



SOUTHERN AFRICAN INSTITUTE
FOR BUSINESS ACCOUNTANTS

Guide to Accounting Officer Reporting Engagements:

Examination of the Financial Statements of Public Schools

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1. Introduction

The purpose of this 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.

The Corruption Watch Report titled, “Loss of Principle: New Schools Report” indicated that a total of thirty seven per cent (37%) of the allegations were related to financial mismanagement.

Some of the root causes for mismanagement in schools were:

- 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.

2. Legislation

The SA Schools Act 84 of 1996 (SASA) governs public schools. Section 43(1) requires a governing body of a public school to appoint a person to audit the records and financial statements. This person must be a registered auditor in terms of the Auditing Profession Act 26 of 2005.

If an audit is not reasonably practicable, the governing body of the school may appoint another person to examine and report on the records and financial statements of the school.

This person must be 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 (MEC). An accounting officer is not appointed to perform an audit but to examine and report on the records and financial statements of the school.

The Department of Basic Education (DBE) has issued a number of circulars to clarify and provide guidance on improving the financial management of Schools. These include:

1. Circular M1 of 2018 - Legal interpretation related to when audit not reasonably practicable.
2. Circular M3 of 2017 - Measures to strengthen compliance to sections 42 and 43.
3. Circular M1 of 2017 - Measures to improve management of school finances, preparation and auditing of financial statements.

3. Audit vs. Examination

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

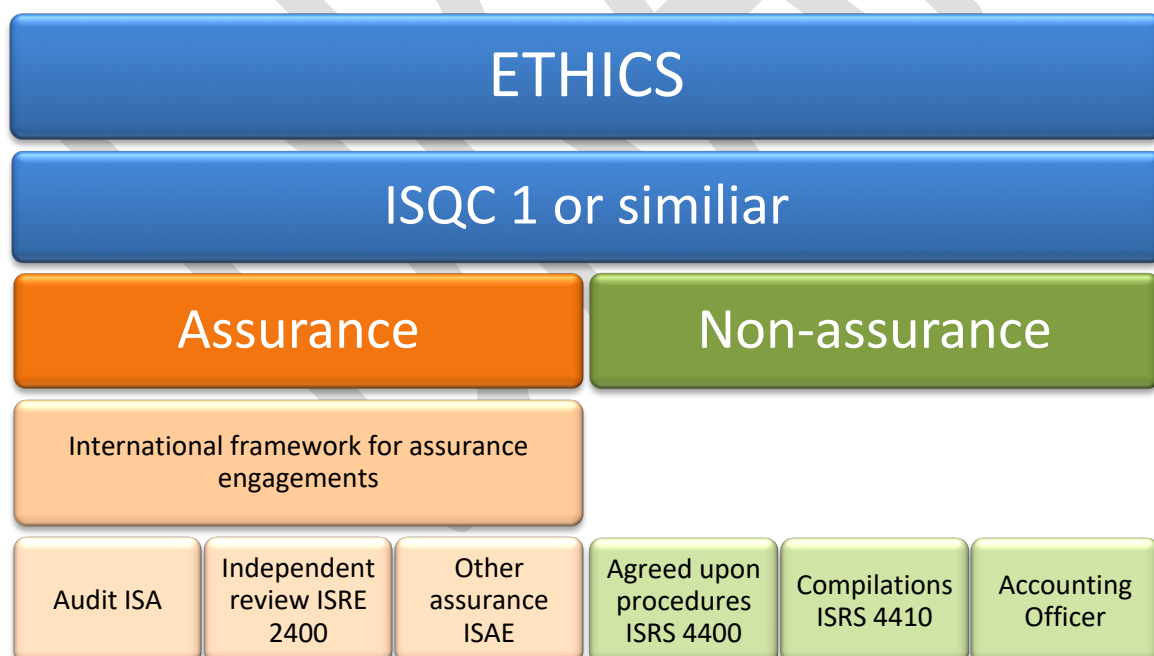
presentation. By way of contrast an auditor expresses reasonable assurance and a review accounting officer limited assurance on whether financial statements have been prepared in accordance with an appropriate accounting framework.

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.

Figure 1 Framework within which assurance and non-assurance services should be performed



4. Agreed upon procedures as framework for the examination of the financial statements of public schools

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.

5. Threshold for examinations

If an audit is not reasonably practicable, the governing body of the school may appoint in terms of section 43(2) of the SASA another person to examine and report on the records and financial statements of the school.

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

The term “reasonable practicable” is not defined by the Act. Elements that could be considered may include:

- Feasibility, fairness, and the need for inclusivity.
- The economic significance of the school measured against revenue, assets, number of employees and similar factors.
- The nature of the school and the community with in which it operates.
- The cost of a registered auditor’s report.
- The availability of a registered auditor.

Based on the above, this Guide recommends that the economic significance of the school be used to determine a threshold for when an audit is not “reasonably practicable”. Drivers such as revenue, assets and whether the school collects school fees or not will directly impact on the school’s ability to afford an audit.

The following thresholds for conducting an examination instead of an audit are recommended:

- a. The total average annual revenue over the past 3 years generated by the school is below Rxx million.
- b. The school does not collect any school fees.

Note: In KwaZulu-Natal, the provincial department has issued the “School Funding Norms Policy Implementation Manual for Public Schools”. These manuals only apply in KZN. Per these manuals an audit is required for all fee earning schools in KZN. An examination is required for all non-fee earning schools.

