the records and financial statements of a public school. Where this is not reasonably practicable, SASA provides that the governing body of a public school must appoint a person to examine and report on the records and financial statements who is qualified to perform the duties of an accounting officer in terms of section 60 of the Close Corporations Act 69 of 1984), or is approved by the MEC for this purpose.

Several grey areas however exist that require careful consideration by practitioners who are involved in audits and examinations of public school financials statements.

The impracticability of an audit

SASA does not provide guidance on the circumstances under which it will be reasonably impracticable to have an audit performed on the financial statements of a public school. Circular M1 of 2017 issued by the National Department of Education states that the school governing bodies (SGBs) of public schools must appoint registered auditors and in cases where it is not reasonably practicable to appoint an auditor, that they must obtain approval from the MEC to appoint a person qualified to perform the duties of an accounting officer of a close corporation to perform an examination in accordance with section 43(2) of SASA. Practitioners can therefore only accept examination engagements where the public school has obtained the necessary approval from the MEC.

Types of engagements that qualify as 'examinations'

An examination is not defined in SASA. Practitioners who are engaged to examine financial statements of public schools have the option of conducting a review engagement or an agreed-upon procedures engagement. It is important to note, however, that an agreed-upon procedures engagement brings with it some challenges, as the Department of Basic Education in most instances require that an opinion or a conclusion be expressed based on the engagement performed on the financial statements of a public school.

This is not possible with an agreed-upon procedures engagement, as the auditor or examiner is engaged to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings.

An engagement to compile financial statements will not meet the criteria to be classified as an examination of financial statements as it is an engagement in which a practitioner applies accounting and financial expertise to assist management in the preparation and presentation of financial information of an entity in accordance with the applicable financial reporting framework.

Thus, a compilation engagement is conducted to assist the school to comply with the requirements for keeping records of funds received and spent and of its assets, liabilities, and financial transactions and drawing up of financial statements as required by section 42 of SASA.

Impact of classification of the guidelines from the MEC as a special purpose financial reporting framework

Where the guidelines are classified as a special purpose financial reporting framework, the requirements of ISA 800 (Revised), *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, must be complied with. The requirements include the following:

- The auditor’s report must describe the purpose for which the financial statements are prepared and, if necessary, the intended users, or refer to a note in the special purpose financial statements that contains such information.
- If management has a choice of financial reporting framework in the preparation of such financial statements, the explanation of management’s responsibility for the financial statements must include reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.
- The auditor’s report must include an emphasis of matter paragraph alerting users of the report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, they may not be suitable for another purpose

Impact of the classification of the guidelines from the MEC as a fair presentation framework or compliance framework

The wording of the opinion or conclusion paragraph will be changed to suite the circumstances as follows:

- Fair presentation framework: ‘... the financial statements present fairly, in all material respects, the financial position, financial performance and cash flows ...
- Compliance framework: ‘... the financial statements are prepared, in all material respects in accordance with ...’

SAAPS 2 (Revised 2018) issued by the Independent Regulatory Board (IRBA) for Auditors provides further guidance on the impact of financial reporting frameworks on the auditor’s report.

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c. BELA (BASIC EDUCATION LAW AMENDMENT) BILL

“It is a very important component of any school to have a very good and strong governing body, this is why there has to be an election”.

In order to realise just how important these elections are, one must know what the Basic Education Law Amendment (BELA) Bill is and also what it would substitute, this being the commonly known SGB.

The BELA Bill aims to do away with SGB’s as we know it and would place all the duties usually conducted by a schools SGB in the hands of the state. Furthermore, this would mean the end of the democratic public-schools system that South Africa has made use of for an exceptionally long and will then take us down to a state-owned schools model.

The SGB at a school plays an absolutely vital role and it is therefore extremely important for parents to cast their votes in this month’s SGB election to be sure that the candidates elected are people who are able to run the school in such a way that it serves the students to the best of its ability.

Should the SGB be replaced and their duties made the responsibility of the state, it would be of great interest to parents and any other stakeholders to know just what these duties are.

The SGB at a school is responsible for things such as the admissions policy, the code of conduct at the school, the disciplinary procedures of the school and exactly what religious practices will be followed at the school. The management and the detailing of the school’s finances are also among the duties conducted by a school SGB along with making important decisions regarding the school’s admissions and language policies as well as the support of the principal, teachers and other staff at the school which may include the recommendation of staff appointments.

The SGB elections are being promoted by two distinct marketing campaigns, both with the same objective in mind. The objective being the motivation of parents and any other stakeholders to ensure that they cast their votes in this month’s SGB election. These two campaigns are known as the I Love My Schools and School Elections campaigns.

It is evident that there is a lot at stake and that the SGB is the backbone of a successful school. It was recently stated that “the school is only as successful as the community that supports it”. This is why each vote is of utmost importance in the battle to ensure the longevity of your child’s school. These include circumstances which could greatly affect not only their academic development, but also their social development.

