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**THE MANAGEMENT OF SCHOOL FINANCIAL POLICY AND INTERNAL
FINANCIAL CONTROLS IN DESIGNATED SECTION 21 SCHOOLS IN THE
MOTHEO EDUCATION DISTRICT, FREE STATE**

By

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B.A., B.COMM., B.ED (Hons)., PGCE.**

A dissertation submitted in fulfillment of the requirements for the degree

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Prof. R.R. Brazelle (D.Ed)**

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DECLARATION

I hereby declare that the dissertation:

The management of school financial policy, and internal financial controls in designated section 21 schools in the Motheo Education District, Free State

is my own work, that all resources quoted have been indicated and acknowledged by means of complete references, and that this dissertation was not previously submitted by me for a degree at any other university.

I hereby cede copyright in favour of the University of the Free State.

A.D. MANNING

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SUMMARY

This study examines the efficacy of school financial policy, procedures and internal financial controls in designated section 21 schools in the Motheo Education District, Free State.

The decision to conduct the research in the Free State province was motivated by having read reports in education journals and newspapers of financial mismanagement in other provinces.

Prior to this study the researcher sought out similar dissertations and theses at the University of Free State library and on the internet in an attempt to establish what research has been done since 1994 which was devoted *entirely* to school financial management in the Free State post-1994. Research relating to pre-1994 was available, together with research post-1994 primarily relating to school management, or aspects thereof, in which school financial management was accorded a sub-section or a chapter. Thus, the researcher is of the opinion that a research gap exists in this area in the Free State (post-1994) and believes that this study fulfills a need for such research which could be of mutual benefit to schools and the Free State Department of Education.

Having consulted literature as documented in chapter one highlighting financial management and control deficiencies at researched schools a research problem was formulated, namely, whether the designated schools have an effective financial policy in place which is supported by efficacious financial/accounting procedures and controls and which are verified by ongoing internal audit and/or management checks.

This was followed by an extensive literature study in chapters two and three relating to the aims of the research and providing a sound framework for the empirical study. The literature study included, *inter alia*, a theoretical review of policy followed by an extensive review of education and school policy in South Africa, post-1994 which were necessary precursors to a study of school financial policy. This was necessary to establish as to what constitutes a sound school financial policy, being one of the aims of the research. It was necessary in the literature review to extensively examine

and analyse applicable national legislation and regulations. Furthermore, it was necessary to examine literature (including applicable legislation) relating to financial control procedures, financial accounting and internal auditing standards to first establish what constitutes generally accepted accounting and internal control standards and, secondly, to investigate compliance with these standards during the qualitative research. An extensive school financial policy and related procedures are suggested and appended to this research (Appendix A).

A qualitative research methodology was adopted for this study, the design of which is documented in chapter four. The qualitative research embodied semi-structured interviews with financial management role players and finance clerks, together with a document study of school financial policies and documents. This chapter includes an exposition as to how reliability and validity of the research will be ensured.

Chapter five presents a comparative analysis of data collected, the identification of recurring theme/patterns and the coding thereof. Categories were created within the broad themes identified and findings emanating from the comparative analysis were presented. Deficiencies are documented in respect of:

- Outdated school financial policies.
- Lack of management involvement in financial control processes.
- Inadequate budget control systems.
- Irregular meetings, membership and ineffectiveness of finance committees.
- Inadequate receipting procedures.
- Lack of stationery control.
- Inadequate petty cash systems.
- Poor cheque control procedures.
- Incorrect financial recording.
- Lack of bank reconciliations.

Recommendations arising from the findings are presented in chapter six. The recommendations include, *inter alia*, a recommended internal audit checklist to assist and encourage school management to effect ongoing internal management financial

control checks, which if applied correctly, could, in the opinion of the researcher lead to quality financial management.

It is hoped that this study will have value in assisting schools and the Provincial department in highlighting financial control deficiencies, for which corrective action can be implemented, thus reducing the risk of financial losses due to defalcations or errors.

OPSOMMING

Die studie ondersoek die effektiwiteit van finansiële skoolbeleid, prosedures en interne finansiële beheermaatreëls in aangewese Artikel 21 skole in die Motheo onderwysdistrik van die Vrystaat.

Die besluit om die studie in die Vrystaat te onderneem is gemotiveer deur die lees van verslae in opvoedkundige tydskrifte en koerante oor finansiële wanbestuur in ander provinsies.

Voor die aanvang van die studie het die navorser soortgelyke verhandelinge en tesse in die biblioteek van die Universiteit van die Vrystaat en op die internet geraadpleeg om vas te stel watter navorsing onderneem is en wat *uitsluitlik* gefokus het op finansiële skoolbestuur in die Vrystaat na 1994. Navorsing in skoolbestuur voor 1994 en daarna was beskikbaar, maar het slegs 'n afdeling of hoofstuk aan finansiële skoolbestuur gewy. Daar is dus 'n navorsingsgaping in hierdie opsig in die Vrystaat (post-1994), en die navorser is van mening dat hierdie studie die behoefte vir sodanige navorsing vervul, en dat dit van wedersydse belang kan wees vir skole en die Vrystaatse Departement van Onderwys.

As gevolg van 'n literatuurstudie, waartydens tekortkominge in finansiële bestuur en beheer uitgewys is (hoofstuk 1), is 'n navorsingsprobleem geformuleer: Of die aangewese skole 'n effektiewe finansiële beleid in plek het en of hierdie beleid ondersteun word deur doeltreffende finansiële /rekeningkundige prosedures en beheermaatreëls wat deur voortgesette interne audit en/of bestuursondersoeke geverifieër word.

Hierop het 'n intensiewe literatuurstudie in hoofstukke 2 en 3 gevolg, gefokus op die doelstelling van die navorsing, en om 'n raamwerk te verskaf teen die agtergrond waarvan die empiriese studie onderneem is. Die literatuurstudie het onder andere 'n teoretiese blik op beleid verskaf, gevolg deur 'n uitgebreide studie van onderwys en skoolbeleid in Suid-Afrika na 1994, as 'n noodsaaklike begroning vir 'n studie oor finansiële skoolbeleid. As een van die doelstellings van die studie was die literatuurstudie noodsaaklik ten einde vas te stel wat 'n gesonde finansiële

skoolbeleid is. As deel van die literatuurstudie was dit ook belangrik om 'n uitgebreide studie te onderneem van toepaslike nasionale beleid en regulasies. Dit was verder nodig om literatuur (en toepaslike beleid) wat betrekking het op finansiële bestuursmaatreëls, finansiële rekeningkunde en interne ouditstandaarde na te vors, ten einde te bepaal wat beskou kan word as algemeen aanvaarbare rekeningkundige en interne bestuursmaatreëls, om tydens die kwalitatiewe ondersoek vas te stel of daar aan sodanige standaarde voldoen word. 'n Uitgebreide finansiële skoolbeleid en verbandhoudende prosedures is voorgestel en verskyn as bylaag tot hierdie studie (Bylaag A).

'n Kwalitatiewe navorsingsmetodologie is onderliggend aan hierdie navorsing, en die ontwerp daarvan is in hoofstuk 4 gedokumenteer. Die kwalitatiewe navorsing is onderneem deur middel van semi-gestruktureerde onderhoude met rolspelers in finansiële bestuur, sowel as finansiële klerke, en 'n studie van dokumente oor finansiële skoolbeleid en relevante dokumente. Laasgenoemde hoofstuk sluit ook 'n verduideliking in van die wyse waarop die geldigheid en betroubaarheid van die studie verseker is.

Hoofstuk 5 onderneem 'n vergelykende analise van die versamelde data, die identifisering van herhalende temas/tendense en die kodering daarvan. Kategorieë is geskep binne die breë temas en die bevindinge van die vergelykende analise is aangebied. Tekortkominge ten opsigte van die volgende is aangedui:

- Verouderde finansiële skoolbeleid.
- Gebrek aan die betrokkenheid van bestuur in finansiële bestuursprosesse.
- Ontoereikende begrotingsbeheerstelsels
- Ongereëde vergaderings, ontoepaslike lidmaatskap en oneffektiwiteit van finansiële komitees.
- Ontoereikende kwitansieprosedures.
- Gebrek aan skryfbehoeftebeheer.
- Oneffektiewe kleinkas stelsels.
- Swak tjekbeheer prosedures.
- Verkeerde aantekening van finansiële dokumente.

- Gebrek aan bank rekonsiliasies.

Aanbevelings voortspruitend uit die bevindinge verskyn in hoofstuk 6. Die aanbevelings sluit onder andere 'n voorgestelde oudit oorsiglys in om die bestuur van die skool aan te moedig om interne finansiële beheer voortdurend toe te pas, wat, indien korrek geïmplementeer, volgens die navorser tot gehalte finansiële bestuur sal lei.

Die studie sal hopelik van waarde wees vir skole en die onderwysdepartement deur tekortkominge in finansiële beheer uit te wys, waarvoor korrektiewe aksies geïmplementeer kan word, om sodoende die risiko van finansiële verliese deur bedrog of foute te verminder.

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CHAPTER ONE

ORIENTATION TO THE STUDY

1.1 INTRODUCTION

The establishment of school governing bodies by the South African Schools Act (RSA 1996b), hereinafter referred to as the Schools Act, together with concomitant financial and other responsibilities imposed upon governing bodies by this Act, represented a significant devolution of power in the South African education system to the school community. With the institution of school governing bodies (SGBs), the Schools Act (RSA 1996b) was aimed to give effect to the principle of the democratisation of schooling by affording meaningful power over their schools to the school-level stakeholders including the governors serving on the SGBs (Beckmann and Prinsloo 2009:171).

The Schools Act has, thus, introduced the principle and practice of partnership in education through governing bodies, including financial management responsibilities which empower schools, especially designated section 21 schools, with greater autonomy and responsibility for financial matters. Aligned to this local responsibility for school financial matters is the need for schools themselves to generate increasing amounts of additional funds to supplement funds provided by the state. Section 36(1) of the Schools Act compels the school governing body (SGB) to take "all reasonable measures within its means to supplement the resources supplied by the State" (RSA 1996b). Thus, effective financial management has assumed a place of cardinal importance in schools in South Africa (Bisschoff 1997:14). Principals are expected to ensure that quality teaching and learning continue to take place while the budgetary provision allocated to them for that purpose is steadily reduced (Kruger 2005:234).

The financial viability of a school relies on effective financial control measures that are implemented by the finance committee of the SGB and the school management team. The Schools Act (RSA 1996b:s.21) mandates the SGB to

manage the funds of a school and provides guidelines for the SGB and the principal on their roles and responsibilities in managing the finances of the school. Sound financial management begins with the determination of an effective school financial policy. The school financial policy must be supported by sound accounting and administrative procedures, together with effective internal financial and internal auditing controls. Failure to effect ongoing satisfactory financial controls could lead to financial mismanagement or defalcation of school funds to the detriment of attaining the objective of quality education.

School principals and governing bodies, therefore, have enormous responsibilities to ensure that limited funds are utilised efficaciously and effectively to ensure the continuance of quality education. Furthermore, with the publication of the Norms and Standards for School Funding (RSA 1998b), the Department of Education has, through the application of the resource targeting table (discussed in detail in Chapter three), attempted to correct the imbalance of education funding in respect of poor schools. The defined "poor" schools will, through the application of the resource targeting table, be allocated much larger funding than "less poor" schools which they need to monitor and control without necessarily possessing the required financial management skills.

According to the Schools Act (RSA 1996b:s.16(1)) the *governance* of every public school is vested in its governing body and the act further stipulates, in section 16(3), that the *professional management* of a public school must be undertaken by the principal under the authority of the Head of Department. Governance by the SGB includes "financial governance" through the imposition of various financial obligations as stipulated in the Schools Act.

Chapter Four of the Schools Act relating to funding of public schools stipulates various financial management and financial control obligations that are expected of the SGB, including the establishment and administration of a school fund (section 36), the compilation of a budget each year (section 38(1))

and the keeping of a record of funds received and spent by a public school and of its assets, liabilities and financial transactions (section 42).

Furthermore, the Schools Act (section 43) stipulates that the SGB must appoint a person registered as an accountant in terms of the Public Accountants and Auditors Act (RSA 1991), to audit the records and financial statements of the school. In order to facilitate financial governance in terms of the above, a financial policy for the school must be drawn up.

However, in drawing up an efficacious financial policy supported by satisfactory procedures and internal auditing controls it is vital that the relevant members of the SGB and the principal have the necessary expertise and competencies to effect sound financial control in order to minimise losses that may incur due to financial mismanagement, errors, omissions or misappropriation. There are many principals and SGB members who lack the necessary financial knowledge and skills and are placed under tremendous pressure (Mestry 2004:126). Mestry (2006:27) observes further that some members of SGBs and principals either have little knowledge of the Schools Act or interpret it incorrectly, which results in many schools experiencing financial mismanagement. Heystek and Nyambi (2007:230) acknowledge that performing section 21 functions in rural and less disadvantaged urban areas are problematic as SGBs in these areas do not have the required skills and experience to exercise their powers. Clark (2008:278) states that the management of school's finances can be one of the most challenging of a principal's responsibilities, "because for many it is an area in which they have little or no training or expertise".