Figure 2 Diagram depicting the recommended thresholds for examination

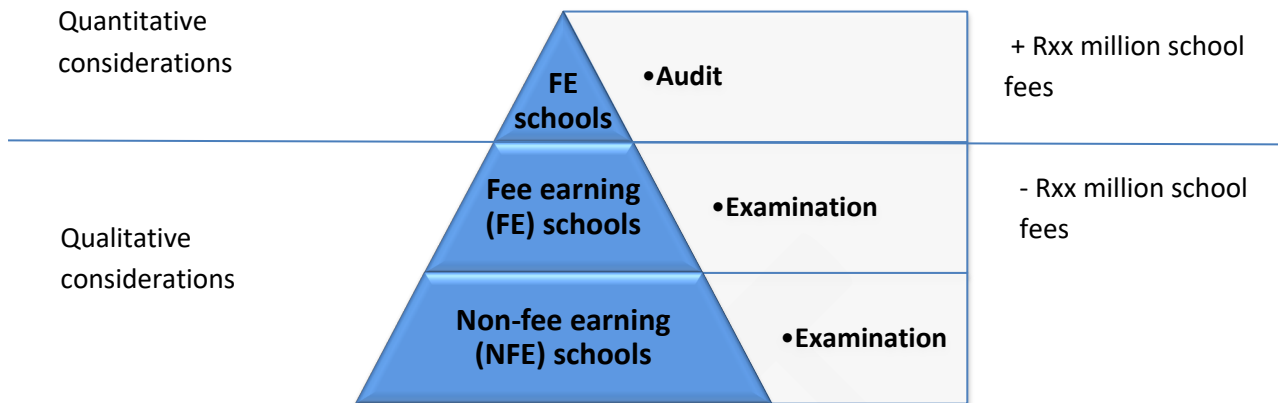
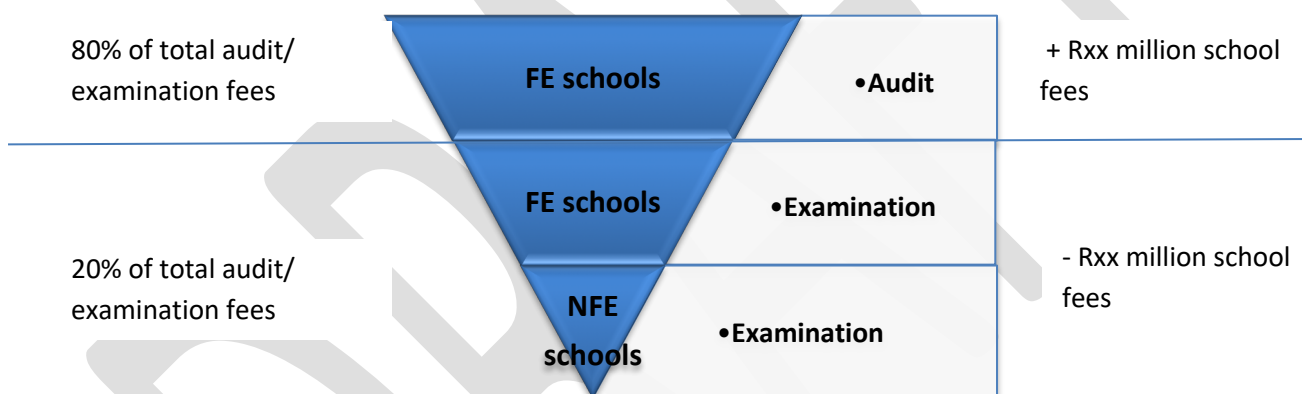


Figure 3 Diagram depicting audit and examination fees relative to threshold



6. Ethical requirements

Accounting officers should comply with the code of ethics of the professional body of which he is a member. Most professional bodies have adopted the IFAC Code of Ethics for Professional Accountants ('the Code').

Part A of the IFAC Code sets out the fundamental principles that should be observed by all professional accountants. These are:

- Integrity,
- Objectivity,
- Professional competence and due care,
- Confidentiality, and
- Professional behaviour.

Part B of the IFAC Code illustrates how the conceptual framework contained in Part A is to be applied by professional accountants who offer their services for a fee i.e. act in private or public practice. The Code advises that any threats to the conceptual framework should be avoided. Part B of the Code provides a case study approach to explaining the principles that should be followed with regard to:

- Professional appointment,
- Conflicts of interest,
- Second opinions,
- Fees and other types of remuneration,
- Marketing of professional services,
- Gifts and hospitality,
- Custody of client assets, and
- Independence related to audit and review and other assurance engagements.

A system of quality control will provide a firm of accounting officers with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or accounting officer are appropriate in the circumstances.

Accounting officers should therefore adopt a standard of quality control appropriate for the engagements they undertake. It is preferable that professional firms adopt the IFAC International Standard on Quality Control (ISQC1) with amendments as required in the circumstances.

ISQC1 only applies to firms of accountants performing audits and reviews of financial statement, other assurance and related services. Related services are defined as the standards for agreed upon procedures and compilations. However it is common cause that accounting officers should ensure the quality of their work. In addition the ISQC1 allows that if circumstances dictate a firm may depart from a requirement of ISQC1 if the requirement is not relevant to the services provided. A firm of accounting officers should therefore adopt a system of quality control derived from ISQC1.

7. Independence considerations

An accounting officer performing an agreed-upon procedures engagement is required to fulfil the accounting officer's responsibilities in accordance with relevant ethical requirements. Relevant ethical requirements ordinarily comprise the IESBA Code, together with national requirements that are more restrictive. The IESBA Code requires accounting officers to comply with fundamental principles including objectivity, which requires accounting officers not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others. Accordingly, relevant ethical requirements to which the accounting officer is subject would, at a minimum, require the accounting officer to be objective when performing an agreed-upon procedures engagement.

The IESBA Code does not contain independence requirements for agreed-upon procedures engagements. Accordingly, there is no requirement for the accounting officer to determine

independence. However, national ethical codes, laws or regulations, the firm's policies and procedures, or the terms of engagement may specify requirements pertaining to independence.

Section 43(3)(4) of the SASA states that, no person who has a financial interest in the affairs of the public school may be appointed in terms of section 43.

This guide further recommends that the accounting officer not accept an appointment to examine the financial statements of a public school where he/she is:

- A member of the SGB of the school;
- An employee of the school;
- A family member of any of the above.

8. Overview of ISRS 4400 – Engagements to perform agreed-upon procedures regarding financial information¹

8.1 Objective of an Agreed-Upon Procedures Engagement

The objective of an agreed-upon procedures engagement is for the accounting officer to carry out procedures to which the accounting officer and the school and any appropriate third parties have agreed and to report on factual findings.

8.2 General Principles of an Agreed-Upon Procedures Engagement

The accounting officer should comply with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (the IESBA Code).

8.3 Defining the Terms of the Engagement

The accounting officer should ensure with representatives of the school and, ordinarily, other specified parties who will receive copies of the report of factual findings, that there is a clear understanding regarding the agreed procedures and the conditions of the engagement.

8.4 Planning

The accounting officer should plan the work so that an effective engagement will be performed.

8.5 Documentation

The accounting officer should document matters which are important in providing evidence to support the report of factual findings, and evidence that the engagement was carried out in accordance with ISRS 4400 and the terms of the engagement.

¹ As taken from and adapted from ISRS 4400 – Engagements to perform agreed-upon procedures regarding financial information

8.6 Procedures and Evidence

The accounting officer should carry out the procedures agreed upon and use the evidence obtained as the basis for the report of factual findings.

8.7 Reporting

The report on an agreed-upon procedures engagement needs to describe the purpose and the agreed-upon procedures of the engagement in sufficient detail to enable the reader to understand the nature and the extent of the work performed.

9. Defining the terms of Engagement

The accounting officer should ensure, with representatives of the entity and, where appropriate, with other specified parties who will receive copies of the report, that there is a clear understanding regarding the engagement procedures and the conditions of the engagement.

Matters to be agreed include the following:

- The objective of the service being performed
- Management responsibility for the financial statements
- The scope of the report, including reference to this framework (or relevant national standards or practices)
- Unrestricted access to whatever records, documentation and other information requested in connection with the engagement
- A sample of the report expected to be issued
- The fact that the engagement cannot be relied upon to disclose errors, illegal acts or other irregularities, for example, fraud or defalcations that may exist
- A statement that an audit is not being performed and that an audit opinion will not be expressed.

To emphasize this point and to avoid confusion, the accounting officer may also consider pointing out that an examination engagement will not satisfy any statutory or third party requirements for an audit.

The engagement letter should include agreed upon procedures to examine and report on the following:

- Financial statements;
- Budget Variance Report;
- Compliance with allocated Section 21 functions (for S21 schools only);
- Compliance with the relevant sections of SASA;
- Compliance in respect of submission of statutory returns, e.g. UIF, PAYE, etc.