(i) 10 things you need to know about the Education draft bill

Here's what you need to know about the bill:

1. The draft bill seeks to give the Head of Department the final authority to admit a pupil to a public school. The SGB of a public school must submit the admission policy of the school, and any amendment thereof, to the Head of Department for approval.
2. According to the draft bill the code of conduct of a public school must take into account the diverse cultural beliefs and religious observances of the learners at the school and makes provision for an exemption clause, making it possible to exempt learners, upon application, from complying with the code of conduct or certain provisions thereof, on just cause shown.
3. The bill also seeks to limit the powers of a SGB in regard to recommending candidates for appointment. The SGB will be able to recommend to the Head of Department the appointment of post level 1 educators only, with the selection and appointment of educators on post levels 2 to 4 being the sole responsibility of the Head of Department.
4. The draft bill will also empower the Head of Department to dissolve a SGB that has ceased to perform functions allocated to it in terms of the Act, if the Head of Department has reasonable grounds to do so.
5. It also stipulates that the subsidy granted to an independent school can be made subject to conditions determined by the Member of the Executive Council (MEC) of that province.
6. The draft bill also seeks to prohibit educators from conducting business with the State or from being a director of a public or private company conducting business with the State, and makes it an offence for an educator to do so.
7. The SGB will also be required to submit the language policy of a public school, and any amendment thereof, to the Head of Department for approval.
8. The draft bill requires any SGB member to declare a direct or indirect personal interest he/she or any of his or her family members has and, under such circumstances, to be recused from the procurement of goods and services on behalf of the public school.
9. It also seeks to empower the HOD to: (a) authorise officers (as defined in the SASA) to conduct an investigation into the financial affairs of a public school and after consultation with the governing body; (b) request the Auditor -General to undertake an audit of the records and financial statements of a public school.
10. Finally, the bill requires the SGB to seek the approval of the MEC to enter into lease agreements, for any purpose, including loans and overdrafts which are already provided for in the said section.

The 20-page Draft BELA Bill is available to you as a Source Document

d. REGULATIONS

The following Regulations are available:

Date	Title

18 Oct 2006	South African Schools Act: Exemption of parents from payment of school fees in public schools (Gazette 29311, Regulation Gazette 8566)	Download
20 Aug 2004	SA School Act: Regulations relating to Safety Measures at Independent Schools (Gazette 26663, Notice 975)	Download
14 Oct 2003	Higher Education Act: Policy and procedures for measurement of research output of Public Higher Education Institutions (GG25583, Notice R1467)	Download
4 Apr 2003	Higher Education Act: Regulations for the Registration of Private Higher Education Institutions, 2002	Download
13 Dec 2002	SA School Act: Regulations to prohibit Initiation practices in schools (Gazette 24165, Notice 1589)	Download
12 Oct 2001	SA School Act: Regulations for safety measures at Public Schools (Gazette 22754, Notice 1040)	Download
2 Oct 1998	Employment of Educators Act: Creation of educator posts in Provincial Dept of Education and distribution of such posts to educational institutions (No	Download
30 Apr 1999	National Education Policy Act: Establishment of National Education and Training Council (Gazette 20044, Notice R587) 1999	Download
14 Aug 1998	National Education Policy Act: Regulations to provide for establishment, composition and functioning of National Board for FET (GG19157/1, Notice 1043)	Download
19 Dec 1997	SA School Act: Public School on private property - minimum requirements of agreement between member of executive council and owner of private property	Download
	Post Distribution Model for the allocation of Educator Posts to Schools (Regulation 1451 of 2002)	Download

e. PUBLIC FINANCE MANAGEMENT ACT

Although the Public Finance Management Act (PFMA) has no direct bearing on schools, the Department of Basic Education applies certain sections of the PFMA to prescribe how schools should manage allocated funds from Treasury.

We need to understand the spirit of the PFMA and the links to SASA, which in my humble view requires the basic elements of Financial management, governance, transparency and accountability to its relevant stakeholders.

The PFMA governs the GENERAL responsibilities of the accounting officer – Section 38.

(i) Section 38 of the PFMA

- Accountability and Structure
- Governance structure
- Effective, efficient and transparent financial management, internal control systems, use of resources, risk management
- Appropriate procurement and provisioning system that is fair, equitable, transparent, competitive and cost-effective
- Collect all money
- Manage finances properly

- Safeguarding and maintenance of assets
- Comply with all tax, levy, duty, pension and audit commitments required by legislation
- Settle contractual obligations in time
- Prevent Unauthorised (UE), Irregular (IE) and Fruitless and Wasteful Expenditure (FE)
- Take disciplinary steps if act is contravened
- Make accounting considerations (Policies)
- Not committing Department to liability not appropriated

(ii) Section 40 of the PFMA

- Sets out the Accounting officers' reporting responsibilities
- Full records
- AFS and timeframes
- Annual Report and timeframes
- Monthly reporting and timeframes

Refer to the Circular M1 of 2019 (available to you as a Source Document)

3. CIRCULARS ISSUED

Circulars are issued by the DBE to provide clarity on interpretation of certain issues, and are very important!