Furthermore, the school cannot solely rely on an annual external audit to ascertain the correctness or otherwise of its financial position. An inherent condition for effective internal control is that internal financial checks (internal auditing) must be ongoing throughout the financial year with timely interventions should errors or defalcations be detected. Niemann (2005:394) states that internal auditing (as opposed to external auditing) is more effective for the purpose of tracing any disparities and setting them right at an early

stage. Internal control can be defined as an internal appraisal to determine whether acceptable policies and procedures are followed, established standards are met, resources are used efficiently and economically, and the organisation's objectives are being achieved (Sawyer 1981:6).

As financial accounting is largely done by non-professional staff (Niemann, 2005: 374) it is imperative that the principal and SGB manage the school's finances in a sound and efficient manner by ensuring the implementation of sound accounting/financial policies and procedures together with efficacious internal control procedures. In order to achieve the latter both the SGB member(s) and the principal should have, or be empowered with, the necessary expertise to ensure that internal controls are ongoing and effective.

Financial managers and/or delegated financial personnel must be held accountable for sound financial management or lack thereof. Personnel who are delegated for internal control must be financially competent or be adequately trained for this purpose and be equipped with an "internal audit critical areas checklist", which will be formulated and recommended in this study, in order to ensure standardisation and continuity of suitable internal check processes.

1.2 STATEMENT OF THE PROBLEM

Management of school finances is one of the most important management tasks and responsibilities of the SGB and school management team.

According to Sawyer (1981:7), financial activities remain a significant part of the operations of an entity. They represent the entity's nervous system, and controls over that system are essential. Funds are limited and schools face a plethora of demands and needs for these limited funds. As schools are increasingly functioning as financial organisations, emphasis on financial management increases accordingly (Mestry 2006: 36). Schools are today tasked with generating increasing amounts of additional funds and this, together with the growth of school self-management and governance leads to

an increased risk of maladministration and misappropriation of school funds. According to Knight (in Mestry 2006:71):

- Greater financial freedom increases opportunities for fraud.
- Decentralisation makes separation of duties more difficult to achieve.
- The drive for lean overheads will lead to reduced controls.
- Local processing destroys the fear of detection.

The above aspects necessitate the need for the formulation and implementation of a sound school financial policy, supported by proactive sound internal financial controls in order to ensure that inefficiencies leading to financial losses and temptation for misappropriation are minimised. The adage that "staff respect what you inspect" (Anon) holds true in this respect.

Kruger (2005:234) states that in view of the demands on those dealing with financial matters it is imperative that the school principal and members of the governing body should perform their financial management task with circumspection and thoroughness. Kruger (2005:240) further states that in order to delegate and lead the financial management procedures effectively, principals and members of the financial committee must also be familiar with the correct procedures used in the school for the following activities:

- Handling the school fund account.
- Receiving, recording and administering school finances and assets.
- Financial accounting and reporting.

To which must be added

- Monitoring and control of the school budget.

This is supported by Mestry (2004:126) who states that every school manager, whether a member of the SGB or school management team must have some knowledge and skills relating to the inner workings of the finances

of a school. However, Heystek and Nyambi (2007:238-239) noted in research findings that "even the principals had limited training or knowledge about financial management". Clark (2008: 278) states that it is likely that the elected members of the governing body "may be equally ill-equipped for the task" [of the management of school finances].

The lack of financial management and control at schools is aptly evident in Circular 34/2004 issued by the Gauteng Department of Education reporting on the results of an outsourced investigation undertaken to review financial processes at section 21 schools. The summary of financial process weaknesses identified at various schools was alarming, and included:

- Lack of control over cash receipts, receipt issuing and banking of cash.
- Inadequate updating or non-existence of cashbooks.
- Lack of control over authorisation of payments and incorrect requisitions.
- Lack of control over petty cash transactions.
- Poor document control, inadequate filing systems and safekeeping of documents.
- Financial statements not being compiled.
- Budgets and financial statements not complying with policy requirements.
- Inadequate monitoring of actual expenditure against budgeted expenditure.
- Lack of control over issue and retrieval of learning, teaching and support materials.
- Lack of control over the use of telephones, cell phones, photocopiers and printers.

Deficiencies as listed above arise from, *inter alia*, improperly constituted finance committees in many schools and below average knowledge and experience of appointed financial officers, as supported in findings by Marishane and Botha (2004:100) in their research regarding school based

management through decentralised financial control. Mestry (2004:126) also alludes to this problem in stating that there are many principals and SGB members who lack the necessary financial knowledge and skills. Mestry, (2004:126) further notes that some principals and school governing bodies have been subjected to forensic audits "due to the mismanagement of funds through misappropriation, fraud, pilfering of cash, theft and improper control of financial records". Marishane and Botha (2004:100) further found during qualitative interviews that, although schools were encouraged to establish finance committee structures, no follow up investigation by district offices was conducted to establish their actual existence and functionality. This research also highlights the need for training of school financial managers/officers personnel in financial management (Marishane and Botha 2004:101).

The above-mentioned problems resulting in the failure to ensure proper financial management and accountability for the financial processes is a recipe for financial mismanagement and defalcations. It is, thus, of critical importance that an effective financial policy and effective ongoing financial controls be in place at schools in order to eliminate such financial management deficiencies as described above thus ensuring the maximal usage of limited funds being applied for the benefit of quality teaching and learning.

The problem to be researched, therefore, is whether the designated schools have an effective financial policy in place, which is supported by sound financial/accounting procedures and controls and which is verified by ongoing internal audit management checks. The level of financial expertise of affected parties must also be examined. In analysing the problem the following problem questions arise which will be dealt with during this study:

- What constitutes a sound school financial policy?
- What constitutes effective financial/accounting procedures and effective internal controls (including internal audit controls)?
- Do the investigated schools have a "working" financial policy in place?

- What is the SGB and principal's role in formulating and managing financial policy and their level of accountability therefore?
- Are satisfactory internal financial controls in place in the researched schools?
- What is the level of proficiency and training requirements of personnel delegated to effect financial management and internal controls?
- Are National and Provincial legislative regulations governing school funds and other school financial matters being strictly adhered to?

1.3 AIMS OF THE RESEARCH

In accordance with the problem formulated above, the aim of the research is to investigate whether the designated schools have effective financial policies and financial procedures in operation, which are supported by an effective set of internal financial controls and to determine whether the controls are being implemented and applied in a manner that will ensure the timely detection of errors, mismanagement and possible defalcations of funds. In order to achieve this, the following objectives are applicable:

- To establish what constitutes an effective school financial policy.
- To establish what constitutes effective internal controls in order to ensure compliance with national and provincial legislative requirements regarding the governance of school funds and other school financial matters.
- To examine whether the schools have an effective financial policy in place.
- To expound the role of the financial management functions of the SGB and the principal, and to determine their respective levels of accountability and responsibility.
- To examine whether satisfactory internal financial and budgetary controls are in place in the researched schools.
- To determine the level of proficiency and training requirements of personnel delegated to effect internal controls in those schools.

- To develop guidelines that will enable both SGBs and principals to manage school finances effectively.

1.4 RESEARCH DESIGN AND METHODOLOGY

According to Hart (2005:46), research can generally be classified according to its design features and its intended outcomes. Leedy (1997:3) defines research as the systematic process of collecting and analysing information (data) in order to increase our understanding of the phenomenon with which we are concerned or interested. Mertens (1998:2) states that research is one of many different ways of knowing and understanding and elaborates further that research is different from other ways of knowing, such as insight, divine inspiration, and acceptance of authoritative dictates, in that it is a process of *systematic enquiry* that is designed to collect, analyse, interpret, and use *data* to understand, describe, predict, or control an educational or psychological phenomenon or to empower individuals in such contexts. In order to achieve this, the following research methodologies will be used for this study:

- A literature study, and
- A qualitative survey.

1.4.1 Literature study

A research project does not exist in isolation, but must build upon what has been done previously. Therefore, before embarking on a project, a researcher should review previous work in the field (Kaniki 2006:19). Kaniki (2006:19), states further that a literature review puts one's research project into context by showing how it fits into a particular field. Thus, a literature review is conducted in this study in order to understand the context in which the school financial policy operates within the overall school policy. A literature review of the topic is further deemed necessary for this study for the following reasons:

- To reduce the chance of selecting an irrelevant topic/focus arising from an investigation of what may already have been done in this area of study (Fouche and Delport 2005:124).
- To ensure that nobody else has already done essentially the same research (Fouche and Delport 2005:124).

Literature relating to the formulation of school financial policy will be reviewed in an effort to ascertain what constitutes an effective financial policy, the design thereof and levels of management accountability in the design, implementation and daily control of that policy.

As school financial policy stems from the overall education policy it will be necessary to examine general education policy developments leading to the determination of a sound school financial policy. In order to ensure completeness, the examination of the education policy will be preceded by a theoretical analysis of policy *per se*.

In addition, literature relating to the financial functions and accountability of the SGB and school principal will be reviewed, together with literature relative to school financial policy, procedures and internal controls supporting that policy. Extensive examination of applicable regulating acts and school policy/provincial policy pro-formas will have to be undertaken. Furthermore, an extensive review of applicable financial accounting and auditing literature will have to be conducted.

1.4.2 Qualitative research

In this research multiple methods will be employed to ensure validity and reliability. Thus, the literature study will lay the foundation for the empirical study which will employ a qualitative methodology. By qualitative methodology, we mean approaches that enable researchers to learn at first hand, about the social world they are investigating by means of involvement and participation in that world through a focus upon what individual actors say

and do (Hitchcock and Hughes 1995:12). Hitchcock and Hughes (1995:12) further state that, in terms of school-based research, the qualitative approach requires that close attention be paid to what ordinarily and routinely happens in schools and classrooms. (For a comprehensive exposition of the qualitative research design, refer to chapter 4).

As the aim of this research is to examine the efficacy of school financial policies and to establish whether sound internal financial controls are being effected in the management of school finances, this will necessitate the examination of financial policy documents and internal control standards. The examination of documents and procedures will be supported by interviews with relevant personnel involved with school financial management. The research thus lends itself to utilising an interpretive/constructivist paradigm, such as the stated qualitative research. However, in order to obtain more comprehensive and dependable results it is contended that the research will be strengthened by supplementing the interviews with a document study.

Findings and recommendations emanating from the research will be presented in chapters five and six respectively.

1.5 DEMARCATION OF THE RESEARCH AREA

The research will be conducted at five section 21 schools in the Motheo education district in the Free State province. The schools were selected based on their status as previously disadvantaged schools and further based on findings of the literature study that many previously disadvantaged schools were still experiencing difficulties in managing school finances. Qualitative interviews will be conducted with principals, SGB chairpersons, chairpersons/treasurers of the financial management committee, school financial officers and other staff delegated to perform financial/internal control tasks. Thus, this research falls within the ambit of Education Management.

1.6 RESEARCH OUTLAY

This chapter provides an introduction and background to the research, the problem statement, aims of the research, research design, methodology, demarcation of the research area and research outlay.

The rest of the research study will evolve as follows:

Chapter Two will consist of an extensive literature review relating to the research objective encompassing literature relating to policy and education/school policy.

Chapter Three will be a continuation of the literature review concentrating specifically on school financial policy, school financial management, the financial functions and accountability of the SGB and school principal, together with literature relative to the procedures and internal controls supporting the school financial policy. Further reviews of accepted accounting and financial practices will be conducted together with an exhaustive review of National and Provincial legislation/regulations relating to the funding, financial responsibilities of the School Governing Body and school management team, and control of school finance in section 21 schools.

Chapter Four will discuss the qualitative research design, including an exposition as to how this study will ensure reliability and validity in the employment of qualitative techniques.

Chapter Five will deal with the comparative analysis of data collected through a process of identifying, coding and categorising recurring themes or patterns in the data, followed by the presentation of the findings of the research.

Chapter Six will present a summary of the study, recommendations, areas for further research and a conclusion.

1.7 CONCLUSION

This chapter has provided an orientation to the study by defining the problems to be researched, the aims of the research, the research design and methodology and the outlay of the research study. Chapter two will be devoted to the first part of the literature review concentrating on a theoretical overview of what constitutes "policy" and educational policy.

CHAPTER TWO

LITERATURE REVIEW: POLICY AND EDUCATION POLICY

2.1 INTRODUCTION

The first chapter of this research highlights the need for an effective school financial policy and the importance of sound internal financial controls in schools in their quest for quality education and school improvement. In this chapter a review of literature related to this study will be conducted so that a base can be found to support the research and, thus, to place the research in perspective. Fouché and Delport (2005:123) state that a review of literature is aimed at contributing towards a clearer understanding of the nature and meaning of the problem that has been identified, which forms the objective and motivation for conducting a literature review in this study as one of the research methodologies.

