



**Western Cape  
Government**

Education

Directorate: Institutional Management  
and Governance Planning

## **GUIDELINES FOR THE DRAWING UP OF ANNUAL FINANCIAL STATEMENTS**

<b>Contents</b>	<b>Page</b>
1. Introduction	3
2. Objectives	3
3. Legislative prescripts and regulatory framework	3
4. Drafting and submission of financial statements	3
5. An auditor or person to examine and report on financial documents	4
6. Diagrammatic representation of a financial statement	6
7. Components of a financial statement	6
8. Schedules to be included in a financial statement	6
9. Information to be presented on the face of the statement of financial position	7
10. Information to be presented on the face of the income statement/statement of financial performance or in the notes	7
11. Notes to the financial statements	8

## 1. Introduction

These guidelines are issued by the *Member of the Executive Council* in terms of section 42(b) of the South African Schools Act (SASA), 1996 (Act 84 of 1996).

## 2. Objectives

- 2.1 To give effect to the legislative requirements of the South African Schools Act (SASA), 1996 (Act 84 of 1996), as well as section 38 of the Public Finance Management Act, 1999 (Act 1 of 1999).
- 2.2 To provide guidelines to the governing body and finance committee of a school in preparing a set of annual financial statements.
- 2.3 To provide information about the financial position, financial performance and cash flows of a school, which is useful to a wide range of users (governing body, the public and the Western Cape Education Department (WCED)).
- 2.4 To show the results of management's stewardship of the **resources** entrusted to them.

## 3. Legislative prescripts and regulatory framework

- 3.1 Generally Recognised Accounting Practices (GRAP)
- 3.2 Section 43(1) & (2) of the South African Schools Act (SASA), 1996 (Act 84 of 1996)
- 3.3 Public Finance Management Act, 1999 (Act 1 of 1999)
- 3.4 WCED Circular 0027/2001, dated 12 March 2001: Auditors appointed under Section 43(2) (b) of SASA
- 3.5 WCED Circular 0205/2003, dated 20 October 2003: Annual Audited Financial Statements
- 3.6 WCED Circular 0007 of 2014, dated 05 March 2014: Annual Audited Financial Statements: 01 January to 31 December

## 4. Drafting and submission of financial statements

- 4.1 In terms of SASA the governing body of a public school must:

- (i) within three months of the end of each financial year, i.e. 31 March, draw up annual financial statements in accordance with the guidelines determined by the Member of the Executive Council (MEC); and
- (ii) within six months of the end of each financial year, i.e. 30 June, submit a copy of the annual audited financial statements to the Head of the WCED.

- 4.2** The governing body is responsible for drawing up the annual financial statements and should then submit these documents to their auditor for auditing.
- 4.3** Auditors must clearly show that they have mechanisms in place to ensure that they maintain a functional and healthy separation of duties in terms of the compiling and auditing of the financial statements.
- 4.4** Upon receipt of the audited financial statements from the auditors, the governing body must hold a meeting to discuss the statements.
- 4.5** The governing body must clarify issues, if any, with the auditors and thereafter adopt and sign off the statements as correct.
- 4.6** Auditors usually make provision in the audited financial statements for the SGB to sign-off.
- 4.7** The SGB must submit a copy of the signed audited financial statements, which must include the management report of the auditors, to the district office on or before 30 June.

**Important:**

The auditor should not do the bookkeeping of the school, other than the year-end journals and adjustments. Furthermore the audit/review of the school's financial statements must not be carried out by the same accounting professional who was involved in the preparation of the financial statements i.e. segregation of duties. This is in line with the Auditing Standard of Independent Review (ISRE 2400).

**5. An auditor or person to examine and report on financial documents**

- 5.1** In terms of section 43(1) of SASA, the governing body must appoint a person registered as an accountant and auditor in terms of the Public Accountants' and Auditors' Act, 1991 (Act 80 of 1991).
- 5.2** If this is not reasonably practicable, it must appoint a person who is qualified to perform the duties of an accounting officer of Close Corporations (section 43(2)(a) of SASA). In this instance, the words "is not reasonably practicable" can be interpreted as follows:

“the 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 (b) will be the next required alternative to appoint a person to examine the records.”