The terms of the engagement should be drafted in an engagement letter and should be agreed to with the representative of the school. An illustrative engagement letter is attached in Annexure A to this guide.

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10. Standardized procedures to be performed at each school

Accounting officers that are considering accepting an appointment to issue a report should obtain knowledge and an understanding of the following:

- The South African Schools Act
- Whether provincial schools legislation require an audit
- Whether the rules and regulations of a particular school require an audit
- The Public Finance Management Act
- The “School Funding Norms Policy Implementation Manual for Public Schools” issued by the relevant department in KwaZulu-Natal. These manuals only apply in KwaZulu-Natal but provide useful guidance of the duties and responsibilities of the auditing or examining process.
- National policy for preparation of financial statements.

10.1 Acceptance procedures

10.1.1 Thresholds

Determine whether the school requires an audit or an examination in terms of paragraph 5 of this guide. Also consider any provincial legislation or SGB requirements to perform an audit. Where an audit is required, the engagement should not be accepted.

10.1.2 Ethical requirements, including independence and competence

Determine whether ethical and independence requirements have been met. Consider paragraphs 6 & 7 of this guide. It is recommended that each team member completes a declaration of his/her compliance to ethical and independence requirements at the start and end of the examination engagement.

Determine whether the engagement team has the necessary skills and competencies to carry out the examination engagement.

10.1.3 Issue engagement letter

Once the threshold, ethical and independence requirements as well as competencies have been satisfied, issue the engagement letter. Refer to paragraph 9 of this guide.

10.2 Planning

10.2.1 Obtaining an understanding of the school

1. Conduct an interview with the principal/ senior financial person to obtain an understanding of the following:
 - Financial systems and controls;
 - Enquire about and obtain all financial policies and procedures;
 - Process for compilation of financial statements;
 - Policy for financial reporting by Finance Committee to SGB regarding:
 - Fees
 - Outstanding fees

- Income & Expenditure
 - Balance Sheet;
 - Litigation and claims against the school;
 - Knowledge of fraud and investigations;
 - Obtain minutes of all SGB and other committees meetings.
2. Read prior year financial statements and reports (audit or examination).
 3. Obtain the school organogram, specifically pertaining to SGB positions and administrative support staff.
 - Do clear documented financial operational procedures exist?
 - Are financial duties clearly defined and separated? Obtain job descriptions of finance staff.

Governance

1. Does the school have a Financial Administrator /Administration clerk?
2. Can the administrative clerk work on Excel/Accounting Package?
3. Does the school have a Finance Committee (Fincom)?
4. Are the roles and responsibilities of the Fincom clearly defined?
5. Does the school have a Treasurer?
6. Does the SGB receive school financial information?
7. Are minutes taken in all school meetings and signed by the principal?

Financial reporting

1. Does the school prepare monthly income and expenditure report?
2. Does the school have accounting package for recording financial transactions? (e.g. Pastel or Brilliant etc.)
3. Do the SGB or relevant finance committee review the income and expenditure report against the budget on a monthly basis?
4. Are accounting records properly maintained?
5. Are all transactions transparent and traceable?
6. Are accounting records kept securely?

10.3 Financial statements

Perform the following procedures on the approved financial statements to ensure compliance to the National policy for preparation of financial statements.

<i>Procedure</i>	<i>National policy for preparation of financial statements ref</i>	<i>Yes/ No</i>
1. The financial statements consist of the following: <ol style="list-style-type: none"> a. Statement of income and expenditure; b. Statement of Assets and Liabilities; c. Accounting policies; and d. Disclosures and explanatory notes. 	Par 10	

<i>Procedure</i>	<i>National policy for preparation of financial statements ref</i>	<i>Yes/ No</i>
2. The Statement of Income and Expenditure includes all income and expenditure and the resulting surplus or deficit.	Par 11	
3. The Statement of Assets and Liabilities include assets, liabilities and accumulated surpluses of the school.	Par 14	
4. The total assets equal Accumulated funds and liabilities.	Par 15	
5. Explanatory notes were included to provide additional information about amounts included on the face of the statement of income and expenditure and statement of assets and liabilities.	Par 16	
6. The explanatory notes for all assets, liabilities and accumulated surpluses or deficits included a reconciliation of the opening and closing balance indicating separately all types of movements.	Par 17	
<i>Income</i>		
7. The accounting policy for income is in terms of the National policy for preparation of financial statements.	Par 19 – 30	
8. The Standard Chart of Accounts for income is in terms of National policy for preparation of financial statements.	Par 18	
<i>Expenditure</i>		
9. The accounting policy for expenditure is terms of the National policy for preparation of financial statements.	Par 32 - 35	
10. The Standard Chart of Accounts for expenditure is in terms of National policy for preparation of financial statements.	Par 31	
<i>Assets</i>		
11. The accounting policy for assets is terms of the National policy for preparation of financial statements.	Par 37 - 43	
12. The Standard Chart of Accounts for assets is in terms of National policy for preparation of financial statements.	Par 36	
<i>Liabilities</i>		
13. The accounting policy for liabilities is terms of the National policy for preparation of financial statements.	Par 45 - 47	
14. The Standard Chart of Accounts for liabilities is in terms of National policy for preparation of financial statements.	Par 44	
<i>Disclosures and explanatory notes</i>		
15. Allocations, Transfers, grants and subsidies - The school disclosed the following in relation to transfers, grants and subsidies:	Par 48	

<i>Procedure</i>	<i>National policy for preparation of financial statements ref</i>	<i>Yes/ No</i>
<ul style="list-style-type: none"> • Identity of the institution/entity/individual; • Amount received; and • The conditions attached to each amount received, if any. 		
<p>16. Net income from Hostels reconciliation - The Net income from hostels note included the following:</p> <ul style="list-style-type: none"> • Total hotel fees; • Total hostel expenses; and • Net surplus/deficit from hostels. 	Par 49	
<p>17. Net income from Hostels reconciliation - The Net income from hostels note included the following:</p> <ul style="list-style-type: none"> • Total hotel fees; • Total hostel expenses; and • Net surplus/deficit from hostels. 	Par 50	
<p>18. Land, buildings, Vehicles, furniture, equipment, fixtures and fittings - The school disclosed a reconciliation of the opening and closing carrying amount of land, buildings, Vehicles, furniture, equipment, fixtures and fittings indicating the following:</p> <ul style="list-style-type: none"> • Purchases; • Disposals; • Depreciation; • Derecognition; and • Write-offs. 	Par 51	
<p>19. Bank - The school disclosed the following for all bank accounts opened by the school:</p> <ul style="list-style-type: none"> • Institution name; • Account type (Cheque, savings, transmission, etc.); and • Balance at current and previous year end. 	Par 52	
<p>20. Inventory - The school disclosed the following for each type/category/grouping of inventory</p> <ul style="list-style-type: none"> • Description; • Quantity at current and previous year end; and • Balance at current and previous year end. 	Par 53	
<i>Corrections of prior period errors</i>		
<p>21. The school disclosed the following about prior period errors:</p> <ul style="list-style-type: none"> • the nature of the prior period error; • for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected; • to the extent practicable, the amount of the correction at the beginning of the earliest prior period presented; 	Par 58	

<i>Procedure</i>	<i>National policy for preparation of financial statements ref</i>	<i>Yes/ No</i>
<ul style="list-style-type: none"> an explanation if it is not practicable to determine the amounts to be disclosed in (b) or (c); and Financial statements of subsequent periods need not repeat these disclosures.		

