

Attention: Mr Dumisani Shipalana
Mpumalanga Provincial Department of Education

Date: 27 November 2022

By e-mail: d.shipalana@mpuedu.gov.za

Dear Mr Shipalana,

REQUEST TO BE INCLUDED IN THE LIST OF APPROVED INDEPENDENT REVIEWERS TO PROVIDE ASSURANCE RPEORTS TO THE MPUMALANGA PROVINCIAL DEPARTMENT OF EDUCATION IN TERMS OF THE FINANCIAL GUIDELINES FOR THE EARLY CHILDHOOD DEVELOPMENT CENTRES

REQUEST AND MOTIVATION

1. The Financial Guidelines for Early Childhood Development (ECD) Centres (Guidelines) issued by the Mpumalanga Provincial Department of Education provides a framework to enable ECD Centres to function within systems of effective, efficient, and transparent accounting standards. It includes minimum standards relating to the management of funds and gives effect to the requirements in the National Integrated Early Childhood Development Policy (NIECDP) (2015).
2. The Guidelines states that the Accounting Officer (HOD) is responsible to transfer relevant funds to the ECD Centre. Before the transfer of funds can take place, the HOD - in line with requirements of the Public Finance Management Act¹ - needs to obtain written assurance that the Centre implements effective, efficient, and transparent financial management and internal control systems. Furthermore, the Financial Guidelines also provides for:
 - The appointment a Chairperson, a Treasurer, and a Centre Manager (Principal) who will serve as members of the Finance Committee. These office bearers are

¹ Section 38(1)0) of the Public Finance Management Act (PFMA), read with part 8.4.1 and 8.4.2 of the Treasury Regulations (TR) for the departments, trading entities, constitutional institutions, and public entities.

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EXECUTIVE OFFICE: *Spaces Century City, 1 Bridgeway Road, Bridgeways Precinct, Century City, Cape Town 7441, South Africa*

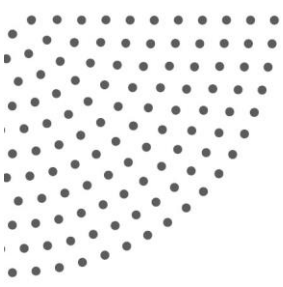
INTERNATIONAL (IAFEI): *Philippines: FINEX Office, Unit 1901, 19/F, 139 Corporate Center Valero Street, Salcedo Village, Makati City*

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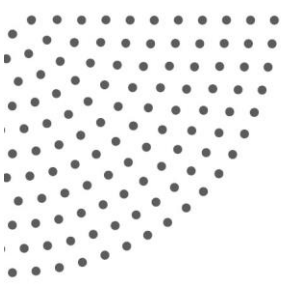
Directors:

N F van Wyk (EXEC) | C Booyens (EXEC) | P de Jager | R Voller | N Mona-Dick | L Germanos | P Majozi



responsible for the financial management and internal control systems of the centre.

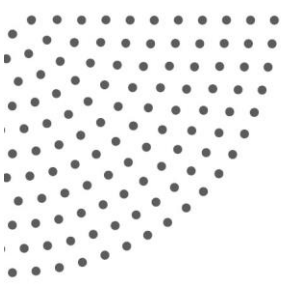
- The establishment of policies and procedures for finance, fundraising, transport, procurement, and asset management
 - The provision of financial reports, including annual financial statement that is reviewed by an independent reviewer or certified auditor.
3. Independent reviews were established as an accepted form of assurance engagement by the Companies Act in 2008.
 4. The Chartered Institute for Business Accountants (CIBA) is a recognised professional body whose members are authorised by the Companies Act, 2008 and the Companies Regulations 29(4) of 2011 to perform Independent Review engagements.
 5. In addition, CIBA is a Recognized Professional Body and has Registered Professional Designations in terms of the National Qualifications Framework Act 67 of 2008, and a Recognized Controlling Body in terms of Section 240A of the Tax Administration Act.
 6. Independent Review engagements are internationally recognised engagements designed to obtain sufficient and appropriate evidence as the basis for a conclusion on the financial statements as a whole. Independent reviews are governed by International Standard for Review Engagements, ISRE 2400. Like audits, reviews follow a risk-based approach to analyse and evaluate financial information and confirm balances. Independent reviews are widely used, popular and effective method of assurance provided on financial reports at a relatively low cost, providing feasible alternative to expensive audits. It is designed to provide a cost-effective assurance especially for smaller entities, including schools and ECDs.
 7. CIBA is a registered professional body representing over 12,000 bookkeepers, financial administrators, business accountants, financial managers, chief financial officers. This number includes licensed business-accountants-in-practice that are statutorily recognized as accounting officers, tax practitioners, independent reviewers and business rescue practitioner in all regions of South Africa. SAIBA is registered with the South African Qualifications Authority (SAQA) and authorised to issue designations was awarded the status of Recognised Controlling body (RCB) in terms of Section 240A(2) of the Tax Administration Act.
 8. SAIBA designations have been carefully researched and aligned to industry norms and regulations. Each designation is based on a set of competencies that reflect the expertise required for each level within the finance department.