2.2 POLICY

2.2.1 A theoretical framework

It is not the intention of this study to provide a detailed discourse on scientific policy analysis as the object of research is the level of financial management and efficacy of financial controls at designated schools. As school financial management stems from a sound school financial policy under the umbrella of the overall education policy it is, however, necessary to define policy and establish a framework within which the school financial policy operates.

Hawkins (1988:624) defines "policy" as the course or general plan of action adopted by a government, party, or person. This definition is supported by Hanks (1983:1133) which defines policy as a plan of action adopted or pursued by an individual, government, party or business, or public or other institution.

These broad definitions encapsulate the procedure that will be followed during the literature reviews in this chapter and chapter three:

- An analysis of policy as the course or general plan of action: emphasis will be on public policy.
- An analysis of the formulation of the country's education policy, which is formulated at governmental level and which also makes recommendations relating to a school financial policy.
- The design and implementation of a sound school financial policy by the SGB.
- An analysis of the required internal financial controls that should be defined in the school financial policy to be implemented by the responsible parties.

A more detailed definition of policy is provided by Harman (in Taylor, Rizvi, Lingard and Henry, 1997: 23-24) who defines policy as the implicit or explicit specification of courses of purposive action being followed or to be followed in dealing with a recognised problem or matter of concern, and directed towards the accomplishment of some intended or desired set of goals. Policy can also be thought of as a position or stance developed in response to a problem or issue of conflict, and directed towards a particular objective (Harman in Taylor *et al.* 1997:24). However, in criticism of this definition in relation to how policy works in practice, Taylor *et al.* (1997:24) contend that this definition reflects a positivistic approach and does not recognise the notion of policy as a process which reflects the political nature of policy as a compromise which is struggled over at all stages by competing interests. Taylor *et al.* (1997:24) stress further that policy is much more than a specific document or text: rather policy is both process and product. Debates rage in sociology as to whose values are allocated in this policy process and whose interests these values represent, resulting in the identification of various policy approaches such as the pluralistic approach, the elitist approach, and the neo-Marxist approach.

The *pluralistic approach* recognises the acceptance of a dispersal of values and power throughout society and argues that governments attempt to please as many interest groups in the policy approach as possible, whereas the *elitist approach* sees governments as acting in relation to the values and interests of dominant groups (Taylor *et al.* 1997: 27).

In the *Neo-Marxist approach* it is argued that those who "control" the economy have more political influence than others (Taylor *et al.* 1997: 27). Macro policy determination in South Africa would appear to be a combination of both the pluralistic and elitist approaches. On the one side is the government's stated commitment to a democratic, free society where all are deemed equal and afforded equal opportunities (pluralistic), while on the other side the ruling party has to contend with demands of dominant groups such as powerful trade unions and other alliances, such as the South African Communist Party and the ANC youth league, etc. (elitist).

Recent approaches to policy draw on post-structuralism and particularly on Michel Foucault's theory of relationship between power and knowledge in which discourse is a key concept. From this perspective policy making is seen as an arena of struggle over meaning or as "the politics of discourse" (Yeatman, as cited in Taylor *et al.* 1997:27). The emphasis is on policy process and policy is seen as a "struggle between contenders of competing objectives where language - or more specifically discourse- is used tactically" (Fulcher in Taylor *et al.* 1997:28). Codd (in Taylor *et al.* 1997: 28) argues that, fundamentally policy is about the exercise of political power and the language that is used to legitimate that process. He elaborates that policy documents can be said to constitute the official discourse of the state. Thus, policies produced by and for the state are obvious instances in which language serves a political purpose, constructing particular meanings and signs that work to mask social conflict and foster commitment to the notion of universal public interest. In this way, he continues, policy documents produce real social effects through the production and maintenance of consent (Codd in Taylor *et al.* 1997:28).

Ball (in Taylor *et al.* 1997:28) makes a distinction between policy as text and policy as discourse. Within a literary approach he sees policy as text as allowing for agency in the policy cycle, with the readers of policy being able to interpret text in a variety of ways. In contrast, drawing on Foucault's approach to discourse analysis, Ball sees policy as discourse, as a way of indicating the significance of power relations in framing interpretations of policy texts. It is, therefore, necessary to again stress that policy is more than simply the policy text: it also involves processes prior to the articulation of the text and the processes which continue after the text has been produced, both in modifications to it as a statement of values and desired action, and in actual practice (Taylor *et al.* 1997: 28).

The emphasis here is on public policy, meaning government generated policies which are developed and implemented through state bureaucracies, and which is reflected in one of the simplest definitions of policy as "whatever governments choose to do, or not to do" (Dye in Taylor *et al.* 1997:22). Public policy thus refers to all areas of government policy initiatives including, *inter alia*, education. Other definitions of public policies by academic authorities include Ranney (1968:7), who defines policy as a declaration and implementation of intent, whereas Hanekom (1987:7) states that a policy statement is the making known, the formal articulation, the declaration of intent or the publication of a goal to be pursued. Hanekom (1987:7) further contends that policy is thus indicative of a goal, a specific purpose, a programme of action that has been decided upon. Public policy is therefore a formally articulated goal the legislator intends pursuing with society or with a societal group.

According to Olsen and Codd (2004:60), policy documents are interpreted as the expression of political purpose, that is, as statements of the courses of action that policy-makers and administrators intend to follow. Thus, policy statements or documents relate educational intentions in the form of values and goals, to factual information resulting from research. These statements must then be interpreted by those who would either discuss or implement the policy (Olsen and Cod, *supra*).

Bates and Eldredge (1980:12) define policy from another perspective as “a statement that provides a guide for decision-making by members of the organisation charged with the responsibility of operating the organisation as a system”. In this respect, Van Deventer (2005a:92) makes the important observation that as policy guides decision making, it follows that some discretion must be granted to those who will implement the policy, failing which the policy would simply have been formulated as rules.

An analysis of the above definitions implies that public policy:

- Is an instrument of Government, taking public and societal needs into account and providing appropriate action to alleviate, ameliorate and uplift the standard of living of its citizens.
- Should be communicated in writing.
- Is implemented by either government or its agents.
- Should determine clear steps and processes for its implementation.
- Serves as a guide to promote efficiency and effectiveness in governance.

Traditional public policy literature makes a distinction between *rational* and *incremental* approaches to policy and policy development. In the rational approach a set of prescriptive stages is outlined for the development of policy, whereas incrementalists argue that policy development works over time by building on currently existing policies and practices. The latter argue that even with a change of government, policy usually defines itself in relation to what went before.

Further distinction is made between *substantive* and *procedural* policies. Substantive policies deal with what governments are intending to do whereas procedural policies deal with how things are to be done and by whom. In taking this into account and from an analysis of the definitions above it is apparent, therefore, that public policy has two dimensions: a *political* dimension requiring the involvement of government and an *administrative*

dimension, being actions undertaken by administrative government institutions in order to reach the objectives as visualised and prescribed while keeping within the boundaries of national resources (Coetzee 2006:8).

2.2.2 Public policy formulation

From a technician point of view the following are the generally agreed stages of policy formulation (Theodoulou 1995: 86-87):

- Problem recognition and issue identification. This stage draws the attention of policy makers to a circumstance that could be an issue requiring governmental action.
- Agenda setting: if the issue is recognised to be a serious matter it requires agenda setting for further action.
- Policy formulation: proposals are formulated for dealing with each issue.
- Policy adoption: proposals are considered to select one to be the approved policy.
- Policy implementation: at this stage it must be decided what action should be taken by every sphere of government and even members of the public can be involved to give effect to the approved policy.
- Policy analysis and evaluation: this involves examining the implementation consequences of every policy to establish whether it will deliver envisaged results.

Although the above stages are a useful guide to “compartmentalise” policy formulation, it does give the erroneous impression that there is general agreement when policies are generated and that they are implemented in a straightforward and unproblematic way. It is apparent from the theoretical discussion above that policy formulation in practice is complex, being an ongoing and dynamic process involving the production of the text which culminates from compromise and struggle over all stages by competing interests, the text itself, ongoing modifications to the text and processes of

implementation in practice (Taylor *et al.* 1997:25). Taylor *et al.* (1997:25) state further that contestation is involved right from the moment of the appearance of an issue on the policy agenda, through the initiation of action to the inevitable trade offs involved in formulation and implementation.

However, the above technical design of policy formulation and implementation will provide a basis for the detailed discussion hereunder regarding formulation, implementation and review of the school financial policy.

Thus, in summary of the above we can ascertain that (Taylor *et al.* 1997:15-17):

- Policy is more than text.
- Policy is multi-dimensional.
- Policy is value laden.
- Policies exist in context.
- Policy making is a state activity (when referring to public policy).
- Education policies interact with policies in other fields.
- Policy implementation is never straightforward.
- Policy results in unintended as well as intended consequences.

The discussion of the theoretical policy framework will now be followed by an outlay of education policy in South Africa. The discussion hereunder will concentrate on post -1994 education policy.

2.3 EDUCATION POLICY IN SOUTH AFRICA

2.3.1 Introduction

Education policy in South Africa falls within the ambit of public policy, meaning that it is government generated and which is developed and implemented through the state bureaucracy. Hartshorne (1999:5) defines education policy as a course of action adopted by government, through legislation, ordinances,

and regulations, and pursued through administration and control, finance and inspection, with the general assumption that it should be beneficial to the country and its citizens. Education policy is thus formulated according to a "top-down" approach whereby policy is formulated at the central department of education and then disseminated and distributed down through the system to provincial governments and schools.

McLaughlin in Waghid (2003:1), states that education policy can be considered as a set of political decisions which have been taken by those who exercise power (policy makers, teacher unions and community organisations) through a prescription of actions aimed at changing educational institutions or practices. From this explanation of education policy, at least three main aspects are identified by Waghid (2003:1):

- Policy is formulated by those who exercise power.
- Policy is a set of justifiable prescribed actions.
- Policy is a coherent framework for implementation in education systems aimed at bringing about change.

One must, however, question whether policy is a set of "justifiable" prescribed actions. The policy may well be justifiable through the eyes of the policy makers, but not necessarily justifiable in the eyes of the users or public. The word *justify* can also signify *just* or *reasonable* (Hawkins 1998:441). The education policy makers prior to 1994 may well have viewed their policies as justifiable, but they were certainly not just or reasonable.

Since the elections of 1994, education policy makers in this country, in their quest to move away from the segregationist, racially divided education past, have consulted with researchers, academics, educationalists, teacher union organisations and community groups in the making of education policy. In eliminating an education system based on years of racial inequality and segregation and which consisted of no less than nineteen education departments segregated by race, geography and ideology (National

Department of Education: Revised National Curriculum Statement 2002:4) it was necessary for the new democratically elected government to adopt, *inter alia*, a rational approach to education policy making in order to wipe the "apartheid education system" slate clean and formulate one inclusive education policy "based on the constitutional requirements of equity, democratic values, social justice and fundamental human rights" (RSA 1996c: Preamble).

An incremental approach to education policy reform would have been entirely unjustifiable due to the major educational reform that was necessary to scrap previous education policies and formulate an equitable education policy that provided for equal education opportunities for all. The extent of educational reform that the first democratic government of South Africa deemed to be necessary is aptly summed up by Manganyi (2001:28) when he states that the intention of reform was "to *uproot* old practices, beliefs, values about social order and to *replace* them with new ways of conducting business" (My italics).

The nature of education transformation that was required in South Africa is further adequately summed up by Carrim (in Waghid 2003:60) stating that "the system of apartheid seriously affected the nature of education provision and order in South Africa. It ensured that South Africans were schooled in segregated environments. This meant that every level of schooling was cast in a racial mode; educational budget provisions, the structure of educational bureaucracies, the composition of staff and pupils in schools (and universities), the kind of curriculum followed, and the ethos prevailing in schools. Transforming education in South Africa, therefore, entails erecting changes on all of these levels. This requires no less than an overhaul of the past educational order, a redefinition of the culture prevalent in schools throughout the country and a shift in mentality, from being racist, undemocratic and authoritarian to being non-racial, democratic and enabling".

In 1995, the ANC-led government issued their first official policy document on education, namely, the White Paper on Education and Training, which set out policy directions, values and principles for the education system in

accordance with the proposed Constitution (Mothata 2002:6). A second White Paper entitled *Organisation, Governance and Funding of Schools* followed in 1996 in which considerations like parental rights, public and independent schools, the governance policy of public schools, roles and responsibilities of public school governing bodies etc. are included. This education White Paper 2 formed the basis of the South African Schools Act 84 of 1996. With the publication of the Constitution of the Republic (RSA 1996c), formulation of education policy and its implementation after 1994 has been influenced by the constitutional provisions as enshrined in the Bill of Rights (RSA 1996c: Chapter 2), which affirms the democratic values of human dignity, equality and freedom. Section 29(1) of the Bill of Rights affirms everyone's right to a basic education and access to further education. The Constitution does not only embody the powers and the responsibility of the state with regard to the provision of compulsory education, but it guarantees and protects the right to education for all individuals without distinction (Le Roux 2000:238).