Suggested reporting: Include the table above into the report.

10.4 Income

10.4.1 Policies and procedures

Does the school have the following in place?

1. Policy for School Fees and other Funds
 - a. Ordinary
 - b. Partial exempt
 - c. Fully exempt

10.4.2 Compliance and financial management procedures

<i>Procedure</i>	<i>SASA (if applicable)</i>	<i>Yes/ No</i>
School Fees		
1. Did parents approve the fee allocations? Inspect the minutes and attendance register and document the date of the meeting.	Section 39 (2)(a)	
2. For partially/ exempted school fees, did parents submit an application in line with the criteria set by the SGB?	Section 39(2)(b)	
3. Does the school have an exemption register/ database that reflect the approved exempted learners?		
4. No public school may charge any registration, administration or other fee, except school fees. Has the school charged any fees in contravention with section 39(5)?	Section 39(5)	
5. Did the school comply with regulations on the exemption of parents who cannot pay school fees?		
6. Has adequate documentation been maintained by the school with regard to the procedures followed in the granting of exemptions?		
Receipt Books		
1. Does the school keep a register of issued and unused receipt books, which can be reconciled at all times?		
2. Are receipt books locked up to ensure safe guarding?		
3. Have errors on receipts or cancelled receipts been properly authorized to ensure no misappropriations of funds?		

<i>Procedure</i>	<i>SASA (if applicable)</i>	<i>Yes/ No</i>
4. Are monies received deposited on a timely basis to avoid temptation?		
5. Are bank statements collected and reconciled on a monthly basis?		

Suggested reporting: Include the table above into the report.

10.4.3 Examination procedures

School Allocation (Grants) from the provincial education department

1. Obtain the allocation letter from the provincial education department and confirm that the receipt has been accounted for in the general ledger in the correct period and accurately presented in the financial statements.

Suggested Reporting: The financial statements correctly / (do not correctly) reflect the allocation from the provincial basic education department.

Fund Raising

1. Obtain the register/ list of fund raising activities for the year. Select the most significant activity and perform the following procedures:
 - a. Document controls in place over the completeness of monies received.
 - b. If tickets are sold, ensure they are numbered and perform a sequence test.
 - a. Reconcile the tickets to ticket sales to ensure that the correct amount of money has been received, and accounted for in the general ledger.

Suggested Reporting: For [the most significant fund raising activity, include name of activity], the school had / (did not have) sufficient controls in place to verify the completeness of fund raising revenue.

Tuck Shop Sales

1. Determine if the tuck shop is sourced out or run internally by the school.
2. If sourced out, verify the agreement between the school and the supplier and confirm it is accounted for correctly, i.e. rental income.
3. If run internally by the school, perform the following procedures:
 - a. Observe the selling of goods at the tuck shop to ensure that no illegal items are being sold e.g. cigarettes, alcohol etc.
 - b. Select 5 non-consecutive dates during the year and re-calculate the sales revenue and reconcile with the till receipts.
 - c. For the dates selected above, confirm that monies have been banked and recorded in the general ledger.

Suggested Reporting: The tuck shop is outsourced and the [rental revenue] is accounted in terms of the agreement with the school.

OR;

The tuck shop is managed internally. On these dates the controls (did not) function(ed) sufficiently to ensure the completeness of tuck shop sales: [State the 5 dates tested]

Rental income

1. Determine and document the facilities generating rental income as well as the approved rates/ agreements in place.
2. Select 5 rental source documents (including agreements for repetitive rent and once-off rentals) and perform the following procedures:
 - a. Recalculate the rental amount.
 - b. Trace rental received to the general ledger account and confirm that it has been accounted for in the correct period.

Suggested Reporting: The rental income received on [include dates tested] have [not] been accounted in the general ledger at the approved rate.

Hostel Income

1. Obtain a register of learners that are staying in the hostel and the approved rates.
2. Select one month (not January or December) and perform a reconciliation of the hostel income for that month and compare to the income recognized in the general ledger.

Suggested Reporting: The hostel income received for [include month tested] have [not] been accounted in the general ledger at the approved rate.

Other income

1. Obtain the general ledger and/ or any supporting registers. Agree the general ledger and/ or supporting registers to the financial statements for each income category.
2. Select a sample of 5 source documents for other income and agree to the general ledger/ supporting registers.

Suggested Reporting: The [specify other income] received on [include dates tested] have [not] been accounted in the general ledger at the approved rate.

10.5 Expenditure

10.5.1 Policies and procedures

Does the school have the following policies in place?

- Procurement policy
- Subsistence and travel policy

10.5.2 Compliance and financial management procedures

Procedure	SASA (if applicable)	Yes/No
Purchasing		
1. Does the school seek three quotations before purchasing in terms of their procurement policy?		
2. Are reports given when the lowest quotation is not accepted?		
3. Are pre-numbered order forms utilized?		
4. Are orders approved by the SGB or relevant delegations as per their procurement policy?		
5. Are goods and services checked upon delivery?		
6. Are payments made on valid invoices only?		

Procedure	SASA (if applicable)	Yes/No
7. Are payments approved by relevant members of the SGB or relevant delegations as per their procurement policy?		
8. Are all paid invoices marked "PAID" and filed securely?		
Payments		
9. Are payment requisition forms with all supporting documents (invoice, signed delivery, requisition and purchase order) filed in sequence for each payment?		
10. Does the official match the order to the invoice and check for proof that services have been rendered or goods received prior to authorization of the payment?		
11. Are all cheques signed by a minimum of 2 officials (one of which should be the principal)?		
12. Are all EFT payments approved/ released by a secondary official?		
Cheque Payments		
13. Are all cheque payment documents stamped as "PAID"?		
14. Are cancelled cheques filed for future reference purposes?		

Suggested reporting: Include the table above into the report.

10.5.3 Examination procedures

1. Obtain the approved signatories on the bank account pertaining to authorization of EFT's and cheque signatories.
2. Obtain the general ledger. Agree the general ledger to the financial statements for each expense category.
3. Select the 10 largest expenses from the general ledger on a random basis and carry out the following procedures:
 - a. Confirm that the expense was approved, by the correct person, in terms of the school's approval policies and procedures.
 - b. Inspect supporting documentation for the expense item and confirm that the supporting document is issued in the name of the school and has been recorded in the correct period.
 - c. Confirm that the approved policies and procedures in respect of procurement were correctly adhered to.
 - d. Confirm that the expense item is recorded in the correct budget line category by review of the supporting documentation and by discussion with the appropriate personnel.
 - e. Confirm that the above invoices were paid within 30 days of being received.