9. Members holding the Business Accountant in Practice BAP(SA) designation that have obtained specialist license may perform specialist reporting work such as required by the Mpumalanga Department of Education for ECDs.
10. BAP(SA) members need to annually renew their licenses and fulfil CIBA's continuous professional development requirements. Through CIBA, BAP(SA)s can obtain a license to perform independent reviews for companies, schools and ECD Centres. For more information on CIBA (previously SAIBA) offerings and designations refer to the SAIBA Corporate Brochure – Annexure included as a separate document.
11. CIBA provides members with industry specific guidance materials, for example the Guide to Accounting Officer Reporting Engagements: Examination of the Financial Statements of Public Schools. This guide addresses key aspects in setting up and examining of key aspects and good practices of the key aspects of financial management, including setting budgets, expenditure and asset management and financial reporting practices. Verification checklists provide an easy tool to ensure that requirements have been addressed.

COMMENTS ON THE FINANCIAL GUIDELINES FOR ECD CENTRES

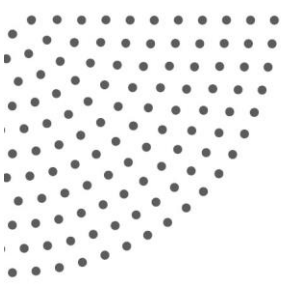
12. On page 34 of the Financial Guidelines for Early Childhood Development (ECD) Centres (Guidelines) state that ECD Centres should prepare financial statements to report their income and spending and that these statements '*must be reviewed by an independent reviewer or certified auditor*'. We agree with this requirement as independent reviews are much more suitable and affordable to ECDs in comparison to audits. The Guidelines therefore acknowledge the fact that independent reviews are an accepted form of assurance for ECDs.
13. However, subsequent to the above distinction the Guidelines used the word "audit" which we understand to mean both audit and independent reviews. Audit in this sense therefore explains the concept of external reports, which are audits and independent reviews.
14. The Department may consider amending the Guidelines to consistently refer to audit and review, or on in the alternative use the word audit to mean both audit and independent review.
15. The Guidelines on page 34 refer to the database of certified auditors that ECD Centres are encouraged to make use of. This database is maintained and updated monthly by the Department and should include all eligible service providers, registered auditors as well as independent reviewers. The database should be expanded to include the



BAP(SA) members of CIBA that have been awarded the CIBA Independent Review Engagement License.

ADDITIONAL PROPOSAL

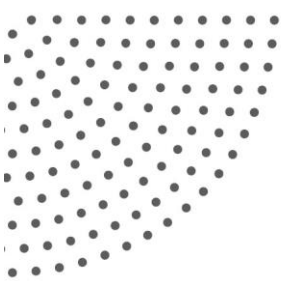
16. The Guidelines require ECD Centres to appoint a Chairperson, Treasurer, and the Centre Manager, who are responsible for drawing up a budget and ensure that funds are spent in line requirements.
17. However, the Guidelines do not prescribe minimum qualifications required for people occupying these positions nor does it require such persons to be members of a professional body. It is unclear how the HOD ensures that people in specialised finance positions, such as treasurers can effectively fulfil their roles and provide quality services.
18. The HOD is required to obtain written assurance that the Centre implements effective, efficient, and transparent financial management and internal control systems before transferring funds. It is not clear from the Guidelines how the written assurance will be issued by the ECD Centre, or how its accuracy and reliability is ascertained.
19. As a recognised professional body representing accounting officers, independent reviewers, tax practitioners, and treasurers we have an interest in professionalizing the financial management of the public sector and civil society. Our proposal supports the effective implementation of the Guidelines by professionalizing treasurers of ECDs. This will ensure sustainable employment throughout the sector. One of government's priorities, a very important one, is the professionalization of public sector financial management. The National Economic Development and Labour Council (NEDLAC) has a chamber dedicated to development which includes rural and civil society organizations and priorities. The Zondo Commission highlighted weakness in financial control and professionalism as key factors in allowing for a breakdown of control. The recommendations made by the Commission were adopted by The Presidency.
20. The national professionalization of the public sector provides legitimate and approved basis for our proposal to professionalize treasurers of ECDs. It directly supports national initiatives by strengthening civil society organizations to become competent and professional in the treasurer functions so desperately needed within ECDs, non-profit organisations and related social development organizations.
21. Treasurers that are members of professional accountancy bodies will be supported with ethical guidance, support on standards and best practice and will be part of a professional community. Indeed, the National School of Government will propose to



make it a prerequisite for government financial staff to be a member of a professional accountancy body.