According to Hartshorne (1995:14-15) education policy must be assessed against the need for an education system which will be compatible with the objectives of a democratic, non-racial, equitable and open society. He suggests, further, that assessment of education policy should be based on certain criteria: "does existing education policy, and will that of the future, bring about an education system which:

- Operates democratically in relation to the participation, involvement and "say" of the people it serves.
- Prepares children and youth for participation in a democratic society and gives them the ability to earn a living.
- Encourages individual freedom but also individual responsibility and accountability to the community and to the wider society.
- Contributes to the achievement of equality by eliminating as many inequalities in education and provision and quality as possible.

- Reflects an intention to achieve unity and reconciliation by providing common school and curricula for all South African children and youth?"

In applying the above criteria to the development and determination of education policy in South Africa since 1994, it is apparent that the Government has generally followed the above criteria in formulating education policy, albeit that educators' involvement in development of education policy *per se* is minimal.

2.3.2 Education policy and related legislation since 1994

Before conducting a detailed analysis of school financial policy it is necessary to briefly examine the applicable Acts and other legislation relevant to education policy passed since 1994. As school financial policy has its roots in the overall education policy and education system, this examination is necessary in order to place school financial policy development and analysis in perspective.

As stated above, section 29 (1) of the Bill of Rights stipulates as follows:

- 29 (1) Everyone has the right –
- (a) to a basic education, including adult basic education; and
 - (b) to further education, which the state, through reasonable measures, must make progressively available and accessible.
- (2) Everyone has the right to receive education in the official language or languages of their choice in public educational institutions where that education is reasonably practicable.

Section 9(2) of the Bill of Rights states that, in order to promote the achievement of equality, legislative and other measures designed to protect or advance persons, or categories of persons, disadvantaged by unfair discrimination may be taken. It should be noted also that Section 104 (1) (b) of the Constitution Act (RSA 1996c) confers power on the provincial

legislature to pass legislation for its province with regard to any matter within a functional area listed in Schedule 4 of the Act, which schedule includes education at all levels, excluding tertiary education. In further elaboration of provincial legislative authority the aforesaid Act stipulates, in Section 104 (4), that provincial legislation with regard to a matter that is reasonably necessary for, or incidental to, the effective exercise of power concerning any matter listed in Schedule 4, is for all purposes legislation with regard to a matter listed in Schedule 4.

Although this latter provision gives the provincial legislature concurrent powers to pass legislation in matters of education at all levels (excluding tertiary education), broad education policy is determined at national level while the provincial departments are responsible for the implementation of that policy. The national Parliament is, thus, the dominant legislature in respect of educational matters.

Education in South Africa has, thus, undergone major restructuring since 1994 with a number of education policy documents having been promulgated since then, which have had a profound impact on education policy and the education system in South Africa. These include:

- White Papers 1, 2 and 3 of 1995, 1996 and 1997
- Labour Relations Act 66 of 1995
- South African School's Act 84 of 1996
- Language in Education Policy document (1996)
- The National Education Policy Act 27 of 1996
- Higher Education Act 101 of 1997
- The South African Qualifications Authority Act (SAQA) 58 of 1997
- Education Laws Amendment Act 100 of 1997; 48 of 1999; 53 of 2000; 57 of 2001; 50 of 2002; 1 of 2004; 24 of 2005; 31 of 2007.
- Employment of Educators Act 76 of 1998
- The Further Education and Training Act 98 of 1998
- National Norms and Standards for School Funding

- Curriculum 2005 Review (2000)
- The South African Council of Educators Act 21 of 2000
- The National Curriculum Statement – Grades R-9 (2002)
- The Revised National Curriculum Statement

A synopsis of selected education policy legislation follows (unless otherwise indicated, the synopsis is a combination of own words, specific legislative wording and synoptic summary by Mothatha (2002:8-12)):

National Education Policy Act 27 of 1996

Section 3 (1) is of particular relevance, stating that the Minister (of Education) "shall determine national education policy in accordance with the provisions of the Constitution and this Act". Section 3 (4) of this Act further states that the Minister "shall determine national policy for the planning, provision, financing, co-ordination, management, governance, programmes, monitoring, evaluation and well-being of the education system..." By virtue of Section 5 and 11 a consultative approach is envisaged for the formulation of education policy. Section 5 (1) states that policy shall be determined by the Minister after consultation with appropriate consultative bodies as follows:

- (a) The Council.
- (b) National organisations representing principals of institutions providing further education and training.
- (c) The trade unions represented in the Education Labour Relations Council (hereinafter referred to as the ELRC).
- (d) National organisations representing governing bodies of schools as the Minister may recognise for this purpose.
- (e) National organisations representing students as the Minister may recognise for this purpose.
- (f) Such other national stakeholders as the Minister may recognize for this purpose.

The Council (of Education Ministers) was established in terms of Section 9 and consists of:

- (a) The Minister, who is the chairperson.
- (b) The deputy Minister of Education.
- (c) Every provincial political head of education (i.e. the nine Members of the Executive Council for Education).

The functions of the Council are, *inter alia*, determined to be the promotion of "a national education policy which takes full account of the policies of the government, the principles contained in section 4, the education interests and needs of the provinces..."

Section 11 makes provision for the establishment of the National Education and Training Council "to advise on broad policy and strategy for the development of the national education system..."

South African Schools Act 84 of 1996

The South African Schools Act (RSA 1996b) aims to:

- Provide a uniform system for the organisation, governance and funding of schools.
- Establish minimum and uniform norms and standards for the provision of education at schools.
- Ensure the provision of quality education across the school system.
- Amend or repeal certain laws relating to school.

The contents of the Act include stipulations regarding:

- Admission to public schools.
- Ages for compulsory attendance.
- Discipline

- Language policy in schools.
- Freedom of conscience and religion in public schools.
- Guidelines are provided for:
 - the establishment and maintenance of public schools
 - the status of public schools
 - the composition, powers and duties of school governing bodies
 - the closure of public schools
 - funding of public schools
 - payment of school fees
 - establishment and registration of, and subsidies for, independent schools.

By delegating governance of a school to a School Governing Body, this Act plays an important role in encouraging the principle of partnership and mutual responsibility for education and represents a significant decentralisation of power in the school system, thus giving the school a significant amount of authority and responsibility to make decisions related to the allocation of resources within a centrally determined framework of goals, policies, standards and accountabilities (Caldwell and Spinks 1998: 4-5). Resources are defined broadly to include knowledge, technology, power, time, assessment, information and finance (Caldwell and Spinks 1988:5). Prinsloo (2006:356) states that, "with the institution of school governing bodies, the Act has aimed to give effect to the principle of democratisation of schooling by affording meaningful power over their schools to the school-level stakeholders".

An important determination is made in Section 15 of the Schools Act regarding the legal capacity of the school. In terms of this section any public school is deemed to be a juristic person to whom the law confers legal personality to the school thus giving the school the legal capacity as the bearer of rights and duties. The school therefore acquires rights and duties in its own name as if it were a natural person with legal capacity to contract, open a bank account in the name of the school, etc. However, it must be

noted that the school can only perform this juristic capacity through its school governing body, that is, the governing body acts on behalf of the school.

The Schools Act is of utmost importance in later discussions regarding school financial policy, the role of the School Governing Body (SGB) in financial policy determination and general school financial management.

Education Laws Amendment Act of 1997

This act amended the Schools Act of 1996, in that it made provision for public schools to appoint educators as well as non-educator staff in addition to those employed and paid for by the state. The appointment of such staff would be the responsibility of the SGB and would be paid for from school funds raised by parents.

Curriculum 2005 Review (2000)

This represented the most significant curriculum reform in South African education of the last century. This curriculum model incorporates three distinctive features (Waghid: 2003:8):

- A philosophy of learner-centred education policy.
- An integrated and non-disciplinary division of knowledge.
- An outcomes- based education policy.

The above is merely a selection of selected relevant legislation providing a precursor to an analysis of school and school financial policy determination in order to ensure a chronological order and linkage of the policy process from policy, education policy, school policy to financial policy.

In conclusion to this section, it could be contended that, while major education reform was necessary to right the wrongs and injustices of the past, the authorities in their enthusiasm to eradicate the old education order and

expunge apartheid legislation may have "over-legislated". The plethora of education-related legislation in the last ten years could have led to misinterpretation, confusion and misunderstanding in the application and implementation of such at micro level. Furthermore, control and review of this vast body of implemented legislative policies could be difficult. The matter of control and follow up, or lack thereof, will be discussed in detail during the later review of financial policy hereunder.

2.4 SCHOOL POLICY

2.4.1 Introduction

As the financial policy of a school is a "sub-policy" of the overall school policy it is necessary to examine certain aspects of the school policy in order to place the study of school financial policy in perspective.

In the following discussion of school policy, cognisance must be taken of the theoretical overview of "policy" as expounded above which determines policy as process, text, contestation, compromise, etc., and which is no less applicable to the determination, formulation, implementation and evaluation of school policy. However, in discussing school policy formulation, implementation and control, a technician approach to policy will be adopted in this section as it is more suited to the micro educational environment of the school.

Planning and setting outcomes for a school include the drawing up of a school policy for the different management areas, such as:

- Learners: both curricular and extra-curricular.
- Staff.
- Financial.
- Administrative.
- Community affairs

- Physical facilities.

Van Deventer (2005a:91) states that, in the school situation, a policy usually means some general plan of action that is designed to achieve a particular aim of the school. It may contain guidelines as to how persons should exercise their powers and make decisions. A policy also reflects the values that will be taken into account in making decisions. She concludes that a school policy, therefore, serves as a guide for making management, functional and administrative decisions, and it reflects the school's value system.

2.4.2 Mission statement

However, preceding the formulation of the school policy it is incumbent upon the SGB by virtue of the Schools Act (RSA 1996b.s 20(1)(c)), to formulate a mission statement for the school, reflecting, inter alia, the vision, values and core beliefs of the school.

Van Deventer (2005a:82) suggests that the mission statement should indicate what the school management team wants to achieve in the long term in order to achieve a successful culture of learning and teaching. As the objectives of all mission statements and concomitant school policies should be the achievement of quality education, I suggest that Van Deventer's statement, while being correct, could be enhanced by referring to a successful culture of *quality* learning and teaching. Bisschoff (1997:65), however, acknowledges this important aspect in stating that the mission of a school should be towards the provision of effective education to all, stating further that the school "should satisfy all national and international standards of academic quality, relevance and excellence".

Van Deventer (2005a:82) adequately suggests that the formulation of a mission statement gives the school management team the opportunity to reflect and to think, in that it serves a starting point, gives direction, is inspiring, interprets the ideals of a school within a specific, long-term framework, and also includes the national vision for all schools. *The mission*

statement is derived from and embedded in the essential purpose of the school.

Joubert and Squelch (2005:33) refer to a mission statement as a comprehensive statement of purpose that permeates everything a school does and can be seen in all the daily activities of a school. They add further that "it succinctly describes the rationale for the school's existence and the aspirations of its people and thus serves as the strategic driving force of all actions and plans developed by the school".

The starting point of school policy is therefore the mission statement of the school. Bisschoff (1997:78) affirms that "in a certain way this statement directs all policies of the school".

Van Deventer (2005a:82) recommends some general guidelines that must be considered when formulating the mission statement:

- The mission statement is necessary for every management area in which achievement and results aim directly and strongly at creating a culture of life-long learning and teaching by means of effective education.
- It is linked to the history of the school, as found in its outcomes, policy and past achievements.
- It serves as the axis or centre for the visualising and planning to be done by the school management team. It also gives guidance, coordinating and controlling for current and future educational activities and outcomes, and it takes into account the current situation and needs in the light of available resources.
- It influences the course of action of all the stakeholders.
- It should involve all stakeholders with applicable knowledge and skills.

Bisschoff (1997:78) advises that, before a mission statement of the school can be formulated, consideration should be given to the following:

- Philosophy of education
 - How does the community view school education?
 - What type(s) of education should the school provide?
- Principles: all education systems in the world are based on certain principles acceptable to the country. In most cases these principles are universal in character. A principle is a basic truth or general law or doctrine that is used as a basis of reasoning or a guide to action or behaviour. Important sources for the principles of education in South Africa are the Constitution (RSA 1996c) and the Schools Act (RSA 1996b). The Constitution is emphatic in its mandate regarding the right to basic education, the right to equality in education, and the right of choice regarding language, religion and cultural education.
- The needs of society: the school can only remain relevant if it is sensitive to the needs of society.
- Learner-centredness.
- Quality assurance: in its mission statement the school should be clear on the manner in which staff development, action research and community service will increase the quality of education at the school.