(i) The Directorate: Provincial Audit Monitoring and Support

Purpose of the Directorate: Provincial Audit Monitoring and Support (Sector Audit Outcomes)

The Directorate was established to assist Education Departments in improving sector audit outcomes by providing advice, interventions and developing recommendations for enhancement or improvement to the governance, risk management and control processes. Advice and interventions are aimed at the following controls:

- (a) the information systems environment;
- (b) the reliability and integrity of financial and operational information;
- (c) the effectiveness of operations;
- (d) safeguarding of assets; and
- (e) compliance with laws, regulations and controls.

The following Guidelines on Audits have been issued:

- [Registration of Auditors - South African Schools Act and Auditing Profession Act Concept note](#)
- [AG Directive Issued in terms of the Public Audit Act, 2004](#)
- [AGSA Terminology \(highlights the audit terminology used by AGSA\)](#)
- [Auditing Profession Act in accordance with Section 43 of SASA](#)
- [Capital Assets](#)
- [Compliance Report](#)
- [Guideline on Fruitless and Wasteful Expenditure](#)
- [Guidelines for auditing in the education sector for improvement of audit outcomes](#)
- [Guidelines on auditing in the public sector](#)
- [HR new directives \(new Directive on appointment and selection of non sms members\)](#)
- [Modified Cash Standard \(All government departments are required to develop financial statements\)](#)
- [MPAT Standards \(All departments are required to comply with MPAT Standards\)](#)
- [Sector Audit Report \(Auditor General Sector education report and plan for the 2016/17 financial year\)](#)
- [South African Schools Act](#)
- [Summary of Key Updates](#)
- [The IPPF Standards 2017 Markup-Changes](#)
- [The IPPF Standards update on section 38 of Treasury Regulations](#)
- [Treasury Regulations](#)
- [Unemployment Contributions Act](#)
- [Unemployment Insurance Act \(All schools are required to register their employees for UIF\)](#)

The following Circulars have been issued:

- Circulars M1, M2, M3, M4, M5 of 2017 (when to audit and when to examine by accounting officers)
- Circular M1, M2 of 2018
- Circular M1, M2 of 2019 (PFMA and Schools)

a. CIRCULAR M1 OF 2017

Measures to improve management of school finances, preparation and auditing of financial statements

4 pages

Issued on 6 September 2017

Contents:

1. Utilisation of the new SASA (as amended by BELA Act 15 of 2011)
2. Segregation of duties between bookkeepers and registered auditors – refer to table
3. Publishing a list of registered auditors on the Provincial Department’s websites
4. CIPC validation on Accounting Officers appointed
5. Preparation of guidelines in accordance with Section 42(b) of the SASA
6. Minutes of approval by SGBs on the audited annual financial statements
7. Audited financial statements to reflect audit opinions
8. Databases for audit opinions in schools

The circular is available to you as a Source Document

b. CIRCULAR M2 OF 2017

Measures to strengthen and improve personnel administration of educators in order to improve findings raised on record management

3 pages

Issued on 17 October 2017

Contents:

- Findings raised
- Guidance recommended for implementation
 1. Documents to include in a personnel file
 2. Methodology to utilise when filing documentation – 5 steps

The circular is available to you as a Source Document

c. CIRCULAR M3 OF 2017

Measures to strengthen compliance to Section 42 and 43 of the SASA

8 pages

Issued on 7 November 2017

Contents:

- 12 Control measures set out

The circular is available to you as a Source Document

d. CIRCULAR M4 OF 2017

Measures to strengthen compliance with Section 30(1) of the Public Service Act and Section 43(3) of the SASA relating to disclosure of interest

3 pages

Issued on 6 November 2017

Contents:

- Access tool to utilise when disclosing interest

The circular is available to you as a Source Document

e. CIRCULAR M5 OF 2017

Clarity on Paragraph 1 of M1 of 2017 relating to the utilisation of the new SASA no 84 of 1996 (as amended by BELA Act 15 of 2011)

2 pages

Issued on 10 November 2017

Contents:

- Re the appointment of registered auditors and inadequate segregation of duties between bookkeepers and auditors

The circular is available to you as a Source Document

f. CIRCULAR M1 OF 2018

Legal interpretation for Section 43(2) of SASA regarding “is not reasonably practicable”

2 pages

Issued on 4 September 2018

Contents:

- Includes the financial resources of the school, the values of the assets of the school and all other relevant matters

The circular is available to you as a Source Document

g. CIRCULAR M2 OF 2018

Legal interpretation for Section 27 of the SASA regarding “necessary expenses”

2 pages

Issued on 24 August 2018

Contents:

- Member of SGB may be reimbursed
- Not wasteful expenditure

h. CIRCULAR M1 OF 2019

Legal opinion on applicability of the PFMA in schools

5 pages

Issued on 8 February 2019

Contents:

- PFMA does not apply to school fees (school fees do not form part of the revenue funds, which are regulated by the PFMA)
- Schools are not listed in section 3 of the PFMA as institutions to which the PFMA applies
- Thus: the PFMA does not apply to schools and that the financial management of school funds is provided for in the SASA and not the PFMA

The circular is available to you as a Source Document

i. CIRCULAR M2 OF 2019 – NEW!