**5.3** The list of organisations with which accounting officers can be associated is as follows:

- The South African Institute of Chartered Accountants (SAICA)
- Auditors registered in terms of the provisions of the Auditing Profession Act, 2005 (Act No. 26 of 2005) (CA)
- The Southern African Institute of Chartered Secretaries and Administrators (ICSA)
- The Chartered Institute of Management Accountants (CIMA)
- The South African Institute of Professional Accountants (SAIPA)
- The Institute of Accounting and Commerce (IAC) who has obtained the Diploma in Accountancy (IAC)
- The Association of Chartered Certified Accountants (ACCA)
- The Chartered Institute of Business Management (MCIBM)
- The Southern African Institute for Business Accountants (SAIBA)
- The Southern African Institute of Government Auditors (SAIGA)

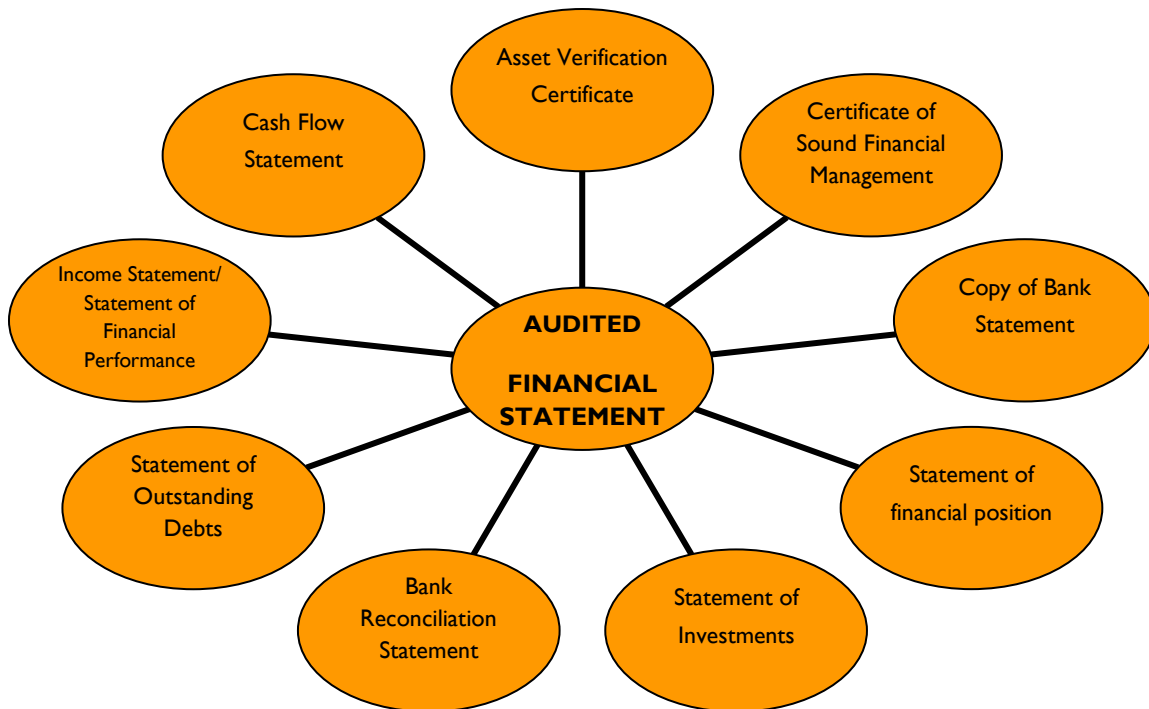
**5.4** If the governing body appoints an accounting officer they must provide:

- a) three quotations obtained from different auditing firms for comparison. These should be kept safely for monitoring and evaluation or audit purposes;
- b) a motivation letter attached and signed by the 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 governing body meeting regarding the appointment of the accounting officer which have been signed and are kept by the school for record keeping purposes.

**5.5** If this is not reasonably practicable, the governing body must appoint a competent person, but the approval of the Provincial Minister of Education is needed for such an appointment (see section 43(2)(b) of SASA). An application form (Annexure A1) must be filled in and be sent, together with the applicable information, directly to the relevant district office. The governing body should ensure that qualified individuals are appointed to examine the records. Appointing unqualified or unskilled individuals to perform an examination of the books will pose a risk of fruitless and wasteful expenditure.

**5.6** In terms of section 43(3) of SASA no person who has a financial interest in the affairs of the public school may be appointed under this section.