Suggested Reporting: The following 10 largest expense transactions were examined:

[Insert table with fields for payment number, date, supplier, and amount]

My findings are as follows:

- *[X out of 10] expense transactions were [not] approved, by the correct person, in terms of the school's approval policies and procedures.*
- *[For x out of 10] the supporting documents were [not] issued in the name of the school and were [not] recorded in the correct period.*
- *The approved policies and procedures in respect of procurement were [not] correctly adhered to [for x out of 10].*
- *The expense items [for x out of 10] were [not] recorded in the correct budget line category.*
- *[X out of 10] invoices were [not] paid within 30 days of being received.*

10.6 Salaries and employment costs

Note: Only expenses for SGB positions should be reflected in the financial statements.

10.6.1 Policies and procedures

Does the school have the following in place?

1. Employment Policy for SGB employed persons which cater for inter alia, PAYE, SDL and UIF.
2. Leave policy

10.6.2 Compliance and financial management procedures

Procedure	SASA (if applicable)	Yes/ No
1. Is there prior approval with funding for SGB staff positions?	Section 20(9)	
2. Were IRP 5's issued within the time frame specified by SARS?		
3. Were the PAYE/ UIF/ SDL remitted by the 7th of the next month?		
4. Did the school submit the bi-annual IRP 5 reconciliations?		
5. No member of a governing body may be remunerated in any way for the performance of his or her duties. Did the school pay remuneration other than the reimbursement of expenses to members of the SGB?	Section 27(2)	
6. A governing body may not pay or give to a state employee employed in terms of the Employment of Educators Act, 1998 (Act No. 76 of 1998), or the Public Service Act, 1994 (Proclamation No. 103 of 1994), any unauthorised remuneration or benefit without prior application. Did the school pay any remuneration or benefit to funded staff, excluding reasonable travel and subsistence?	Section 38A	

Suggested reporting: Include the table above into the report.

10.6.3 Examination procedures

SGB (unfunded) posts

1. Obtain the general ledger. Agree the general ledger to the financial statements for salaries and employment costs.
2. Select a sample of [10 or the actual if less than 10] employee payments from the accounting records (payroll ledger, general ledger etc.) and perform the following procedures:
 - a. Physically verify the person through inspection of the employee's access card or ID document. If the person is not physically present during the inspection, obtain an approved leave form.
 - b. Match the transaction with the payslip and agree details such as employee name, package or rate per approved appointment letter/ contract and deductions in terms of employee authorisation of deductions.
 - c. Recalculate the deductions to confirm that it is in accordance with legislation and auditee's policies (UIF, pension, medical, PAYE, etc.)
 - d. Test the mathematical accuracy of the pay slips selected.
 - e. Agree net pay to and payee to cheque/pay envelope or bank transfer summary.
3. Reconcile PAYE and SITE as per the IRP 5 reconciliation with the payroll information. Follow up on any differences.
4. Inspect that all 12 month's payments have been made to the various third parties. If less than the 12 months have been paid to the third parties, inspect that an accrual has been raised for the payments not yet made relating to the financial year.

Reporting: The following 10 personnel expense transactions were examined:

[Insert table with fields for name, personnel number, date and amount]

My findings are as follows:

- *[X out of 10] employees could [not] be physically verified. [For x out of 10] an approved leave form could be provided.*
- *[X out of 10] payment details could [not] be matched with the payslip and approved appointment letter/ contract.*
- *[X out of 10] payslips [did not] reflect[ed] the deductions in terms of employee authorisation documentation.*
- *[X out of 10] payslips [did not] reflect the accurate amount for deductions in accordance with legislation and auditee's policies (UIF, pension, medical, PAYE, etc.)*
- *[X out of 10] times the net pay to and payee to cheque/pay envelope or bank transfer summary did [not] agree.*

Terminations

5. Terminations of SGB staff: Select 5 personnel files of staff that resigned or were terminated during the year and confirm that the salary payments were stopped and the salary system records amended accordingly.
 - a. Inspect the debt form from the employee file and check that all outstanding debt has been calculated and recovered.
 - b. Calculate overpayments and verify whether it has been recovered.

6. Terminations of funded staff: Select 5 persons who resigned, retired or otherwise had their services terminated during the current financial year and perform the following procedures:
- Obtain the employee's personnel file
 - Document the reason for the employee's termination of service and the termination date.
 - Inspect the personnel file of the employee to ensure that notice of period of termination of contract was given in writing (Ref to Basic Conditions of Employment Act, 1997 (Act No 75 of 1997, s37 (5) (a) & (b)).

*Suggested Reporting: The following 10 personnel terminations were examined:
[Insert table with fields for name, personnel number, termination date]*

My findings are as follows:

Terminations of SGB staff

- [For X out of 5] terminations, all outstanding debt were [not] calculated and recovered.*
- [For X out of 5] terminations, overpayments were [not] recovered.*

Terminations of funded staff

- [For X out of 5] terminations, notice of period of termination of contract was [not] given in writing.*

Note: Funded staff termination information can be used by the department to verify termination dates and overpayments on Persal.

10.7 Non-current assets

10.7.1 Policies and procedures

Does the school have the following in place?

- Asset management policy.

10.7.2 Compliance and financial management procedures

Procedure	SASA (if applicable)	Yes/No
Asset control		
1. The Head of Department has the right to compile or inspect an inventory of all the assets of a public school. Does the school maintain an asset register?	Section 58A(1)	
2. Does the school provide for asset depreciation?		
3. Does the school keep a register of damages, losses and theft of school property?		
Control over Fixed Assets		
4. Have an asset controller been assigned and have all his/her responsibilities have been effectively communicated?		
5. Do the values on the asset register reconcile to the amounts reflected on the financial statements?		

6. Are all assets clearly marked using indelible ink or barcodes?		
7. Are all assets adequately covered by the school insurance policy?		

Suggested reporting: Include the table above into the report.

10.7.3 Examination procedures

1. Select the 5 highest value assets (across all categories) from the asset register (closing balance) and perform the following:
 - a. Agree the selected sample item from the fixed asset register to the physical assets to determine that the asset exists.
 - b. Inspect supporting documentation to confirm whether ownership for the sample items exists.
2. Select a sample of 5 physical assets (all categories) and perform the following (remember direction of testing is from the floor to the fixed asset register):
 - a. Trace the selected sample item from the floor to the fixed asset register.
3. Repairs and maintenance. Inspect repairs and maintenance expenditure accounts for the period and determine whether there are any material items that should have been capitalised.

Suggested Reporting: The following 10 assets were examined:

[Insert table with fields for asset number, description, date of acquisition, value]

My findings are as follows:

- *[X out of 5] assets could [not] be traced from the fixed asset register to the physical assets to determine that the asset exists.*
- *[For x out of 5] assets ownership of the asset could [not] be determined.*
- *[X out of 5] assets could [not] be traced from the floor to the fixed asset register.*

4. Select 5 donated assets and perform the following tests:
 - a. Ensure that upon receipt of the asset the Asset Controller together with any other member of the Finance Committee confirmed the following:
 - i. Assessed the value and exact nature of the Donated items.
 - ii. Add these items to the Asset Register including the expected economic life of the assets.