While the above considerations of Bisschoff are supported by me, it is contended that he errs in stating that education systems are based on principles "acceptable to that country". This has a connotation that such principles are generally acceptable to all citizens which is not necessarily the case; one just has to examine education systems that are imposed by communistic and other regimes, sometimes against the will of the people. The principle of racially segregated education in South Africa prior to 1994 was certainly not acceptable to the majority of its citizens. Bisschoff would have been more correct to state that education systems are based on principles acceptable to the *government* implementing such systems and policies. One would hope that education principles legislated by governments are in line with principles of equity and equality in education but the realism is that this is not necessarily the case in all countries.

Furthermore, in failing to mention the National Education Policy Act (RSA 1996a) as an important source for education principles in South Africa, Bisschoff understates this act's importance, especially when section 4 of the Act is examined where fundamental rights that should be accorded to "every person" are stipulated. These include rights, *inter alia*, to protection against unfair discrimination within or by an education department/institution, right to basic education and equal access to educational institutions, the right to be instructed in the language of choice (where applicable), the right to freedom of religion, etc., all of which should be addressed in the school's mission statement and policy.

From the mission statement flows a school policy for the different management areas, including financial management. The school policy should set out the mission statement of the school in operational terms.

2.4.3 School policy making

2.4.3.1 Responsibility for school policy

In policy making one must first determine if the required policy is related to the professional functions (teaching and learning) of the school or governance of the school. The Schools Act stipulates that the SGB is required to make policy on issues related to the *governance* of the school which include the admission policy, the language policy, rules about religious observances, a code of conduct for learners (which includes the school rules and disciplinary policy implemented by the school) and the rights and responsibilities of stakeholders. The professional management team of a school (principal, deputy principal, heads of department and senior educators at the school), on the other hand, is responsible for drafting the school policy that regulates the *professional obligations* of the school such as day-to-day administration and organising of teaching and learning in the school, assessment, intra-mural curriculum, deciding which textbooks and educational equipment to buy, and determining the time-table (Van Deventer 2005a: 91).

2.4.3.2 Guidelines for policy making

Van Deventer (2005a:92) recommends that the following general guidelines should be borne in mind when formulating and drawing up school policy:

- The Constitution as the supreme law of the country, national and provincial legislation, departmental rules and regulations, and the values of the community.
- Care must be taken in deciding on and drafting policy as the policy may have long-term consequences. An incorrect policy may cause further problems rather than solving a specific problem.
- Policy should be initially drawn up by a small committee which has consulted all the relevant stakeholders. The policy must then be submitted to the stakeholder for discussion and approval, rejection, or changes.
- Every policy document must be drafted in precise and clear language, and not be too long. Remember that a policy is a general plan of action.

Policy making is a set of activities performed to create a policy following from the identification of a particular problem or need necessitating the formulation of a policy for control and management of that problem or need. The following are suggested steps in drawing up and administering policy (adapted from Van Deventer 2005a:92):

Step 1: Formulating policy: Start by determining what the end result should be by asking:

- What is the outcome of the policy?
- Why was it necessary?
- What will it accomplish?
- Who will it benefit?

Collect all information needed regarding the management area for which you are drawing up the policy. Involve as many educators and other staff as possible in this process in order that they feel empowered in contributing to the policy formulation and thus "buy-in" to the policy being formulated. Adoption of this approach will reap benefits during the implementation phase as personnel will have a sense of ownership regarding the policy and adoption of the policy during the implementation phase will be more positive. Develop a tentative outline, discuss and assess alternative courses of actions, ask who will be affected by this policy, who is finally accountable for the end result, what the effect will be on the school and on the community and cost implications. Policy formulation refers to the process being followed which culminates in stating a policy.

Step 2: Approving the policy: Review the draft policy for accuracy, brevity and completeness. Ascertain who should clear it before taking further action, and find out what level of authority is required for the final recommendation.

Step 3: Releasing and interpreting policy: Time the release and manner of the release, and ensure that each educator receives a copy of the approved document. Determine the ground rules for day-to-day administering of the policy and who will administer deviations from the policy.

Step 4: Putting the policy into effect/implementation: The implementation phase involves the translation of decisions into actions. Ensure responsibility, authority and accountability for putting the policy into effect, and clarify administrative controls: determine who is accountable for controls that are defined in the policy. The implementation phase is crucial; literature on policy implementation abounds with reference to a "policy gap", being the distance or "gap" between policy intentions and policy outcomes. According to Motala and Pampallis (2001:5), the weakness of the educational system lies in the manner in which policies are implemented. Many sound policies have failed due to poor policy implementation brought about by, *inter alia*, lack of proper planning, deficiencies in the policy review process, incompetence, ignorance, scarcity of trained personnel and, with particular reference to implementation

of financial policy, lack of financial knowledge. Implementation of policy will be discussed in more detail below in the analysis of school financial policy.

Step 5: Keeping policy current/policy evaluation: Policy evaluation is a process of actions to determine the value or effectiveness of a policy. Review, evaluate and report on the implementation and working of the policy. Is there any reluctance or resistance, where and why? Is the policy achieving the desired result? This could lead to remedial action, such as policy modification or termination.

Although certain steps to policy making are defined above it is important to reiterate that policy making is a complex, ongoing and dynamic process. At any stage in the above cycle the policy can be re-assessed, corrected or even scrapped.

2.5 CONCLUSION

This chapter has, thus, been devoted to a literature review on policy in general and education policy as necessary precursors to a detailed discussion of school financial policy which follows in chapter three.

CHAPTER THREE

LITERATURE REVIEW: SCHOOL FINANCIAL POLICY

3.1 INTRODUCTION

In the preceding chapter the emphasis of the literature review was on policy and education/school policy, all of which are important and necessary precursors leading to a detailed examination and review of school financial policy and concomitant school financial management and control. This chapter will, thus, be devoted exclusively to the formulation of school financial policy, the makers of such policy, the management and control of school financial policy and related issues. As school financial policy and responsibility thereof is primarily determined through applicable legislation it will be necessary to conduct an exhaustive review of such legislation.

However, prior to a detailed exposition of school financial policy it is necessary to summarise certain aspects covered in the discourse on policy above, which are no less applicable to the formulation of school financial policy. School policies should reflect the ethos and values of the school and should also address the unique contextual challenges faced by each individual school. Thus, although policies should be unique to a school, they must be formulated in accordance with the Constitution, the law (including legislative law) and education department policy. Every policy will, therefore have certain compulsory or necessary content. Refer also to the steps in policy making as listed above (cf. subsection 2.4.3.2). It is essential that the drafting of a policy be a participatory process with input from all stakeholders in order to ensure that, at the end of the process, the school community at large must "own" the policy document and contents.

A common feature in the implementation of the reformed education policy is the devolution of decision-making authority over the management of resources to schools. This includes devolution of state-allocated budgets and delegation of financial management responsibilities to school-based financial

management structures (Marishane and Botha 2004:95). According to Marishane and Botha (2004:96), giving decision-making authority over the management of resources to school-based management will enable them to match resources to the goals they set.

3.2. SCHOOL FINANCIAL POLICY DEFINED

Bisschoff (1997:78) confirms that the starting point of the financial policy lies with the mission statement of the school and notes that a financial school policy is a document that may change over time. He further refers to financial policy as a written statement concerning the manner in which funds will be generated and spent at a specific school (Bisschoff 1997:155). Niemann (2005: 377), on the other hand, defines school financial policy with reference to the budget stating that the budget is a manifestation of educational aims and objectives in financial terms and is, in essence, the financial policy of the school. It is contended that references to the budget as reflecting the financial policy of the school should be avoided as the formulation of an efficacious financial policy is far more than budget preparation and budgetary control. The budget, however, is an indispensable financial planning and control document representing a vital *facet* of school financial policy and provision for a "budget policy" within the overall school financial policy is essential.

The aforesaid definitions are rather broad and do not adequately define the purpose of a school's financial policy, which is to ensure that standardised procedures for sound financial management are applied to all financial matters of the school by the adoption of generally accepted accounting practices (GAAP). The policy must be supported by sound internal controls, including an effective and ongoing internal auditing policy.

3.3 LEGISLATION: SCHOOL FUNDING AND CONTROL

As stated above, the Schools Act (RSA 1996b) requires the SGB to develop a mission statement and an accompanying series of compulsory school policy documents:

- An SGB constitution (section 18 and 20 (b)).
- A code of conduct for learners (section 8 and 20 (d)).
- A language policy (section 6(2)).
- A religious policy (section 7).
- An admissions policy, as legislated in the *National Education Policy Act* (RSA 1996a).

In addition to these it is widely recommended that schools develop several additional policies, including:

- A safety and security policy.
- An HIV/AIDS policy.
- A financial policy: Chapter 4 of the Schools Act (RSA 1996b) ascribes financial obligations and responsibilities to the SGB, and in order to adhere to both the legislated financial responsibilities and to sound accounting conventions and financial controls at schools, a detailed school financial policy is vital.

Thus, preceding discussions and recommendations as to what constitutes a sound school financial policy and the formulation thereof, it is necessary to conduct an exhaustive review of legislation relating to school funding, control thereof and the responsibilities of parties/bodies involved in the control of school finances. The review will examine relative legislation passed since 1994, with specific reference to financial matters.

National Education Policy Act 27 of 1996 (RSA 1996a)

Section 3 of this act headed "Determination of national education policy by Minister", stipulates that:

3 (4) Subject to the provisions ...the Minister shall determine national policy for the planning, provision, financing, co-ordination, management, governance, programmes, monitoring, evaluation and well-being of the education system andmay determine national policy for-

- (c) facilities, finance and development plans for education, including advice to the Financial and Fiscal Commission;
- (g) the organisation, management, governance, funding, establishment and registration of education institutions.

Section 4 referring to directive principles of national education policy states that national education policy be directed toward, *inter alia*, achieving the cost-effective use of education resources and sustainable implementation of education services (Section 4 (o)).

By virtue of a Government Notice 2432 (RSA 1998c) the *Admission Policy for Ordinary Public Schools* was included in the National Education Policy Act. This policy document stipulates, in section 10 (a), the right of the learner not to be suspended from classes, denied access to cultural, sporting or social activities of the school, denied a school report, or otherwise victimised on the grounds that his or her parent is unable to pay the required school fees. This has implications when drawing up a comprehensive school financial policy which will be discussed hereunder.

Government Notice 82 (RSA 2000) determined *National Norms and Standards for Educators* as National Policy within the National Education Policy Act. In section 3 certain roles and competences of educators are stipulated. In the role as leader, administrator and manager it stipulates, under practical competences, that it is incumbent upon the educator "to maintain efficient financial controls".

South African Schools Act 84 of 1996 (RSA 1996b)

This Act, which came into effect on 01 January 1997, has far reaching consequences regarding the governance, organisation and funding of the school, including the imposition of financial obligations and responsibilities.

Section 5 stipulates that no learner may be refused admission to a public school on the grounds that his or her parent is unable to pay or has not paid

school fees (section 5(3)(a)). This ultimately has an effect on the school's cash flow and budget.

An important provision regarding the status of public schools is determined in section 15, which accords every public school the status of a juristic person with legal capacity to perform its functions in terms of the Act. A juristic person (such as a school) thus acquires rights and obligations in its own name as if it were a natural person. This means that the school may, in theory, enter into a contract with another legal subject, such as a company (e.g. in order to purchase textbooks) but it also assumes all the responsibilities and liabilities attached to such status, for example, it is liable in the case of breach of contract (Davies in Prinsloo 2006:335). However, it is important to note that as a juristic person the school cannot participate in the law in the same manner and to the same extent as a natural person and, in practice, may only perform its functions in terms of this act through its governing body.

Section 16, relating to governance and professional management of the school, states that the governance of every public school is vested in its governing body and it may perform only such functions and obligations and exercise only such rights as prescribed by the Act. The Act states further that a governing body stands in a position of trust towards the school. Thus, school governance means that the SGB has to determine and establish a policy as well as rules by which the school is to be organised and controlled. Regarding the status accorded of a juristic person this means that the governing body acts on behalf of the school and may therefore enter into a contract on behalf of the school, for example it may buy, sell, make investments and bind the school legally. Beckmann and Prinsloo (2009:173) suggest that the power of a SGB refers to its legal capacity to perform its functions and obligations in terms of section 16 of the Schools Act. They state further (2009:173) that the power of a governing is not delegated power but original power, in terms of the Schools Act, to act as the duly appointed agent of a public school.