Investigations into misconduct of registered auditors and accounting officers in schools relating to Section 43 of the SASA by Professional Bodies

Issued on 25 March 2019

2 pages

Contents:

- All professional bodies confirmed that stringent measures will be instituted against their members

The circular is available to you as a Source Document

4. AUDIT VS EXAMINATION

Even though **Section 43 of the SASA requires an audit for all public schools**, if it is not reasonably practicable, a person must then examine the financial statements, who is qualified as accounting officer. i.t.o. Close Corporation Act, No 69 of 1984) or approved by the MEC.

a. AUDIT

Audit should be conducted for public schools – high level of assurance required.

b. EXAMINATION

Examination can be conducted by a person who is suitably qualified to act as an Accounting Officer, and is a member of an appropriate professional body (as listed on the DBE website) – where audit is impracticable, and exemption has been granted by the MEC.

There are a few additional factors to consider:

- Costs involved
- Accounting system implemented
- Level of assurance required
- Effectiveness of financial management systems
- Suspicions of mismanagement

c. SUMMARY

Accounting officers should have a clear understanding of the differences between assurance and non-assurance engagements. Accounting officers may incur both statutory and civil liability if they issue incorrect reports.

In an assurance engagement an auditor or independent reviewer is required to issue an independent written report that provides assurance in the form of an opinion. Users may rely on this opinion.

The International Framework for Assurance Engagements (IFAE) defines an assurance engagement, as an “...engagement in which an accounting officer expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party, about the outcome of the evaluation or measurement of a subject matter against criteria”.

In a non-assurance engagement an accounting officer issues a statement containing information that will assist users in forming their own opinion about the financial statements. In other words users of reports issued as part of non-assurance engagements are required to form their own opinion of whether the financial statements are fairly presented.

In an examination engagement the accounting officer report does not include an evaluation of financial statements against an appropriate accounting framework to assess and conclude on fair presentation. By way of contrast an auditor expresses reasonable assurance and a review accounting officer limited assurance on whether financial statements have been prepared in accordance with an appropriate accounting framework.

The following diagram illustrates the framework within which assurance and non-assurance services should be performed. It also clearly distinguishes between assurance and non-assurance services or related services. Reporting engagements should be performed in compliance with:

- A code of ethics. This code should preferably be aligned with the Code of Ethics as issued by IFAC.

- ISQC1 or a similar quality control policy and procedures. Adoption of quality control standards will assist the firm with ensuring that laws and regulations are adhered to and that reports issued are appropriate.
- Assurance engagements should be performed in terms of ISAs, ISRE, or ISAE. Non-assurance (i.e. related services) should be performed in terms of ISRSs.

Engagements that are not part of IFAC engagements standards would still be subject, in terms of a common law and professional body requirements, to a relevant code of ethics, quality control principles and requirements related to professional competence. Accounting officer engagements would typically fall into this category.

5. PROFESSIONALS ASSISTING SCHOOLS

There are a number of roleplayers in the financial recording arena, with very distinct functions.

a. BOOKKEEPERS

Bookkeepers are responsible for the entries into the main books and journals, as well as maintenance of the financial records – internally up to trial balance stage.

The SGB has the following financial responsibilities i.t.o. Section 38 of the SASA:

- Administer and manage the funds of the school using a single banking account
- Maintain accounting and financial records
- Prepare and present annual budget at the parents' meeting
- Draft and submit audited annual financial statements within 3 months of the year end

The school's bookkeepers will require lots of assistance with the above, which we are happy to provide!

ISRS 4410 is available to you as a Source Document

b. ACCOUNTANTS

The Accountant may prepare the financial statements – to be audited by the auditor.

Compilation of financial statements must be done in accordance with ISRS 4410.

The Accountant may assist in implementing proper systems of internal control.

The Accountant can examine the financial statements – if allowed by the DBE – provided that he/she is suitable qualified to act as an Accounting Officer, and is a member of an appropriate professional body.

In this case, refer to further information in the section below relating to Accounting Officers.

c. ACCOUNTING OFFICERS

This has no bearing to an Independent Reviewer. *We are of the opinion that the SASA does not refer to an independent review at all.*

The Accounting Officer may prepare the financial statements – to be audited by the auditor.

Compilation of financial statements must be done in accordance with ISRS 4410.

The Accounting Officer may assist in implementing proper systems of internal control.

The Accounting Officer can examine the financial statements – if allowed by the DBE.

- Examination is not defined in the SASA.
- This is an agreed-upon procedures engagement.

Section 38 of the SASA sets out the following responsibilities of the Accounting Officer:

- Effective, efficient and transparent systems of financial and risk management and internal control
- Effective, efficient, economical and transparent use of resources
- Management, safeguarding and maintenance of assets and management of liabilities

- Compliance to regulation and legislations
- Assisting with drafting policies related to:
 - internal controls for compliance with SASA,
 - accounting manuals,
 - segregation of duties between bookkeepers and auditors, etc.

