

Governance & Community Leadership

Guidelines for School Governing Bodies



Auditing

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Introduction

In terms of section 55 of the Public Finance Management Act, 1 of 1999 (PFMA), all educational institutions that receive government funding must keep full and proper records of their financial affairs, and submit an audited financial statement to their executive authority (in this case the Eastern Cape Department of Education) annually. This must be submitted to the District Office before the end of June, each year.

According to the South African Schools Act, 84 of 1996 (SASA), sections 42 and 43, every School Governing Body (SGB) must:

- Keep records of funds received and spent by the public school and of its assets, liabilities and financial transactions; and
- 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.
- 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.
- If the audit referred to is not reasonably practicable, appoint a person to examine and report on the records and financial statements 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.No person who has a financial interest in the affairs of the public school may be appointed.
- Submit to the Head of Department, within six months after the end of each financial year, a copy of the annual financial statements, audited or examined.
- At the request of an interested person, make the records referred to, and the audited or examined financial statements referred to, available for inspection.

Every school is, therefore, obliged to have its financial records audited annually.

What is an audit?

An audit is an independent examination of the records, procedures and activities of an organisation, resulting in a report on the findings. The audit provides an opportunity for the organisation, in this case, the school, to receive feedback on strengths and weaknesses, to improve systems and to build capacity by learning about financial matters. It should not be feared and seen as a “policing” function.

The auditor's report will highlight findings and make recommendations for any action that is needed. Use your auditor to discuss ways of improving your accounting systems and procedures.

There are two kinds of audit:

- An internal audit
- An external audit

In a school, an **internal audit** involves a structured review of the systems and procedures set out by the SGB to ensure efficient and effective practices.

During an internal audit the SGB will request members of the finance committee or specified staff members to examine all the school's financial records. The purpose of this internal audit is to check whether the funds allocated to the school by the government, as well as funds raised by the school through school fees or fund raising activities is being spent according to the approved budget. The internal audit will also check whether the procedures and processes outlined in the school financial policy are being followed. An internal audit should be done every quarter.

Any financial irregularities, as described in section 38 of the PFMA, should be noted and addressed.

An **external audit** is an independent examination of the financial records prepared by the school as required by SASA. The purpose of the external audit is to verify that the financial records provide an accurate picture of the school's finances, and that the use of funds is in accordance with the stipulations of the Act and other related statutory prescripts. The SGB is responsible for appointing an auditor to carry out this external audit.

In addition, external audits can be carried out by the District Office, as well as the provincial education department, to ensure compliance. Receiving feedback after an audit can be a helpful and positive experience, so these departmental representatives should be welcomed.

The annual external audit

This involves auditing of the school's records and financial statements by an independent auditor. The appointment of an independent auditor for each financial year is an important SGB function.

The independent auditor must certify:

- a) The accuracy, or otherwise, of the school's financial records
- b) That records were kept in accordance with applicable government regulations and departmental guidelines
- c) That expenditure was made in accordance with the approved budget, applicable provincial regulations and departmental guidelines

Note:

- The SGB must appoint the auditor from the database of the District Office
- In the letter appointing the auditor, the SGB needs to confirm with the auditor:
 - the records that the school needs to submit to the auditor
 - the date by which this must be done
 - the date by which the audited report will be submitted to the SGB
- Documents handed over to the auditor must be signed-off by the chairperson of the SGB and the auditor
- After conducting the audit, the auditor must be available to provide financial advice to the school with regards to his/her findings

Preparation for the audit

In order to facilitate the auditing process, the school needs to ensure that its records are properly filed and organised. If the school makes sure that all the records are accurate and kept up to date throughout the year, it will be easy to prepare for the audit.

The SGB's role in preparing for the audit is to place the matter on its quarterly meeting agenda. In these meetings, SGB members should ask to view records such as receipt books, bank deposit books, cheque books and bank statements.

*Some of the important documents that the auditor will need to examine are listed below.

Documents required for the audit

Audit of income:

- Receipt books
- Deposit books / slips
- Cash receipts journal
- Bank statements

N.B. All the documents listed above should cover the whole school financial year being audited, i.e. 1 January - 31 December.

Audit of expenditure:

- Requisition forms
- Quotations
- Invoices
- Cheques returned by the bank
- Petty cash records

The quotations, invoices and returned cheques, must be attached to the requisition form and filed in cheque order sequence.

- Bank statements covering the period 1 January – 31 December
- Cash payments journal
- Petty cash book, vouchers and petty cash summaries
- Cheque counterfoils specifying what was bought
- Lease agreements / contracts

N.B. All the documents listed above should cover the whole school financial year being audited, i.e. 1 January - 31 December.

General:

- SGB minute book
- Finance committee minutes
- Paper budget for the financial year to be audited
- School budget for the financial year under review
- Copy of the previous year's audited financial statements
- Asset register

Procedures after the audit

- After the audit has been completed, the audited report must be presented to the SGB at a formal meeting. The findings of the auditor and his/her recommendations must be discussed. The chairperson of the SGB should sign the report
- The SGB must decide on corrective action to be taken in the event of any irregularities being reported
- Copies of the report should be made available for parents to read. If possible, have a meeting to communicate the state of the finances to them
- The SGB must submit a copy of the audited financial statement to the Head of Department via the District Office within six months after the end of each financial year
- The auditor must be remunerated from the school fund

**Guidelines for School Governing Bodies
Published by Siyawela - Ready to Succeed**

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OUR VISION

For all schools in South Africa to become effective self-managing institutions that provide quality teaching and learning.

OUR MISSION

To provide training programmes that:

- are aligned to the needs of the South African education system, and
- help school communities make a valuable contribution to the education of their children.