Section 16 further distinguishes between governance as vested in the SGB and professional management of the school. Section 16 (3) states that the professional management of a public school must be undertaken by the principal under the authority of the Head of Department. Professional management refers to administration and organisation of all school activities that support teaching and learning. These distinctions between "governance" and "professional management" are important for later discourses regarding formulation of school financial policy, responsibility therefore and subsequent accountability for school financial management and control. Davies (in Prinsloo 2006:358) states that although the Schools Act suggests a boundary between "professional management" and "governance", these two issues are, in practice, perhaps more intertwined than is recognised in the Act. This statement is further borne out in terms of section 19(2) where it is determined that it is incumbent upon principals and other officers of the education department to render all necessary assistance to governing bodies in the performance of their functions in terms of this Act. The SGB has, in terms of section 20(1)(e), a concomitant responsibility to support the principal, educators and other staff at the school in the performance of their professional functions and is further exhorted to establish sound relations with all other stakeholders including, inter alia, the Minister of Education, the MEC, Head of Department, parents, learners and school benefactors.

In elaborating the functions of the SGB as defined in the Act the intention in this review is to concentrate only on those functions that have, or may have a financial implication in terms of school financial policy determination, financial control and school financial management.

In stating the functions of the SGB, the Act stipulates that the governing body of a public school must promote the best interests of the school and strive to ensure its development through the provision of quality education for all learners at the school (Section 20(1)(a)). Quality education can only be attained by quality management and sound policies, including a sound school financial policy. Inadequate financial management and controls leading to defalcations and loss of money would not be in the best interests of the

school. In section 20(1)(a) and (b) the SGB is compelled to adopt a constitution and develop the mission statement of the school, out of which flows the school financial policy.

Section 20 (1)(g) states that the governing body must administer and control the school's property, buildings and grounds occupied by the school, including hostels where applicable, all of which can lead to financial implications.

In section 20(1)(h) the SGB is requested to encourage parents, learners, educators and other staff at the school to render voluntary services to the school. As it is incumbent upon the SGB to seek ways to supplement the resources supplied by the state (through fund raising initiatives, etc.), the provision of voluntary services maximises profitability of fund raising events. Obtaining voluntary services eliminates the need to employ and to remunerate other people, thus effecting overall financial "savings". The governing body is empowered to recommend to the Head of Department the appointment of educator and non-educator staff in terms of sections 20(1)(h) and 20(1)(i).

In section 20 (2) of the Act, the governing body is further empowered to allow the reasonable use of the facilities of the school for community, social and school fund-raising purposes, "subject to such reasonable and equitable conditions as the governing body may determine, which may include the charging of a fee or tariff which accrues to the school".

Under the heading "functions of all governing bodies" it is stipulated that the public school may establish posts for educators and non-educators and employ such personnel as additional to the establishment determination, subject to, *inter alia*, the costs being borne by the school. Section 20(9) states that when the SGB presents the annual budget of the school, it must provide sufficient details of any such posts, including the estimated costs relating to the employment of such staff and the manner in which it is proposed that such costs will be met. Section 20(11) makes provision, however, that the Minister may determine norms and standards by notice in the Gazette regarding the funds used for the employment of such staff, "but such norms and standards

may not be interpreted so as to make the State a joint employer of such staff". Section 20 (10) categorically states that the State is not liable for any act or omission by the public school relating to its contractual responsibility in respect of the employment of such staff.

The Schools Act (RSA 1996b) makes provision for school governing bodies to become more responsible for managing aspects of recurrent expenditure, in that a governing body who believes that it has the expertise and skills to perform additional functions other than those described above may apply in writing to the Head of Department for additional functions to be allocated to the SGB. The allocated functions are stipulated in section 21 of the Act and include any of the following functions:

- (a) To maintain and improve the school's property, and buildings and grounds occupied by the school, including school hostels.
- (b) To determine the extra-mural curriculum of the school and the choice of subject options in terms of provincial curriculum policy.
- (c) To purchase textbooks, educational materials or equipment for the school.
- (d) To pay for services to the school.
- (e) To provide an adult basic education and training class or centre subject to any applicable law.
- (f) Other functions consistent with this Act and any applicable provincial law.

The Head of Department may refuse an application for "section 21" status if the governing body is deemed not to have the capacity to perform the functions as stipulated effectively and may approve the application unconditionally or subject to conditions. In section 21(6) of the Schools Act provision is made for the MEC to accord section 21 status to the SGB in respect of one or more of the functions stipulated above without the SGB applying for such status.

By virtue of Section 21(6), the Member of the Executive Council may, by notice in the Provincial Gazette, determine that some governing bodies may exercise one or more of the functions without making an application contemplated in subsection (1), if –

- (a) He or she is satisfied that the governing bodies concerned have the capacity to perform such function effectively.
- (b) There is a reasonable and equitable basis for doing so.

It is important in this discussion to examine the membership structure of the SGB and any restrictions placed thereon as the members will be involved in making financial decisions for the school. It is legislated that membership of the SGB of an ordinary public school consists of elected members, the principal in his or her official capacity and co-opted members (Section 23(1)). Section 23(2) defines the categories of elected members as such:

- (a) Parents of learners at the school;
- (b) Educators at the school
- (c) Members of staff at the school who are not educators; and
- (d) Learners in the eighth grade or higher at the school.

However, note must be taken of the restriction imposed in section 23(3) that a parent who is employed at the school may not represent parents on the governing body. That parent, however, may be a member of the SGB as an elected staff member.

Learner representatives elected to sit in the SGB are elected by a representative council of learners as stipulated in section 11 of the Act. Due to the minority status of learners, limitations are placed on learner representatives in section 32 which states that a member of the governing body who is a minor:

- May not contract on behalf of the school.

- May not vote on resolutions of a governing body which impose liabilities on third parties.
- In order to protect the minor it is stipulated that the member of a SGB who is a minor incurs no liability for any consequences of his or her membership of the governing body.

However, the publication of the Children's Act (RSA 2007) which accords age of majority to persons reaching the age of 18 will have major repercussions regarding the status of learner representatives on the SGB. At the time of publication of the Schools Act the age of majority was 21, which was confirmed in the Age of Majority Act, 1972. The section of the Children's Act confirming 18 to be the new age of majority came into effect as from 01 July 2007, with the result that this stipulation rewrites the law regarding contractual capacity with regard to age. This change in the age of majority means that, from the age of 18, a person may freely enter into a contract and will be bound by it. Learner representatives who have reached the age of 18 regularly sit on the SGB and the question arises as to whether they now may contract on behalf of the school, vote on resolutions imposing liabilities on third parties or incur liability for consequences of their membership in the light of their new majority status. This could have unforeseen onerous financial and other implications for the unwitting 18 year old learner and the SGB/school as the other contracting party can enforce performance of the contract through the courts and/or claim damages for breach of contract. This "grey" area will have to be addressed by the legislature as a matter of urgency before the matter is contested in court. This new age of majority will certainly support learners efforts for emancipation from the restrictions imposed upon their membership of the SGB.

As noted above, provision is made enabling the SGB to co-opt a member or members of the community, including the owner of the property occupied by the school (or his/her representative) to assist it in discharging its functions.

However, it must be noted that such co-opted members do not have voting rights on the governing body (Section 23(8) of the Schools Act, subject to the provisions of section (10)).

An important stipulation is made in section 23(9), whereby it is determined that the number of parent members must comprise one more than the combined total of other members of a SGB who have voting rights. Thus parent members of the SGB must always be in the majority and, if not, the governing body must temporarily co-opt parents with voting rights. Further recognition of parents' involvement with school governance is given in section 29(2) which stipulates that only a parent member of a governing body who is not employed at the public school may serve as the chairperson of the governing body.

Sections 29 and 30 are important clauses in the overall consideration of school financial policy. Section 29(1) states that the SGB must elect office bearers from amongst its members whom must include at least a chairperson, a treasurer and a secretary. Although the duties of the treasurer are not stipulated in the Act, the Free State Department of Education (1998:2-15) has deemed the following function of the treasurer to be:

- One who plays a leading role on the financial committee.
- Records financial statements and reports.
- Keeps records of financial documents.
- Drafts the budget.
- Is responsible for the handling of money, such as receipts, deposits, cash floats, etc.

The above duties of the treasurer as deemed by the Free Sate Department of Education are generally consistent with duties as determined in other provincial education departments. For example the Northern Cape Department of Education (undated: 11) states succinctly that the treasurer is responsible for "all procedures and transactions" regarding the school's

income, expenditure and assets. The Northern Cape Department of Education (undated: 11), however, ascribes additional functions of the treasurer to be:

- Ongoing support and assistance to the finance officer.
- Scrutinising monthly income and expenditure. This is an important inclusion as it ascribes an internal financial control duty upon the treasurer.
- Holding *responsibility* for the payment of the school's accounts.
- Liaising, in collaboration with the finance officer, with the school lawyers, for example, in matters relating to non-payment and legal collection of school fees.

The Eastern Cape Department of Education adds the prescription that the treasurer chairs the finance committee meetings (undated: 31).

The Schools Act (RSA 1996b:s.30) states that the governing body may establish committees and appoint persons who are not members of the SGB to such committees on grounds of expertise, subject to a member of the SGB chairing each committee. Thus, a SGB may establish, *inter alia*, a finance committee to oversee the school's financial policy and may appoint, for example, an accountant or person with financial expertise to such a committee. According to Bisschoff (1997:92) the finance committee should be democratic to ensure legitimacy, but should also include members with some financial or accounting background, either in terms of experience or qualifications.

Although the establishment of a finance committee is not specified in the Act, the Provincial regulations of the Free State Department of Education (1998:4-3), in applying financial directives from the DOE, stipulates that the Governing Body must appoint a financial committee that will be responsible for the control of the financial affairs of the school.

Important provisions relating to financial responsibilities of governing bodies are detailed in Chapter 4 of the Schools Act, and due to their importance for sound financial governance at schools and resultant determination of a sound school financial policy it is necessary to examine these provisions in detail. Sections 34 and 35 refer to State responsibilities regarding funding of schools. Section 34(1) states that the State must fund public schools from public revenue on an equitable basis in order to ensure the proper exercise of the rights of learners to education. The Act emphasises that the funding be applied on an *equitable basis*, in order to redress past inequalities in education provision. In section 32(2) the State is obliged to provide sufficient information to public schools on an annual basis regarding their funding in order to enable schools to prepare their budgets for the next financial year. In terms of section 35 the Minister is tasked with the determination of norms and minimum standards for the funding of public schools after consultation with the Council of Education Ministers, the Financial and Fiscal Commission and the Minister of Finance.

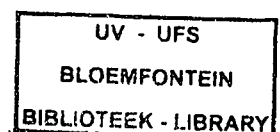
Section 36(1) ascribes to the SGB the responsibility of taking "all reasonable measures within its means to supplement the resources supplied by the State in order to improve the quality of education provided by the school to all learners at the school". Thus, there is an increasing onus on schools to generate additional income over and above the State provision and with that comes the additional responsibilities of sound financial controls in order to account for and manage the additional income generated. In Section 36(2) the SGB is prohibited from entering into any loan or overdraft agreement so as to supplement the school fund without the written permission of the MEC. If written approval is not obtained, then both the State and the public school are absolved from any contractual liability for such money lent or overdraft granted (section 36(3)). Also note below the provisions of section 60(4) regarding liability for any damage or loss caused as a result of any act or omission in the generating of such funds.

In respect of school funds and assets of the school section 37 directs that:

- 1) the governing body must establish a school fund and administer it in accordance with direction issued by the Head of Department;
- 2) all money received by the school including school fees and voluntary contributions must be paid into the school fund;
- 3) the governing body of a public school must open and maintain one banking account, but a governing body of a public school may, with approval of the MEC, invest surplus money in another account;
- 4) 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 a donation, bequeath or trust;
- 5) all assets acquired after the publication of this Act are the property of the school;
- 6) the school fund, all proceeds thereof and any other assets of the public school must be used only for:
 - (a) educational purposes at or in connection with the school
 - (b) the performance of the functions of the governing body
 - (c) another educational purpose agreed to between the governing body and the HOD;
- 7) money from the school fund may not be paid into a trust or used to establish a trust, nor may the governing body of a school collect any money or contributions from parents to circumvent or manipulate the payment of compulsory school fees and to use such money or contributions to establish or fund a trust.

Section 38(1) directs that the SGB 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 year. Further elaboration regarding budgeting procedures and control thereof will be dealt with below, but it is suffice to say that a budgeting policy must be incorporated within the overall financial policy of the school.

Sections 39-41 of the Act relate to the determination of school fees, liability of parents for payment of school fees and enforcement of payment of school fees, all of which is summarised below:



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- School fees may be determined and charged only if a resolution to do so has been adopted by a majority of parents at a general meeting of parents, which resolution must provide for the amount of fees to be charged and provide for equitable criteria and procedures for the total, partial or conditional exemption of parents who are unable to pay school fees. Thus, neither the SGB nor school management are allowed to unilaterally impose school fees.
- The SGB is tasked with the implementation of such a resolution.
- The Minister is obliged to make regulations regarding the equitable criteria and procedures regarding the total, partial or conditional exemption of parents who are unable to pay school fees.
- The parent is liable to pay school fees as determined, unless or to the extent that he or she has been exempted from payment in terms of the Act.
- The SGB is empowered in section 41 to enforce the payment of school fees by liable parents by due process of law.