Our recommendations

22. The database of eligible service providers as mentioned in paragraph 3 on page 34 of the Guidelines should include CIBA licensed independent reviewers.
23. The Guidelines should make provision for the position of a Treasurer to be filled by an appropriately trained person who is registered with an accredited professional body such as CIBA. Having a professional accountant as Treasurer would result in improved budgeting, expenditure management better quality reporting, including reliable and accurate written assurance provided to the HOD.
24. CIBA can offer the ECD Treasurers free support and training when they become members of CIBA as Treasurer members. This is available to them for less than R500 per annum.
25. The Guideline should consistently provide for audit and independent review throughout the document. Suggested amendments to various paragraphs of the Guidelines are included as **bold and underlined** below.
 - a. Definitions and acronyms page 3 including the following definitions:
 - o **Audited financial statements:** Financial Statements (such as cash flow, income statement and balance sheet) which have been ~~examined and declared as true and mistake-free by an Independent Registered Auditor~~ audited or independently reviewed by a registered auditor or a person listed in Regulation 29(4) of the Companies Act, 2008.
 - o **Differentiated Approach:** This means that DOE knows that ECD programmes are not all the same and different ways of reporting can be used. This is why there are different reporting requirements for differently sized ECD programmes. The ECD programme's reporting requirements will depend on how long it has been running, the size of the ECD programme's income, how reliable past reports have been, etc. DOE will then set reporting rules specific to each individual ECD programme based on their reporting ability e.g., whether income and expenditure reports and audited/**reviewed** financial statements should be submitted. A differentiated approach is also used when deciding how to monitor an ECD programme.



- o **Financial reporting/reports:** Financial reporting is the disclosure of an ECD Programme’s financial information to DOE. Financial reporting can take place on monthly, quarterly, bi-annually, or annual basis. The type of financial reports required depends on how the ECD is classified using the differentiated approach. Financial reports can be an income and expenditure report for a small ECD programme ~~or audited financial statements for a well-established ECD programme~~ or audited or independently reviewed financial statements for a well-established ECD programme.

- b. Bullet 3 on page 34 of the Guideline:

The department provides a database of certified auditors and independent reviewers monthly. ECD Programmes are encouraged to make use of these auditors and reviewers. The list can be obtained from the relevant programme manager.

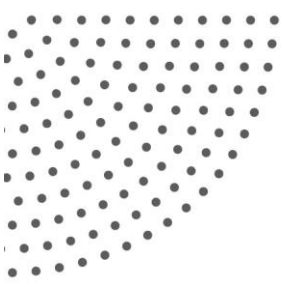
- c. RISK PROFILE FOR ECD CENTRES on page 36 of the Guideline:

Risk question		Risk score		Risk score
Who will oversee the ECD programme’s financial statements?	An Auditor	1	The ECD programme manager will produce their own statements	4
	<u>An independent reviewer</u> An Accountant	2		

- d. Page 48, paragraph 11 of the Guideline:

Annual Financial Statements are produced by accountants/Bookkeepers and audited by registered auditors / reviewed by independent reviewers usually no less than six months after the end of the financial year.

- 26. CIBA would be able and willing to support current treasurers of ECD centres with the offering SAIBA membership and further support, including training to ensure quality financial management processes, including drawing up budgets, implementing internal control systems, expenditure management and management of compliance with all requirements.



Conclusion

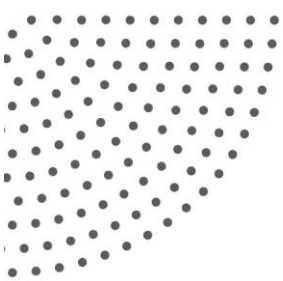
27. We would appreciate your consideration and feedback on our recommendations above. We would welcome further engagement with you to discuss:

- Plans to address possible capacity constraints
- Training opportunities and complimentary guides on aspects of financial management and
- How to manuals for performing independent reviews.

28. Please feel free to contact us should you need further explanations or assistance.

Yours sincerely

Eszter Rapanos
SAIBA Technical Manager



Annexure: SAIBA Corporate Brochure – refer to separate document