## 6. Diagrammatic representation of a financial statement



## 7. Components of a financial statement

- A statement of the financial performance: Income statement [Annexure A]
- A statement of financial position: Balance sheet [Annexure B]
- A cash flow statement [Annexure C]
- Audit report [Annexure D]
- Notes or schedules comprising a summary of significant accounting policies and other explanatory notes
- Management report (report from the auditor highlighting any shortcomings – this report must also be provided to the WCED)

## 8. Schedules to be included in a financial statement

- Asset verification certificate [Annexure E]
- Bank reconciliation [Annexure F]
- Statement of investment/s or note to annual financial statements [Annexure G]
- Statement of outstanding debtors or note to annual financial statements [Annexure H]
- Copy of bank statement for December
- Certificate of sound financial management [Annexure I]
- Certificate of verification of computerised receipting [Annexure J]

## **9. Information to be presented on the face of the statement of financial position**

### **9.1 Non-current assets (fixed assets)**

- Equipment
- Vehicles

### **9.2 Current assets**

- Cash and cash equivalents
- Investments
- Inventory
- Accounts receivable

### **9.3 Non-current liabilities**

- Long-term loans
- Interest-bearing borrowings

### **9.4 Current liabilities**

- Accounts payable
- Provisions
- Arrear municipal accounts
- Arrear Workman's Compensation
- Bank overdraft
- SARS – Tax

## **10. Information to be presented on the face of the income statement/statement of financial performance or in the notes**

### **10.1 Revenue/income**

#### 10.1.1 School fees

- Mainstream (Nett = Gross – bad debt and exemptions)
- Pre-primary/Grade R

#### 10.1.2 Other operating income

- Other fees (e.g. Music)
- Fundraising
- Donations

#### 10.1.3 WCED allocations

- Safe schools
- Internet / TK connectivity
- Norms and standards (N&S)
- Municipal services

- Scheduled maintenance
- Grade R
- National School Nutrition Programme (NSNP)

#### 10.1.4 Other income

- Interest received (current account and investment account)
- Other income
- Profit on disposal of assets

## 10.2 Expenditure

### 10.2.1 Administration Expenses

- Affiliations and subscriptions
- Accounting fees
- Auditing fees
- Computer expenses
- Depreciation
- Interest paid
- Other expenses
- Municipal services
- Textbooks and learning support material
- Transport
- Tax – SARS pay-over
- Repairs and maintenance
- Printing and stationery
- Rentals
- Telephone and fax

### 10.2.2 Personnel expenditure

- CS Educators
- Non-CS Educators
- Extra remuneration (38A) – per staff member

### 10.2.3 Surplus/deficit for the year (Circular 0007 of 2014, dated 05 March 2014)

## 11. Notes to the financial statements

### 11.1 Accounting policies

Basis of presentation – The annual financial statements are prepared on the historical cost basis and in accordance with South African Standards of Generally Recognised Accounting Practice (GRAP). The following are the principal accounting policies used by the school, which is consistent with those of the previous year:

#### 11.1.1 Fixed/tangible assets and depreciation

Depreciation of fixed assets is shown at book value (cost less accumulated depreciation). Depreciation is written off by a charge to income computed on a straight-line basis as to write-off cost over their expected useful lives. The depreciation rates applicable to each category of fixed/tangible asset are as follows:

- Furniture and fittings – 10% p.a.
- Office equipment – 20% p.a.
- Computer – 33.33% p.a.
- Computer software – 50% p.a.

#### 11.1.2 Inventory

Saleable items are stated at the cost or net realisable value, whichever is lower. Administrative items are stated at cost. Where necessary, provision is made for obsolete, slow-moving and defective inventory.

#### 11.1.3 Revenue/income

Revenue/income comprises school fees, fundraising, WCED transfer payments, donations and other income.

#### 11.1.4 Interest received

Interest received is recognised in the period in which it occurs.

#### 11.1.5 Accounts receivable

Accounts receivable is carried at expected realisable value. An estimate is made for doubtful accounts receivable based on a review of all outstanding amounts at the year end. Bad debts are written off in the year in which they are identified.

#### 11.1.6 Accounts payable

Accounts payable is carried at expected payment values. An estimate is made for accruals based on a review of all outstanding amounts at year end. Interest is written off in the year that they occur.

#### 11.1.7 Employee benefits (governing body posts)

Contributions to a defined contribution plan in respect of services in a particular period are recognised as an expense in that period.

### 11.2 Employee entitlements

Short-term employee benefits: The cost of short-term employee benefits is recognised during the period in which the employee renders the related service. Employee entitlements to annual leave are recognised when they accrue to employees.

### 11.3 Taxation

No provision is made for taxation, as schools are exempted from income tax in terms of Section 10 (1)(d)(iv)(bb) of the Income Tax Act, 1962 (Act 52 of 1962).