The SGB is obliged to keep records of all funds received and spent by the school and of its assets, liabilities and financial transactions (Section 42(a)) and is further tasked with drawing up financial statements within three months after each financial year in accordance with guidelines as determined by the MEC (Section 42(b)). It must be noted that the school financial year runs from 01 January to 31 December each year. The financial records and statements must be audited and the onus is on the SGB, in section 43(1), to appoint a registered auditor for this purpose. Such a person must be registered as an accountant and auditor in terms of the Public Accountants and Auditors Act, 80 of 1991. Further conditions are stipulated in section 43 of the Schools Act regarding the audit or examination of financial records and statements as follows:

- If an audit as stipulated in section 43(1) is impractical, provision is made in section 43(2) for SGB to appoint a person to examine and

report on the records and financial statements who is qualified to perform the duties of an accounting officer in terms of section 60 of the Close Corporations Act, 69 of 1984; or

- A person approved by the MEC for this purpose.
- No person who has a financial interest in the affairs of the public school may be appointed under this section (Section 43(3)). Thus, members of the school's financial committee or appointed school accountant/financial officer who oversees or controls school finances cannot audit the records. This is in keeping with accounting conventions of segregation of duties.
- If the MEC deems it necessary he/she may request that the Auditor-General undertake an audit of the records and financial statement of the public school (Section 43(4)).
- The SGB must submit a copy of the audited or examined financial statements to the HOD within six months after the end of the financial year, that is by no later than 30 June each year (Section 43(5)).
- The SGB must make these records available for inspection "at the request of an interested person" (Section 43(6)).

Note must be made of section 60(4) of the Schools Act, which stipulates that the State is not liable for any damage or loss caused by an act or omission in connection with any enterprise or business operated under the authority of a public school for the purposes of supplementing the resources of the school as contemplated in section 36 of the Act, including the offering of practical educational activities relating to that enterprise or business. It is recommended, therefore, that schools take out liability insurance in order to cover any liability for damages against the school, the premiums for which should be paid out of income derived from the commercial enterprise.

National Norms and Standards for School Funding (RSA 1998b)

This document sets out the national norms and minimum standards for school funding in terms of the Schools Act. It specifically deals with the public funding

of public schools, in terms of section 35 of the Schools Act, and the exemption of parents who are unable to pay school fees. It is stated in the document that the application of the norms and standards apply uniformly to ordinary public schools in all provinces, but that the norms do not apply to funds raised by ordinary public schools through their own efforts in terms of sections 36, 37 and 39 of the Schools Act. The document reaffirms that all school governing bodies are obliged to support their schools as best they can by taking all reasonable measures to supplement the resources supplied by the state.

However, section 50 of this document confirms that, in fulfilling this obligation, the SGB is not required to charge school fees. As mentioned above it is a matter for the parents to decide whether or not to charge school fees, determine the amount thereof and to provide "equitable criteria and procedures for the total, partial or conditional exemption of parents who are unable to pay" the fees. Thus, parents have a major say in respect of the determination of the school's budget and sources of revenue.

Sections 67-69 of the National Norms and Standards document, referring to provision of information should be noted:

- The Schools Act provides that all schools are budget and cost centres (section 67, National Norms and Standards).
- Schools must provide information to provincial education departments and, in turn, provincial education departments must ensure that information is received on time from schools in order to ensure that timeous resource allocation decisions are made.
- Provincial departments of education must annually provide public schools with sufficient information so that the school's SGB can develop their budgets as required by section 34 of the Schools Act.
- Schools should be provided with sufficient information (cf. s.34(2)) by 30 September each year so that they can develop their budgets as required by section 38 of the Schools Act.

For later discussion on formulation and management of school financial policy, together with budgeting procedures/requirements it is necessary to examine Chapter 4 dealing with the public funding of public schools in some detail as this will lead to a better understanding of cost allocation categories and the resultant responsibility of the SGB for managing recurrent allocations and other costs. Section 80 determines that norms for cost allocation categories apply to:

Capital cost allocations

(1) new classroom and other construction

Recurrent cost allocations

- (2) immovable capital improvements and repairs
- (3) recurrent costs easily separated from other costs
- (4) other recurrent and minor capital equipment costs, and
- (5) hostel costs.

The emphasis of discussion regarding the above allocation categories will be on those cost allocations for which a section 21 SGB has responsibility for managing, financing and budgeting, that is, applicable functions and responsibilities of the SGB for the various *recurrent* cost allocations. However, for sake of completeness such discussions must be preceded by referring to the government's principle of "basis of need" in determination of recurrent cost allocations and the "Resources Targeting Table".

As funding from the state to schools in South Africa is inevitably insufficient to enable the provision of resources necessary for a high quality education, SGBs' are mandated in the Schools Act to investigate and effect ways in which school funds can be augmented. However, in doing this it is obvious that schools in poor or poverty-stricken communities will have difficulties in attracting funds, whereas schools in more affluent areas will be able to generate more income from their community. Furthermore, schools in poverty stricken communities have historically been at a disadvantage in terms of financial resources as compared to resources available to prosperous schools, thus negating the ideal of quality education in the "poor" schools.

The National Norms and Standards thus attempt to correct this imbalance by basing all recurrent cost allocations on a *resource targeting table*.

A national resource targeting framework is a broad framework which pursues the Department of Education's idea of the adequacy of funding allocations as well as conceptions of how these funds ought to be distributed. Section 99 determines that allocations for recurrent cost items must be targeted as far as possible on the basis of need, determined according to the condition of the school and the relative poverty of the school community using the Resource Targeting Table. Each provincial department of education is required to produce a "resource targeting list" of all schools in its province, ranked according to conditions at the school and the poverty of the community served by the school so as to produce five groups of schools from poorest to least poor. Resource allocation is based on this list.

School quintiles, from poorest to least poor	Expenditure allocation	Cumulative percentage of schools	Cumulative percentage of recurrent expenditure	Per learner expenditure indexed to average of 100
Poorest 20%	35% of resources	20%	35%	175
Next 20%	25% of resources	40%	60%	125
Next 20%	20% of resources	60%	80%	100
Next 20%	15% of resources	80%	95%	75
Least poor 20%	5% of resources	100%	100%	25

Table 3.1 *Resource targeting table*

Having listed the schools in rank order, the provincial education department must then divide the list in five quintiles from poorest to least poor. This distribution by quintile will determine the per learner allocations, in terms of the Resource Targeting Table. Thus, allocation will be made on a variable per learner basis that favours the poorer segment of the population, resulting in the neediest and largest schools getting priority in funding.

In granting a school section 21 status, the Schools Act makes provision for public school SGB's to become progressively more responsible for managing aspects of recurrent expenditure. In this respect section 21 schools will receive a lump sum, per learner transfer for the payments for which they have responsibility, in accordance with the Resource Targeting Table. As explained, such transfers will be smaller for better off schools than for poorer schools. Section 109 of the National Norms and Standards document states that if a section 21 school's bill for such services or items is lower than the lump sum transfer, then the SGB may allocate the transferred amount to the purchase of other education-related items. Furthermore, again with reference to section 21 schools, the SGB is empowered to vary the proportion of the funding devoted to such goods and services according to their own perceptions of education needs, subject to provincial policy. At all times such expenditure must be accounted for.

In terms of section 110, the SGB of a section 21 school is further empowered to "deal directly with suppliers and contractors for the relevant budgeted item in accordance with standard procurement procedures". The SGB is obliged to retain all documents as evidence of correct dealing with such suppliers and contractors, and records of how the materials and services were used, and produce such documents or records at "the request of officials from the provincial department of education and for audit purposes".

In respect of recurrent costs for *immovable capital improvement and repairs*, allocations will be made according to the resources Targeting Table and the section 21 list, where applicable. This is summed up in section 115 as non-routine and non-emergency capital improvements and repairs. It is important to note that functions such as cleaning, removal of litter, maintenance of grounds, minor painting and repairs and replacement of light bulbs will be the responsibility of the school community, regardless of the level of poverty of the community.

Allocation of *easily separable recurrent costs*, which could include other supplies and services, will be made according to the Resource Targeting Table and the section 21 list where applicable.

The allocation of *other recurrent and small capital equipment costs*, such as school books, stationery and equipment is determined in section 117. The purpose of this allocation is to provide learners with a minimum package of learning materials (books and stationery) equivalent to at least R100 per learner (at the time of publication of the National Norms and Standards document), but if the provincial budgetary allocation is insufficient then priority must be given to poorer learners according to the Resource Targeting Table. Provision is also made for this allocation of R100 to be increased in accordance with the national Consumer Price Index. The norms relating to section 21 schools also apply to this category of recurrent expenditure.

In respect of recurrent *hostel costs* (section 119) the following apply which impose financial management responsibilities upon the SGB:

- Schools with hostels must keep a separate account for all recurrent costs associated with hostels and a record of the number of learners staying at each hostel, which accounts and records are subject to unannounced audits by officials of the provincial education department.
- The school must charge each learner staying in the hostel a hostel fee equal to the average running cost per learner in the hostel.
- No blanket cross-subsidisation of hostel costs from fee income is permitted. However, the SGB is permitted to exempt particular learners from hostel fees by "recording the necessary book-keeping transfer".
- The provincial department must set aside a budget for hostel subsidies and schools with hostels will be paid pro-rata out of this budget for each of their learners:
 - whose transport time to the school is greater than 1.5 hours;
 - if there are no available school places near the learner's place of residence; and

- o whose parents cannot afford the per-child hostel cost.

This National Norms and Standards for School Funding document also clarifies fee exemption procedures and criteria. These are of importance in the construction of a school finance policy as such policy must include a school fee policy within the main financial policy or as a separate sub-policy of the finance policy. If parents at a parent meeting convened in terms of section 39 of the Schools Act decide to charge school fees then certain criteria for exemption from fee paying must be observed:

Full exemption: If the combined annual gross income of the parents is less than ten times the annual school fees per learner, the parent qualifies for full exemption.

Partial exemption: If the combined annual gross income of the parents is less than thirty times but more than ten times the annual school fees per learner, the parent qualifies for partial exemption.

No exemption: If the combined annual gross income of the parents is more than thirty times the annual school fees per learner then the parent does not qualify for exemption.

The SGB must take cognisance of sections 135-139 of this document when drafting a school fee policy and apply the correct procedures as stipulated in the regulations pertaining to the *Exemption of Parents from the Payment of School Fees, Regulations 1998*. It is important that these stipulations and regulations are also communicated to parents in writing.

Education Laws Amendment Act 24 of 2005

This Act, which came into effect in 2006, was promulgated to amend, *inter alia*, sections of the South African Schools Act, most notably to provide for the determination of national quintiles for public schools in order to identify schools that may not charge school fees. The SGB must note that the Minister may make the determination for a "no fee paying" school in quintiles 1 and 2 only if sufficient funding, not less than the no fee threshold has been secured to fund learners at the schools affected by the determination. Failing this, the

affected quintile 1 or 2 school may charge school fees if they receive less than the no fee threshold from the provincial education department. The right to charge school fees is limited to the amount necessary to account for the difference between the actual allocation received and the no-fee threshold (RSA 2005: Sec.4 (b)). To illustrate, using 2007 as reflected in Table 3.2 below, schools in quintiles 4 and 5 can charge fees, being the difference between the no-fee threshold of R554 and the allocation. This will amount to no more than R185 and R431 per learner for quintiles 4 and 5 respectively.

	% of Funding	2007		2008		2009	
	A	B	C	B	C	B	C
NQ1	30.0	R 738	100%	R 775	100%	R 807	100%
NQ2	27.5	R 677	100%	R 711	100%	R 740	100%
NQ3	22.5	R 554	100%	R 581	100%	R 605	100%
NQ4	15.0	R 369	67%	R 388	67%	R 404	67%
NQ5	5.0	R 123	22%	R 129	22%	R 134	22%
Overall	100.0	R 492	89%	R 517	89%	R 538	89%
No fee threshold		R 554		R 581		R 605	

Table 3.2 *The national table of targets (targets table) for the school allocation 2007 – 2009*

Employment of Educators Act (RSA 1998a)

Reference is made to Chapter A section 4.2, 4.3, 4.4 and 4.6 as these ascribe financial responsibilities to the principal, deputy principal, head of department and office-based educators. Listed as core duties and responsibilities of the *principal* are, *inter alia*:

- To have various kinds of school accounts and records properly kept and to make best use of funds for the benefit of learners in consultation with the appropriate structures.
- To make regular inspections of the school to ensure that the school premises and equipment are being used properly.
- To be responsible for the hostel and all related activities, if applicable.