(i) Recognised professions for Accounting Officers (per DBE’s website)

The Companies and Intellectual Property Commission (CIPC) is recognising the following accounting professions for purposes of appointment as accounting officers in terms of the Close Corporations Act, 1984:

1. The South African Institute of Chartered Accountants (SAICA)
2. Auditors registered in terms of the provisions of the Auditing Profession Act, 2005(CA)
3. The Southern African Institute of Chartered Secretaries and Administrators (ICSA)
4. The Chartered Institute of Management Accountants (CIMA)
5. The South African Institute of Professional Accountants (SAIPA)
6. THE IAC who have obtained the Diploma in Accountancy (IAC)
7. The Association of Chartered Certified Accountants (ACCA)
8. The Chartered Institute of Business Management (MCIBM)
9. The South African Institute of Business Accountants (SAIBA)
10. The South African Institute of Government Auditors (SAIGA)

(ii) Agreed-Upon Procedures engagement

The examination is an Agreed-Upon Procedures engagement, and must be conducted in accordance with ISRS 4410.

Legislative requirements:

- Compliance with regulations
- No financial interest
- Appoint process and documentation
 - Application form
 - Minutes of meeting
 - CV or business profile
 - Acknowledgement of appointment
 - Letter of no financial interest

AUP consists of the following:

- Examination of the financial statements
- Evaluating the effectiveness of financial management system
- Compliance with policies and legislation
- Submission of reports for approval

d. SUMMARY RE AUP

An examination of financial statements is not defined in SASA. Distinction is however made between an audit and an examination of financial statements.

The examination of financial statements should be performed by a person qualified to act as an accounting officer in terms of section 60 of the Close Corporations Act or must be approved by a Member of the Executive Council. An accounting officer is not appointed to perform the audit but to examine and report on the records and financial statements of the school.

It is important to note that:

- The person to replace the auditor should be qualified as an accounting officer.
- The person qualified as accounting officer is required to examine and report not to perform the duties of an accounting officer as specified in the Close Corporation Act 1984.

An accounting officer engagement does not meet the definition of ‘assurance engagements’ as defined in the International Framework for Assurance Engagements (IFAE) issued by IFAC.

The duties of accounting officers are explicitly stated in various statutes. However, in addition to these statutory duties, **accounting officers have certain common law duties** such as:

- Performing engagements with professional competence and due professional care;
- Planning and supervising the engagement performance; and
- Obtaining sufficient relevant data to afford a reasonable basis for issuing an accounting officer report.

In order to satisfy the above common law duties, this Guide recommends that accounting officers apply international best practices in performing the examination of the financial statements of public schools. Best practices in this case would be International Standards on Related Services.

Accounting Officers who are engaged to examine the financial statements of public schools should perform the engagement in terms of ISRS 4400: Agreed-Upon Procedures.

Taking into account the size of the majority of public schools, as well as the fact that most of these smaller public schools are non-fee earning schools, an agreed-upon procedures engagement is the best option. This engagement can be performed at a much lower cost. Conducting a set of standardized agreed upon procedures at each school, and issuing a factual findings report will provide valuable information to the Department of Basic Education on financial management and compliance to the SASA at each school.

<p>(i) Important considerations that Accounting Officers must take into account</p>
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Accounting officers should have a clear understanding of the differences between assurance and non-assurance engagements. Accounting officers may incur both statutory and civil liability if they issue incorrect reports.

In an assurance engagement an auditor or independent reviewer is required to issue an independent written report that provides assurance in the form of an opinion. Users may rely on this opinion.

The International Framework for Assurance Engagements (IFAE) defines an assurance engagement, as an “...engagement in which an accounting officer expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party, about the outcome of the evaluation or measurement of a subject matter against criteria”.

In a non-assurance engagement, an accounting officer issues a statement containing information that will assist users in forming their own opinion about the financial statements. In other words, users of reports issued as part of non-

assurance engagements are required to form their own opinion of whether the financial statements are fairly presented.

In an examination engagement the accounting officer report does not include an evaluation of financial statements against an appropriate accounting framework to assess and conclude on fair presentation. By way of contrast an auditor expresses reasonable assurance and a review accounting officer limited assurance on whether financial statements have been prepared in accordance with an appropriate accounting framework.

The following diagram illustrates the framework within which assurance and non-assurance services should be performed. It also clearly distinguishes between assurance and non-assurance services or related services. Reporting engagements should be performed in compliance with:

- A code of ethics. This code should preferably be aligned with the Code of Ethics as issued by IFAC.
- ISQC1 or a similar quality control policy and procedures. Adoption of quality control standards will assist the firm with ensuring that laws and regulations are adhered to and that reports issued are appropriate.
 - *Bear in mind that the New Quality Management Standards will be released towards the end of 2019, i.e. ISQM1, ISQM2, etc.*
- Assurance engagements should be performed in terms of ISAs, ISRE, or ISAE.
- Non-assurance (i.e. related services) should be performed in terms of ISRSs.