Suggested Reporting: The following 5 donated assets were examined:

[Insert table with fields for asset number, description, date of donation, value]

My findings are as follows:

- *[For x out of 5] donated assets upon receipt of the asset the Asset Controller together with any other member of the Finance Committee [did not] confirm[ed] the value, the expected economic life and exact nature of the donated items.*
- *[X out of 5] donated assets were [not] added to the Asset Register.*

5. Select 5 disposed assets and perform the following tests:
 - a. Ensure that the asset controller in consultation with the principal has completed an asset disposal form and that adequate motivation was provided.
 - b. Ensure that the motivation was reviewed by the Finance Committee and considered and approved by the SGB prior to application to the Department for authorisation to scrap the listed item.
 - c. Confirm that adequate authorisation was obtained from the department.

Suggested Reporting: The following 5 disposed assets were examined:

[Insert table with fields for asset number, description, date of disposal, value]

My findings are as follows:

- *[For x out of 5] disposed assets the asset controller in consultation with the principal has [not] completed an asset disposal form with adequate motivation.*
- *[For x out of 5] disposed assets the motivation was [not] reviewed by the Finance Committee and approved by the SGB.*
- *[For x out of 5] disposed assets adequate authorisation was [not] obtained from the department.*

10.8 Investments

10.8.1 Policies and procedures

Does the school have the following in place?

1. Investment policy

10.8.2 Compliance and financial management procedures

Procedure	SASA (if applicable)	Yes/ No
1. Does the school have an investment register?		
2. A governing body of a public school may, with the approval of the Member of the Executive Council, invest surplus money in another account. Did the school obtain approval from the MEC for all investment accounts?	Section 37(3)	

Suggested reporting: Include the table above into the report.

10.8.3 Examination procedures

1. Select a sample of 5 investments (Closing balance) and perform the following procedures:
 - a. Obtain supporting documentation (bank statements, investment documentation, share certificates, etc) and confirm that the investment is in the name of the school.
2. Scrutinise minutes of SGB meetings to identify any investments and confirm that these investments were accounted for in the financial statements.

Investment Income

3. Confirm accurate recording of interest received.

Suggested Reporting: The following 5 investments were examined:

[Insert table with fields for description, date of investment, value]

My findings are as follows:

- *[X of 5] investments were [not] in the name of the school.*
- *[X] Investments identified from minutes of SGB were [not] accounted for in the financial statements.*

10.9 Inventory

10.9.1 Policies and procedures

Does the school have the following in place?

1. Inventory policies and procedures
2. Year-end inventory listing/ register

10.9.2 Compliance and financial management procedures

Procedure	SASA (if applicable)	Yes/ No
Control over Stores		
1. Has the school allocated a designated area for the storage of all inventory items?		
2. Has the school allocated a senior member of the school the responsibility for the control of all inventories?		
3. Does the school keep record of:		
a. Inventory requisitions		
b. Inventory issued		
4. Do the year-end inventory listing/ register reconcile to the financial statements?		

Suggested reporting: Include the table above into the report.

10.9.3 Examination procedures

1. Obtain the detailed period-end inventory listing and summaries:
 - a. Check clerical accuracy (additions and extensions).
 - b. Agree summaries to general ledger.
 - c. Review the listing for:
 - i. Any unusual items. Document the explanations received; and
 - ii. Similar items or quantities. Where found, verify the existence and accuracy of each of the amounts.
2. Physical inventory counts during the period. Review physical inventory counts made by the entity during the period and:
 - a. Assess the adequacy of the school's count procedures for counts conducted throughout the period (if applicable).

- b. Investigate and document explanations for material differences between physical quantities and book (including perpetual) records during the period and at period end.
 - c. Prior to physical count date. Identify all locations (including inventory held by third parties) with significant inventory amounts.
 - d. Tour locations with significant inventory in advance of the count date. Tour other locations on a rotational basis. Assess inventory layouts, areas containing high-value or slow-moving inventory and other areas (i.e., shipping, consignments etc.) which may require special attention during actual inventory taking.
 - e. Identify high Rand value or high-volume inventory items that, when priced, will be significant. These items should be given more attention during counts.
 - f. Attend the physical inventory count at the selected locations. The count will normally take place at period end unless the entity has an information system capable of reconciling quantities between the count date and the period-end date.
3. Trace 10 items (from the physical inventory count) to the final inventory listing. Ensure the tag or control numbers from the physical count match to the listing, as well as the description and quantity. Obtain explanations for any differences found.
 4. Select a number of major purchases and sales prior and subsequent to the period end and:
 - a. Match details to the shipping and receiving documents.
 - b. Ensure the invoices are recorded in the sales or purchase journals in the appropriate period.
 5. Make a selection of inventory items from the year-end inventory listing. Trace the sampled items to the most recent purchase invoice before year end, and the first sales invoice after year end for that item. Verify based on these supporting documents that the inventory is held at the lower of the cost and net realisable value.

Suggested reporting: The following 5 inventory items were examined during the year-end inventory count:

[Insert table with fields for code, description, date of purchase, quantity, unit cost, value]

My findings are as follows:

- *The school did [not] have adequate count procedures in place.*
- *[X out of 10] inventory items could [not] be traced from the physical inventory count to the final inventory listing.*
- *[For x out of 10] inventory items the quantities per the physical inventory count [did not] agree[d] to the final inventory listing.*
- *[X out of 10] inventory items were [not] recorded in the correct period.*
- *[X out of 10] inventory items were [not] valued at the lower of cost or net realizable value.*

10.10 Trade and other receivables

10.10.1 Policies and procedures

Does the school have the following in place?

1. Debtors policy
2. Debt collection policy

10.10.2 Compliance and financial management procedures

<i>Procedure</i>	<i>SASA (if applicable)</i>	<i>Yes/ No</i>
1. A public school may by process of law enforce the payment of school fees by parents who are liable to pay in terms of section 40. Does the school follow-up on outstanding school fees?	Section 41(1)	
2. A learner may not be deprived of his or her right to participate in all aspects of the programme of a public school despite the non-payment of school fees by his or her parent and may not be victimised in any manner. Does the school exclude learners whose fees are overdue from school activities or refuse school reports or transfer certificates?	Section 41(7)	
3. Does the school send out monthly debtor's statements to parents/ guardians?		

Suggested reporting: Include the table above into the report.

10.10.3 Examination procedures

1. Trade and Other receivables: From the accounting records. Select a sample of 10 receivables (all categories) from the accounting records (debtor's age analysis, debtors' sub-ledger, general ledger etc.).
 - a. Agree the opening balance of the debtor to the prior year closing balance.
 - b. Agree the closing balance of the debtor to the debtor's monthly statement.
 - c. Agree the receipts during the year to the cash book and bank statement. Inspect the details for example the debtor name, date, and amount and consider that it agrees.
 - d. Agree the revenue transactions during the year from the accounting records (for example debtor age analysis) to the invoices.
 - e. Recalculate and inspect supporting documentation i.e. any interest received, discounts, credit notes and other adjustments.
 - f. Re-perform the casts and calculation of the individual's debtor balance.
 - g. Trace the outstanding balances to subsequent payments received after year-end (It must be clearly documented so that it is clear that the subsequent payment that was tested related to the balance outstanding at year end).

