



basic education

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REPUBLIC OF SOUTH AFRICA

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Ref no: P-3592/17-06/11/2017
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To: Heads of Provincial Education Departments
CC: Heads of Provincial Institutional Management and Governance
Chief Financial Officers
District and Circuit Managers
School Principals and School Governing Bodies

CIRCULAR M3 OF 2017

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For the 2016/17 school financial year, PEDs are required to submit the compliance report referred to in (3) above no later than 30 November 2017. Should the PEDs fail to submit the report to the DBE within the specified time period, a non-compliance certificate will be issued to the respective PEDs in the following week after the due date.

4. Validation of Registered Auditors and Accounting Officers

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

Control measure 8 - Validation of Registered Auditors –

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

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

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

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

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

4.1.1 The South African Institute of Chartered Accountants verification steps:

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

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

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

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

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

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

Step 1 – Visit the webpage <https://www.saipa.co.za/member-verification/>

Step 2 - Enter the SAIPA Nr, ID or passport Nr

Step 3 - If the membership number starts with “PRAC” and “ATC”, verification can only be done by contacting SAIPA, at 011 207 7840.

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

Step 1 – Visit the webpage <http://www.iacsa.co.za>

Step 2 – Select “Members”

Step 3 - Click on “List of Members”

Step 4 – Select “List of Accounting Officers”

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

Step 1 - Visit the webpage <http://www.accaglobal.com/sg/en.html>

Step 2 – Select “Members”

Step 3 – Click on “Find an Accountant”

Step 4 – Click on either “Directory of ACCA members or “Find an ACCA accounting firm”.

Step 5 – Enter details of company or individual

4.1.7 The Chartered Institute of Business Management (MCIBM)

Membership to CIBM is NOT compulsory.

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

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

Step 1 – Visit the webpage <https://saiba.org.za/verify>

Step 2 - Select “Search Member”

Step 3 – Type in the member number

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

Step 1 – Visit the webpage www.saiga.co.za

Step 2 – Go to “Quick Links”

Step 3 – Click on “Verify a Member”

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

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

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

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

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

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

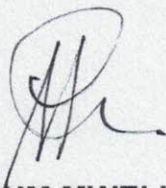
Control measure 11 – In the event an Accounting Officer is appointed, the Professional Bodies that the Accounting Officers are registered with, will also undergo an inspection of the work performed by their respective professional bodies. It is also the responsibility of the Accounting Officers who are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

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

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

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

Yours sincerely

A handwritten signature in black ink, appearing to be 'HM Mweli', written over a circular stamp or seal.

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