Engagements that are not part of IFAC engagements standards would still be subject, in terms of a common law and professional body requirements, to a relevant code of ethics, quality control principles and requirements related to professional competence. Accounting officer engagements would typically fall into this category.

e. AUDITORS

(i) Factors to consider:

- Costs involved
- Accounting system implemented
- Level of assurance required
- Effectiveness of financial management systems
- Suspicions of mismanagement
- ISQC 1 compliance issues
- Risk and accountability
- Competence and capacity
- Assessing materiality and professional judgement
- Responsibility for Reportable Irregularities
- Compliance to legislation

(ii) List of Registered Auditors (per DBE's website)

Visit the webpage www.irba.co.za

Click on "Find an RA" Search for "Registered auditor/firm"

SAICA issued a media release in this regard to emphasize the importance of using registered and reputable auditors.

SAICA advises SGBs: Don't appoint an auditor before reading this

16 January 2019

There is confusion around who can audit financial statements of a public school and what kind of engagement they must perform.

The South African Schools Act (SASA) requires that the governing body of a public school must appoint a person registered as an auditor in terms of the Auditing Profession Act, 2005 (Act No. 26 of 2005), to audit the records and financial statements of the school.

Where this is not reasonably practicable, SASA provides that the governing body of a public school must appoint a person, who is qualified to perform the duties of an accounting officer in terms of section 60 of the Close Corporations Act, 1984 (Act No. 69 of 1984); or is approved by the Member of the Executive Council (MEC) for this purpose, to examine and report on the records and financial statements.

Circular M1 of 2017 issued by the National Department of Education states that School Governing Bodies (SGBs) can only appoint an Accounting Officer if approval has been obtained from the MEC based on the justification provided for not being able to appoint an auditor.

All auditors must be registered with the Independent Regulatory Board for Auditors (IRBA) and their registration can be confirmed on IRBA's website at www.irba.co.za.

All accounting officers must be registered with at least one of the following accountancy bodies:

- Independent Regulatory Board for Auditors (IRBA) – irba.co.za
- South African Institute of Chartered Accountants (SAICA) – saica.co.za
- South African Institute of Professional Accountants (SAIPA) – saipa.co.za
- South African Institute of Government Auditors (SAIGA) – saiga.co.za
- South African Institute of Business Accountants (SAIBA) – saiba.org.za
- Southern African Institute of Chartered Secretaries and Administrators (ICSA) chartsec.co.za
- Chartered Institute of Management Accountants (CIMA) - cimaglobal.com
- Chartered Institute of Business Management (MCIBM) - chartsec.co.za
- Institute of Accounting and Commerce (IAC) - iacsa.co.za

"SGBs should insist on letters from accounting bodies to confirm the registration of the auditors and accounting officers as the use of unqualified individuals and firms result in shady work being performed and the issuance of reports that are not in line with required standards," says Julius Mojapelo, SAICA Senior Executive: Public Sector. "Such reports are misleading to parents, donors and the departments of education and denies such parties the information required to hold the governing body accountable for the management of school funds".

With regards to the type of engagement that can be performed the confusion is mainly when it comes to the interpretation of the word "Examination".

"An examination is not defined in SASA. Practitioners who are engaged to examine financial statements of public schools have the option of conducting a review engagement or an agreed-upon procedures engagement. It is important to note, however, that an agreed-upon procedures engagement brings with it some challenges, as the provincial Departments of Basic Education in most instances require that an opinion or a conclusion be expressed based on the engagement performed on the financial statements of a public school. This is not possible with an agreed-upon procedures engagement, as the auditor or examiner is engaged to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings," he adds.

Mojapelo further notes that, “an engagement to compile financial statements will not meet the criteria to be classified as an examination of financial statements as it is an engagement in which a practitioner applies accounting and financial expertise to assist management in the preparation and presentation of financial information of an entity in accordance with the applicable financial reporting framework. Thus, a compilation engagement is conducted to assist the school in complying with the requirements for keeping records of funds received and spent and of its assets, liabilities, and financial transactions and drawing up of financial statements as required by section 42 of SASA.”

About SAICA

The South African Institute of Chartered Accountants (SAICA), South Africa’s pre-eminent accountancy body, is widely recognised as one of the world’s leading accounting institutes. The Institute provides a wide range of support services to more than 46 000 members and associates who are chartered accountants [CAs(SA)], as well as AGAs(SA) and ATs(SA), who hold positions as CEOs, MDs, board directors, business owners, chief financial officers, auditors and leaders in every sphere of commerce and industry, and who play a significant role in the nation’s highly dynamic business sector and economic development.

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Any of the links can be followed to obtain more information

(iii) Independence requirements applicable to auditors of Schools

Auditing Professions Act, 2005

- The APA does not contain any independence requirements that specifically relate to individual auditors, but rather to the Regulatory Board for Auditors that are Independent.

Section 90(2) of the Companies Act, 2008

- Where a statutory/mandatory audit is performed, the auditor is not allowed to perform certain non-assurance services, e.g. compilation of financial statements, maintenance of fixed asset register, etc.
 - These provisions must be complied with in addition to those of the IRBA’s Code of Professional Conduct for Registered Auditors (“the Code”).
- *Refer to IRBA Guidance on the provision of non-audit services by the auditor of a company in terms of section 90(2) of the Companies Act, 2008*

- Because schools do not operate in the legal form of either a company or a CC, Section 90(2) of the Companies Act would not be applicable to the auditors of schools.