Suggested Reporting: The following 10 debtors were examined:

[Insert table with fields for name, balance and aging]

My findings are as follows:

- *[For x out of 10] debtors the opening balance [did not] agree[d] to the prior year closing balance.*
- *[For x out of 10] debtors the closing balance of the debtor [did not] agree[d] to the debtor's monthly statement.*
- *[For x out of 10] debtors receipts could [not] be traced to the cash book and bank statements/ or details of receipts [did not] agree[d]/ or related to another debtor.*
- *[For x out of 10] debtors revenue transactions [did not] agree[d] to the invoices/ approved rates.*
- *[For x out of 10] debtors supporting documentation for i.e. any interest received, discounts, credit notes and other adjustments could [not] be verified.*
- *[X out of 10] debtors could [not] be traced to subsequent payments received after year-end.*

10.11 Cash and cash equivalents

10.11.1 Policies and procedures

Does the school have the following in place?

1. Cash Book - plus full supporting vouchers
2. Clean, up to date bank reconciliations
3. Petty Cash on imprest system

10.11.2 Compliance and Financial management procedures

<i>Procedure</i>	<i>SASA (if applicable)</i>	<i>Yes/No</i>
1. In terms of sec 37(1) of the SASA, has the SGB established only one bank account?	Section 37(3)	
2. All money received by a public school including school fees and voluntary contributions must be paid into the school fund. Are all monies received, including contributions paid into this one account?	Section 37(2)	
3. Money from the school fund of a public school may not be paid into a trust or be used to establish a trust. Does the school have any trust funds?	Section 37(7)(a)&(c)	
4. If a trust was established from a school fund of a public school or if such money was paid into a trust prior to 1 January 2002, such trust or payment is invalid and the money must be paid back into the school fund. Did the school pay back any trust funds established prior to 2002 to the school fund?	Section 37(7)(b)	
5. Are there a maximum of 3 signatories for the bank account, are these people the treasurer, the principle and one other member of the governing body only?		

<i>Procedure</i>	<i>SASA (if applicable)</i>	<i>Yes/No</i>
Examine that the three signatures corresponds with the bank confirmation.		
6. Are the cheque books properly stored and secured?		
7. A governing body may not enter into any loan or overdraft agreement so as to supplement the school fund, without the written approval of the Member of the Executive Council. Does the school have an overdraft facility?	Section 36(2)	
8. Was the overdraft facility approved by the MEC?		
Petty Cash		
9. Does the school have Petty Cash?		
10. Does the Petty Cash run on an imprest system?		
11. Are the petty cash levels kept at recommended levels (R1000.00)?		
12. Is petty cash expenditure supported by receipts and documents?		
13. Is the imprest account reconciled on a monthly basis?		
14. Are there regular independent checks done on the Petty Cash?		

Suggested reporting: Include the table above into the report.

10.11.3 Examination procedures

1. Obtain the bank reconciliations for all bank accounts held by the client and test the accuracy of the reconciliations.
2. Confirm that the bank account is in the name of the school.
3. Agree the bank statement balance as per the reconciliation with the bank statements.
4. Select 5 reconciling items and trace them to supporting documentation.
5. Obtain bank confirmations for all bank accounts held by the school and agree the balances on the bank confirmation to the bank reconciliations performed by the school.
6. Through inspection of the bank confirmation, confirm that all securities and guarantees were appropriately disclosed.
7. On year-end, perform a cash count for all material cash on hand and confirm the cash count results with the financial records.

Suggested Reporting:

- *Bank accounts disclosed in the financial statements are [not] in the name of the school.*
- *The school [did not] perform[ed] monthly bank reconciliations.*
- *The year-end bank reconciliation [did not] accurately reflected the year-end bank balance per the bank statements and/or reconciling items.*
- *All securities and guarantees of the school per the bank confirmations obtained were [not] disclosed in the financial statements.*
- *On year-end, the cash on hand [did not] agree[d] with the financial statements.*

10.12 Trade and other payables

10.12.1 Policies and procedures

Does the school have the following in place?

1. Creditors policy

10.12.2 Compliance and financial management procedures

<i>Procedure</i>	<i>SASA (if applicable)</i>	<i>Yes/ No</i>
1. Does the school perform monthly creditor's reconciliations?		

Suggested reporting: Include the table above into the report.

10.12.3 Examination procedures

1. From accounting records. Select a sample of 5 payables/ accruals (all categories including debit balances) from the accounting records (creditor sub-ledger, general ledger etc.):
 - a. Agree the amount per the sample to any proof ORIGINAL (GRN, invoice, creditors' statement) that the goods/services were received in the financial period.
 - b. Agree the amount per the sample, to bank statements ("after year-end" - limited to the number of months in line with the school's payment terms) to verify that payment has been made and that the creditor exists.
2. From original source documents. Select a sample of 5 payables/ accruals from the subsequent bank statements and perform the following procedures:
 - a. With reference to supporting documentation, inspect that the item was recorded in the correct accounting period and account description with reference to when the goods/services were received.

Suggested Reporting: The following 5 creditors were examined:

[Insert table with fields for name, balance and aging]

My findings are as follows:

- *[For x out of 5] creditors the closing balance [did not] agree[d] to the creditor's invoice/ monthly statement.*
- *[X out of 5] creditors could [not] be traced to subsequent payments made after year-end.*
- *[X out of 5] subsequent payments for goods and services received before year-end could [not] be traced to the list of accruals/ creditors.*

10.13 Capital and reserves

10.13.1 Compliance and financial management procedures

<i>Procedure</i>	<i>SASA (if applicable)</i>	<i>Yes/ No</i>
1. Money or other goods donated or bequeathed to or received in trust by a public school must be applied in accordance with the conditions of such donation, bequest or trust. Does the school apply donations received in trust in accordance with the conditions of the donation? <i>Note: No separate trust funds may be established.</i>	Section 37(4)	

Suggested reporting: Include the table above into the report.

10.13.2 Examination procedures

1. Inspect the statement of changes in equity in the prior year financial statements. Trace all equity from the prior year to opening balances in the current year.
2. Draw a sample of movements from the general ledger. Trace through to supporting documentation, including where necessary the applicable statutory documentation, resolutions, or minutes. This process includes verification that the relevant acts have been complied with related to equity.

Suggested Reporting:

- *The opening balances of all equity [did not] agreed to the closing balance of the prior year.*
- *All movements in equity were [not] supported by applicable statutory documentation, resolutions or minutes.*

10.14 Budget

10.14.1 Compliance and financial management procedures

<i>Procedure</i>	<i>SASA (if applicable)</i>	<i>Yes/ No</i>
1. A governing body of a public school must prepare a budget each year according to prescriptions determined by the MEC in a Provincial Gazette, which shows the estimated income and expenditure of the school for the following financial year. Did the school prepare a budget for the year under review?	Section 38(1)	
Approval of the budget		
2. Before a budget is approved by the governing body, it must be presented to a general meeting of parents convened on at least 30 days' notice, for consideration and approval by a majority of parents present and voting. Obtain the minutes and attendance register of the meetings at which the budget of the year was tabled.	Section 38(2)	

Procedure	SASA (if applicable)	Yes/ No
Review the minutes and attendance register and confirm the following:		
a. The quorum for the meeting was met in accordance with approved quorum requirements.		
b. The majority of parents present approved the budget as tabled.		
c. All amendments to the budget were recorded and subsequently approved by parents.		
3. The notice must also inform the parents that the budget will be available for inspection at the school at least 14 days prior to the meeting. Did the notice specify the inspection period?	Section 38(3)	
Budget Monitoring		
4. Is the budget compared to the income/expenditure on a monthly basis?		
5. Is the variance report presented to the SGB on a monthly basis?		
6. Does the school prepare cash flow forecasts?		