- **BUT**, the IRBA Code of Conduct would still require the auditor to be independent from the audit of the school.

Section 290 of the IRBA Code of Conduct applicable to auditors (Section 400.8 in Revised IRBA Code)

- IRBA have issued a Revised Code of Professional Conduct for Registered Auditors (in November 2018), and the section numbers have changed. *Please refer to the Mapping Table for a record of what the old section numbers have changed to.*

- IRBA issued a new definition of a PIE (Public Interest Entity) on 4 March 2016, and also issued final amendments to the IRBA Code of Professional Conduct for Registered Auditors relating to the definition of Public Interest Entities.
- IRBA issued a rule prescribing that auditors of public interest entities in SA must comply with mandatory audit firm rotation with effect from 1 Apr 2023.

- **Additional Independence Requirements Applicable to a PIE include:**

IRBA Code Paragraph	Prohibition or Independence Requirement	Companies Act 71 of 2008
Paragraph 290.138	Prohibits a key audit partner or senior managing partner joining a PIE client before a defined time-out period.	
Paragraph 290.149	Prohibits a key audit partner serving more than seven years on a PIE client.	Section 92 of the Companies Act has a more stringent rotation requirement.
Paragraph 290.177	Prohibits the provision of valuation services for a PIE audit client if the valuation has material effect, separately or in aggregate, to the financial statements.	
Paragraph 290.182	Prohibits the preparation of calculations of current taxation and deferred taxation liabilities (assets) for a PIE audit client if the resulting accounting entries are material to the financial statements.	
Paragraph 290.197	Prohibits the provision of internal audit services to a PIE audit client, which relate to a significant part of internal controls over financial reporting, significant financial accounting systems or material amounts and disclosures, separately or in aggregate in the financial statements.	
Paragraph 290.203	Prohibits the provision of services to a PIE audit client involving the design or implementation of an IT system which forms a significant part of internal control over financial reporting or generates information significant to the financial statements.	
Paragraph 290.212	Prohibits the provision of recruiting services to a PIE audit client for directors/officers or senior management who will have significant influence over accounting records or financial statements.	
Paragraph 290.219	Independence threats and safeguards must be discussed with the audit committee if in two consecutive years the total fees from the PIE audit client are greater than 15% of the total fees earned by the firm.	

A summary of the IRBA Independence requirements that relate to the definition of PIE is available to you as a Source Document

6. DBE DRAFT GUIDELINE FOR THE PREPARATION OF PUBLIC SCHOOL FINANCIAL STATEMENTS

SAICA & SAIBA both advocate for uniform financial reporting guidelines for public schools

SAICA press release

Issued on 12 February 2019

- o The South African Institute of South Africa (SAICA) has developed and submitted, to the National Department of Basic Education, draft guidelines for the preparation of financial statements for public schools in South Africa.
- o Public schools are required by the South African School Act to prepare their financial statements in accordance with guidelines determined by the Member of the Executive Council. Unfortunately, in some of the provinces such guidelines have not been issued by the MEC. In the provinces where the guidelines are issued, the guidelines do not adequately address the accounting treatment, presentation and disclosure requirements for key items in the financial statements.
- o One such example is the accounting treatment for land and buildings which in many cases does not legally belong to the school. Another case is the accounting treatment for ring fenced fundraising and conditional donations. Clarity is also required as to whether the financial statements of a public school should include Grade R and hostels or not. The lack of clarity on the accounting treatment of these items has led to public school financial statements that are not comparable and in certain instances not useful for decision making by users such as creditors, parents and donors. Auditors and accounting officers are also not able to provide appropriate reports on the financial statements as they have no common criteria against which to audit or examine the financial statements of public schools.
- o The draft guidelines developed by SAICA provide clarity on the accounting treatment, presentation and disclosure requirements for all significant items in the financial statements of public schools.

This guideline was issued by SAICA & the DBE in August 2019.

a. PURPOSE OF THESE GUIDELINES

The purpose of these guidelines is to provide the requirements for the financial statements of a public school.

The guidelines outline the minimum contents of the financial statements and the accounting policies for items included in the financial statements.

The guide also outlines the fundamental principles, concept and requirements that should be complied with when preparing the financial statements of a public schools.

These Guidelines are applicable to all public schools.

These Guidelines are effective for all financial periods beginning on or after 1 January 2019. Earlier adoption is permitted.