Suggested reporting: Include the table above into the report.

10.15 Other compliance to the SASA

Procedure	SASA	Yes/ No
1. Has the school been allocated any Section 21 functions?	Section 21(1)	
2. Did the SGB make an application to the granting of Section 21 functions to the school?	Section 21(2)	
3. Have any conditions been attached to the granting of Section 21 functions to the school? If so, has the school complied with all these conditions?	Section 21(3)	
4. Did the school carry out any Section 21 functions that they were not authorised to carry out?		
5. Were any previously allocated Section 21 functions withdrawn by the HOD during the current year?	Section 22(1)	
6. Based on the review of the minutes of SGB meetings, did any SGB member vote in a decision in which said member had a personal interest?	Section 26	
7. Is the principal a member of the SGB?	Section 23(1)(b)	
8. Is the chairperson of the finance committee a member of the SGB?	Section 30(b)	

Suggested reporting: Include the table above into the report.

11. Reporting

The accounting officer's report shall contain a clear affirmation that conforms to the requirements of a relevant statute of regulation.

Based on the work performed the accounting officer should assess whether a positive or negative affirmation should be made.

The report should be drafted in a manner that will enable the reader to understand the nature of the work that was performed. The report should indicate that an audit was not performed and that an audit opinion is not expressed.

The accounting officer's report should contain the following elements:

- Title
- Addressee
- Opening or introductory paragraph including:
- Identification of specific financial or non-financial information to which the procedures have been applied
- A listing of general procedures performed
- A statement of the responsibility of the entity's management or owners and the responsibility of the accounting officer
- A statement that the procedures performed were those deemed necessary in the circumstances
- A statement that the engagement was performed as a result of a relevant statute, regulation or other agreement
- A description of any factual findings related to a contravention of a relevant statute of regulation where relevant
- A statement that the procedures performed do not constitute an assurance engagement and as such, no assurance is expressed
- A statement that had the accounting officer performed additional procedures, or performed an assurance engagement, other matters might have come to light that would have been reported
- A statement indicating whether the report is restricted in distribution
- A statement (when applicable) that the report relates only to the elements, accounts, items or financial and non-financial information specified and that it does not extend to the entity's financial statements taken as a whole
- Date of the report
- Accounting officer's address
- Accounting officer's signature, designation, professional membership and member number.

Refer to Annexure B for an illustrative report.

12. Definitions, Acronyms and Abbreviations

Financial statement	Financial statements consisting of at least- <ul style="list-style-type: none"> • balance sheet; • income and expenditure statement; • cash-flow statement; • budget and expenditure variance statement; • any other statements that may be prescribed; • any notes to these statements;
MEC	Member of the Executive Council
PAYE	Pay As You Earn (A manner for collecting revenue tax from individuals instituted by SARS)
PERSAL	Personnel Salaries (The payroll system operated by the Department)
PFMA	Public Finance Management Act, 1999 (Act no 1 of 1999)
Principal	An educator appointed or acting as the head of a school
Public school	a school contemplated in Chapter 3 of the SASA
SASA	South African Schools Act
School	a public school or an independent school which enrolls learners in one or more grades from grade R (Reception) to grade twelve
School Financial year	a year ending 31 December
SCM	Supply Chain Management
SGB	School Governing Body contemplated in section 16(1) of the SASA

13. References

The following material was consulted in the compilation of this guide:

- The South African Schools Act, Act no 84 of 1996
- The School Funding Norms Policy Implementation Manual – KwaZulu Natal Department of Education, 1 January 2014
- Circulars issued by the Department of Basic Education (DBE):
 - Circular M1 of 2018 - Legal interpretation related to when audit not reasonably practicable.
 - Circular M3 of 2017 - Measures to strengthen compliance to sections 42 and 43.
 - Circular M1 of 2017 - Measures to improve management of school finances, preparation and auditing of financial statements.
- National policy for the preparation of public school financial statements (DRAFT), 8 May 2018
- ISRS 4400 – Engagements to perform agreed-upon procedures regarding financial information.

DRAFT

Annexure A: Illustrative Engagement letter

The following letter is for use as a guide and is not intended to be a standard letter. The engagement letter will need to be varied according to individual requirements and circumstances.

To the Governing Body or other appropriate representatives of the school who engaged the accounting officer:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide. Our engagement will be conducted in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements and we will indicate so in our report.

We have agreed to perform the following procedures and report to you the factual findings resulting from our work:

(Describe the nature, timing and extent of the procedures to be performed, including specific reference, where applicable, to the identity of documents and records to be read, individuals to be contacted and parties from whom confirmations will be obtained.)

The procedures that we will perform are solely to assist you in (state purpose). Our report is not to be used for any other purpose and is solely for your information. The procedures that we will perform will not constitute an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements and, consequently, no assurance will be expressed.

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information requested in connection with our engagement.

Our fees, which will be billed as work progresses, are based on the time required by the individuals assigned to the engagement plus out-of-pocket expenses. Individual hourly rates vary according to the degree of responsibility involved and the experience and skill required.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the terms of the engagement including the specific procedures which we have agreed will be performed.

XYZ & Co

Acknowledged on behalf of ABC Company by

(signed)

Name and Title Date

Annexure B: Illustrative report

REPORT OF FACTUAL FINDINGS

To (those who engaged the accounting officer)

We have performed the procedures agreed with you and enumerated below with respect to the financial statements and records of ABC public school as at (date).

Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements.

The procedures were performed solely to assist you in evaluating the validity of the financial statements and are summarized as follows:

1. We obtained and checked the addition of the trial balance of accounts payable as at (date) prepared by ABC Company, and we compared the total to the balance in the related general ledger account.
2. We compared the attached list (not shown in this example) of major suppliers and the amounts owing at (date) to the related names and amounts in the trial balance.
3. We obtained suppliers' statements or requested suppliers to confirm balances owing at (date).
4. We compared such statements or confirmations to the amounts referred to in 2. For amounts which did not agree, we obtained reconciliations from ABC Company. For reconciliations obtained, we identified and listed outstanding invoices, credit notes and outstanding checks, each of which was greater than xxx. We located and examined such invoices and credit notes subsequently received and checks subsequently paid and we ascertained that they should in fact have been listed as outstanding on the reconciliations.

We report our findings below:

(a) With respect to item 1 we found the addition to be correct and the total amount to be in agreement.

(b) With respect to item 2 we found the amounts compared to be in agreement.

(c) With respect to item 3 we found there were suppliers' statements for all such suppliers.

(d) With respect to item 4 we found the amounts agreed, or with respect to amounts which did not agree, we found ABC Company had prepared reconciliations and that the credit notes, invoices and outstanding checks over xxx were appropriately listed as reconciling items with the following exceptions:

(Detail the exceptions)

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the financial statements as of (date).

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties.

AUDITOR

Date

Address

DRAFT