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The 16-page Draft document is available to you as a Source Document

C. REFERENCE MATERIAL USED

- South African Schools Act No.84 of 1996
- Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board
- Modified Cash Standards (MCS) issued by National Treasury
- International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board
- IFRS for Small and Medium Entities (IFRS for SMEs) issued by International Accounting Standards Board

7. BONUS DOCUMENTS

a. STANDARDS: EXPOSURE DRAFT: ISRS 4400 (REVISED) AGREED-UPON PROCEDURES ENGAGEMENTS

ISRS = International Standard on Related Services

Issued on 23 November 2018

43 pages

- The demand for agreed-upon procedures (AUP) engagements continues to grow across jurisdictions. Changes in regulation, such as the increase in audit exemption thresholds in many jurisdictions, have also driven increased demand for AUP engagements.
- To ensure that the IAASB's standard on AUP engagements remains relevant in the current business environment, the IAASB proposes to enhance key concepts in the standard, including:
 - The role of professional judgment in an AUP engagement.
 - + Disclosures relating to the practitioner's independence or lack thereof.
 - + Guidance on appropriate or inappropriate terminology to describe procedures and findings in AUP reports.
 - + The use of a practitioner's expert in an AUP engagement.
 - + Restrictions on the distribution and use of the AUP report
- Comments due to IRBA by 27 February 2019, and to IAASB by 15 March 2019.

(i) IFAC's Executive Summary

Agreed-upon procedures (AUP) engagements are widely used in many jurisdictions and the demand for AUP engagements continues to grow, particularly in relation to the need for increased accountability around funding and grants. Extant ISRS 44001 was developed over 20 years ago and has not kept pace with the significant changes that have occurred in the business environment driving the demand for AUP engagements on both financial and non-financial subject matters. To explore the issues related to AUP engagements, the IAASB commenced a project in 2015.

In November 2016, a Discussion Paper, *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards* ("Discussion Paper")² was issued to explore the demand for, and issues relating to, AUP engagements. Responses from a wide range of stakeholders and jurisdictions were overwhelmingly supportive of the views and conclusions expressed in the Discussion Paper. In September 2017, the IAASB approved a project proposal³ to revise extant ISRS 4400 to address issues relating to AUP engagements.

This exposure draft of proposed ISRS 4400 (Revised), *Agreed-Upon Procedures Engagements* (ED-4400) is drafted using the clarity drafting convention and enhances key concepts relevant to an AUP engagement, including:

- Professional judgment — new requirement and application material on the role of professional judgment in an AUP engagement.
- Independence — new requirements and application material on disclosures in the AUP report relating to the practitioner's independence (or lack thereof).

- Engagement acceptance and continuance considerations — new requirements and application material addressing conditions for engagement acceptance and continuance, including guidance on what constitutes appropriate (or inappropriate) terminology to describe procedures and findings in AUP reports.
- Use of a practitioner’s expert — new requirements and application material to address the use of the work of a practitioner’s expert in an AUP engagement, including the practitioner’s responsibilities when using the work of an expert and consideration of whether it is appropriate to include references to the expert in an AUP report.
- AUP report restrictions — clarification that the AUP report is not restricted to parties that have agreed to the procedures to be performed unless the practitioner decides to do so, and new application material on the practitioner’s considerations if the practitioner wishes to place restrictions on the AUP report.

ED-4400 also addresses non-financial subject matters, and includes new definitions and new requirements and application material on written representations, recommendations arising from the performance of AUP engagements, and documentation, among others.

This ED is available to you as a Source Document

b. SAIBA’S GUIDE TO ACCOUNTING OFFICER REPORTING ENGAGEMENTS

SAIBA advocates for extensive agreed-upon-procedures for public schools **focussing on governance** and not financial statements.

Previously, there was a draft 41-page document which was the definitive guide used by Accounting Officers to perform examination engagements of financial statements of schools.

In June 2017, SAIBA published a 98-page Member’s **Guide to Accounting Officer Reporting Engagements**, which contains, inter alia, the following:

- **Accounting officer reports for schools (page 37)**
- **Appendix 1: SA Schools Act 84 of 1996 (page 77)**

For further information on this guide, please email technical@saiba.org.za.

Registered SAIBA members in good standing may download this publication from the SAIBA website: <http://www.saiba.org.za>.

a. THE PREVIOUS SAIBA GUIDE FOR EXAMINATION OF FINANCIAL STATEMENTS OF SCHOOLS

Issued by SAIBA 2017 in Draft format

The purpose of this 41-page Guide is to assist accounting officers with establishing an engagement framework that can be applied when examining and reporting on the records and financial statements of public schools.

The Guide provides guidance on the professional responsibilities when undertaking examination engagements related to financial statements of public schools.

The Guide is not binding but is presented as a recommended approach to the planning and performance of examination engagements. Accounting officers will have to use professional judgment in deciding how and when to apply the principles contained within this Guide.

The principles contained in the Guide provide a basis for the development of an agreement between the accounting officer and his client that establishes the:

- a. Ethical requirements and quality control underpinning the engagement,
- b. Terms of the engagement,

- c. The documentation to be kept as part of the engagement,
- d. The procedures to be performed, and
- e. The conclusions and reporting that will be provided.

Research has indicated that a total of thirty seven per cent (37%) of the allegations were related to financial mismanagement. Some of the root causes for mismanagement in schools were:

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

Therefore the purpose of this Guide is also to provide guidance to accounting officers on the implementation of section 42 and 43 of the South African Schools Act (SASA) in order to improve the state of financial management in schools and adherence to the SASA.

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