Core duties and responsibilities for the *deputy principal* include, *inter alia*:

- To assist the principal, or if instructed to be responsible for school finance and maintenance of services and buildings, e.g. planning and control of expenditure, allocation of funds/resources, the general cleanliness and state of repairs of the school and its furniture and equipment, together with the supervision of annual stock-taking exercises.

The *head of department* is, *inter alia*, responsible for the planning and management of the budget for his/her department and to assist with collection of fees and other monies.

The *office based educator's* core responsibilities include:

- To undertake activity-based accounting (ABC) for planned projects/activities.
- To prioritise activities in terms of costs and educational needs in preparation for strategic planning.
- To plan budgets in terms of a medium term expenditure framework (MTEF).
- To manage projects within the set budget.
- To advise principals and SMTs on the planning, utilisation and monitoring of budgets in order to meet school objectives.
- To maintain records to disseminate information for financial accountability.
- Policy:
 - to formulate policy for operational reasons
 - to analyse policy
 - to implement policy
 - to monitor and evaluate policy implementation
 - to provide guidance to institutions on policy formulation and implementation.

Financial planning and management competence is also evaluated in staff appraisals (Chapter C: Development Appraisal), particularly those of the principal and the office based educator. Both are appraised on competence in managing the budget and ensuring that the budget is determined according to strategic plans as part of MTEF and that "careful and ongoing monitoring" of the budget takes place. Ongoing and careful monitoring of the budget and all financial procedures are, of course, the crux of efficient and sound internal financial control. The office based educator is further appraised on aspects of financial record keeping and is expected to ensure that "financial records are complete and always up-to-date" (Chapter C, section 3.4: criteria 1.4).

Public Finance Management Act (RSA 1999)

School finances should also be managed within the broader framework of the Public Finance Management Act (hereinafter referred to as the PFMA), as amended (DOE 2007: Module 4:97). This Act clarifies the division of responsibilities between the head of department (the accounting officer) and the political head (called the "executive authority"- either a Minister or an MEC) (National Treasury 2000:2). The executive authority is responsible for policy choices and outcomes, while the accounting officer implements the policy and achieves the outcomes by taking responsibility for delivering the outputs defined in the departmental budget (National Treasury, 2000:2). In this way the Act empowers accounting officers by unambiguously conferring on them a clear set of responsibilities.

The Department of Education (DOE) in its ACE School Leadership Manual (DOE 2007: Module 4:15) refers to the PFMA as having a special emphasis on the accountability of the accounting authority, and states further that the PFMA sets out duties and responsibilities relating to budgets and budgetary control, reports and reporting, and assets and liabilities. The importance of this Act as a regulator of financial management is recognised by the DOE as is evidenced by the opening statement above and their statement that, "although schools are exempted [from this Act], it is advisable to use and work within the PFMA" (DOE 2007: Module 4:15). This is further acknowledged by

Bischoff and Mestry (2005: 43) who comment that, despite the fact that schools are not listed as public entities in the PFMA, the principles contained therein are sound and should apply to public schools...

In chapter five, section 36(2)(a) of this Act it is stipulated that the head of a department must be the accounting officer for the department. The Act states further, in section 38 that the accounting officer for a department, trading entity or constitutional institution must ensure "that the department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control".

Although this Act neither explicitly specifies that schools should have an accounting officer nor has specific applicability to schools it is none the less important for the Provincial Head of Department and the school itself to subscribe to relevant aspects of the Act through its SGB. As a public institution, deemed to be a budget and cost centre (National Norms and Standards for School Funding, Section 67) it is surely not the intention of the legislature to have different financial rules for the school and other public bodies. For example, in ascribing section 21 status to a public school therefore, the Head of Department must ensure that the SGB has sufficient capacity and expertise to meet the requirements of section 38 of the PFMA. It is further incumbent upon the head of department in section 38(c) of the PFMA to take effective and appropriate steps "to collect all money due to the department, trading entity or constitutional institution and prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct". This must also be a standard applicable to school financial managers as they are also obliged to prevent unauthorised and irregular practices resulting in losses. Thus, it could be argued that the PFMA indirectly place mutual obligations on the Head of Department and the SGB to exercise control over utilisation of State resources.

Section 39 of the PFMA stipulates accounting officers' responsibility relating to budgetary control, which are surely no less applicable to SGBs in terms of their delegated functions in terms of the Schools Act. Section 40 of the PFMA

states that the accounting officer must keep full and proper records of financial affairs of the department/trading entity in accordance with prescribed norms and standards and must prepare financial statements for each financial year in accordance with generally recognised accounting practice. Section 44 of the PFMA determines that an accounting officer may in writing delegate any of the powers entrusted to the accounting officer to an official in that department, trading entity or constitutional institution or instruct these individuals or bodies to perform any of the duties assigned to the accounting officer in terms of the Act. Section 37 of the Schools Act states that the SGB must establish a school fund and administer it in accordance with the directions issued by the Head of Department. According to Mestry (2004:128), this implies that schools may be subjected indirectly to the PFMA. Furthermore, in the case of a school having no elected SGB, the Head of Department has the power to appoint a person to act as SGB and that person, *ipso facto*, becomes the accounting authority on behalf of the school (Mestry, 2004:128).

This Act also addresses the issue of transparency, stipulating that the entity receiving funds must disclose its plans to all stakeholders which show the source of funds, what they were intended for, what they will be used for and when and how they will be used. This is consistent with section 38 of the Schools Act regarding the annual budget of a public school which must be presented to a general meeting of parents for consideration and approval.

Having extensively examined legislation relating to school finances, the following section will examine literature relating to school financial management.

3.4 SCHOOL FINANCIAL MANAGEMENT

It was stated in section 2.4.3.1 above that, in school policy making, one must first determine if the required policy is related to the professional functions of the school or governance of the school. The Schools Act (RSA 1996b:s. 16(1)) delegates "governance" (including financial governance) to the SGB

and further stipulates, in section 16(3) that the professional management of a public school must be undertaken by the principal under the authority of the Head of Department. The principal as "school manager" is responsible for the professional management of the school, including *delegated* school financial management, whereas the SGB is responsible and accountable for financial governance, including, *inter alia*, formulation of the school financial policy. The role of the SGB regarding financial governance of the school has been discussed at length above, and its role regarding formulation of school financial policy will be discussed in detail hereunder. However, prior to specific discussion regarding the school financial policy it is necessary to briefly review the school financial management process as school management is responsible for the implementation of day to day management of the financial policy as determined by the finance committee of the SGB.

Management is exercised through the tasks or functions of planning, organising, directing and controlling (Sawyer 1981:681). The task of *directing* can also include leading, guiding or activating or a combination thereof. As this is also the approach adopted by Van der Westhuizen (in Bisschoff 1997:64) the financial management tasks of the educational manager will thus accordingly be reviewed. It is interesting to note, however, that Kruger (2005: 236-242) refers to planning, organising and control as determinants for the managing of school finances and omits any reference to the *leading* task in financial management. It is contended that this is a "leading omission".

Niemann (2005:371) avoids reference to *school financial* management by preferring to use the terminology "school *business* management" when discussing the aforementioned four management tasks in respect of management of financial affairs at school level. He continues (2005: 371-372) by stating that:

analogous with the view of education management as a whole there are a number of actions or tasks relating to financial matters which have to be dealt with by the educational manager which are not central to school business administration. These actions or tasks exist in *pari*

passu with the management of the school and as they are purely financial can be termed as school business management.

Thus, the following definition of school business management can be given:

...the execution by a person in a position of authority of those management actions (regulated tasks) connected with the financial aspect of schools and having the sole purpose of achieving quality education (Niemann 2005:372).

One must, however, treat the above definition with caution as Niemann's treatise (first published in 1991) pre-dates the important landmark case between *Schoonbee and others vs. MEC for Education, Mpumulanga and another*, 2002 (:unreported case No.33750/01) wherein it was held that the SGB, not the principal, is accountable for the effective management of school funds. Niemann constantly refers to school management as being accountable for financial management and control (cf. Niemann 2005:371,372,392,394) and in fact does not mention the role of the SGB at all.

3.4.1 Planning of school finances

The first step to creating an effective and well-run system of financial management is planning. Clark (2008:3) states that planning is about setting up systems, policies and procedures to make the school work efficiently.

According to the Guide for Accounting Officers to the Public Finance Management Act (National Treasury 2000:7) financial planning is a cycle that runs from policy formulation, to the determination of priorities in the short and long run, to planning the delivery of services and reflecting these plans in financial allocations (the budget), and to monitoring of results.

Gorton, (in Niemann 2005:372) states that the budget is the primary business planning instrument in a future school programme. Bisschoff (1997:66)

confirms this opinion by stating that a budget is, or should be a planning instrument and a statement in financial terms of the school's priorities and further that a budget looks forward as an expression of intent written in financial terms. Niemann (2005:375) describes the budget as a planning instrument which contributes in a constructive way towards preventing the disruption of the educational programme as a result of insufficient or exhausted resources. Kruger (2005: 237) is more verbose in stating that a budget can be regarded as a management tool or mechanism by which the management team and the governing body of the school can estimate and *plan*, as well as utilise, coordinate, monitor and evaluate the allocated resources of the school in financial terms. The aforesaid writers, thus, concur as regards the importance of the budget for financial planning. However, as can be noted by Kruger's statement and supported by Bisschoff (1997:80), the budget plays a useful role in other management tasks such as organising (by coordination of the use of allocated resources) and control/evaluation.

The function of the budget is *not*, as described by Jordan (in Niemann 2005: 375), simply a method of planning the expenditure to achieve educational objectives within a given period. As correctly stated by Bisschoff (1997:66), in budgeting the manner of spending the funds of a school is only one side of the equation: a school also needs to plan how to generate funds and budget for such estimated income accordingly. Kruger (2005:237) also acknowledges this by stating that budgeting can be described as a management task or a process reflecting the *revenues and expenditures* of various programmes in the school. Niemann (2005:373) also acknowledges that, in budgeting, expenses as well as possible income against which expenses may be defrayed should be carefully analysed and planned.

Budgeting policy and related procedures are discussed at length in the budget policy which forms part of the school financial policy as attached.

3.4.2 Organisation of school finances

Organising brings together people and processes in logical groupings to carry out the organisation's plans and to meet objectives (Sawyer 1981:688). Without effective organisation, the school would not have clear goals or be able to achieve any of its goals (Campher, *et al.* 2003:28). According to Niemann (2005:378), an organisational structure must be created to convert financial educational objectives into operational activities. Financial management can only be successful if it is done in an organised manner, which implies that organisational structures should be set in place to handle the various financial management tasks whether in the fields of administration or accounting (Bisschoff 1997:92). As Bisschoff (1997:64) by his own admission acknowledges extensive reference to Niemann (in Van der Westhuizen 2005) it is not surprising that the latter also refers to an administrative component and an accounting component when discussing the organisation of school finances. Jordan (in Niemann 2005:378) states that the term *organisation* refers to administrative techniques as well as the organisational structure which develops in the context of the school to implement the objectives. Casey (quoted in Niemann 2005: 378) states that the creation of an organisational structure for the realisation of financial educational objectives is primarily directed at the organisation of administrative components. The organisation of these components is, in turn, based mainly on accounting procedures. Kruger (2005:240) endorses the aforesaid by stating that "in designing a structure for financial management, components for administrative accounting tasks should be included".

The administrative component embraces the following tasks (Bischoff 1997:92):

- Gathering financial information.
- Storing financial information.
- Making available financial information.

According to Niemann (2005:379) the administrative component may be regarded as the binding factor in effecting an organisational structure to carry out financial planning. Consequently, this requires that this component should be consciously organised.

The accounting component is an integral part of the organisation of school finances and the focus of all financial activities. Accounting is described by Casey (in Niemann 2005:379) as the administrative medium by which full and systematic reports on financial matters are given expression. It includes actions such as the classification, determination and interpretation of financial events.

According to Bisschoff (1997:92) accounting tasks are determined as:

- Identifying, allocating, analysing and interpreting financial information.
- Implementation and execution of the school's financial policy.
- Communicating the school's financial information to all stakeholders.

Knezevich (in Niemann 2005:379) maintains that the accounting programme is an integrated part of the rest of the school programme and in this respect should have the following goals:

- The setting up of effective security mechanisms for public monies by allocating duties and introducing control techniques.
- The creation of a pattern of expenditure in relation to the budget.
- The assembling, analysis and interpretation of financial data for decision making and reporting to all bodies concerned.
- The functioning of all financial actions within the officially prescribed framework.

Garvue (in Niemann 2005:380) suggests rules for the implementation and functioning of an effective accounting system which should form the basis for the organising of school finances. These rules, which have been adapted in parts by me, are as follows:

- Accounting procedures should be instituted in compliance with official regulations (such as the Schools Act, Provincial regulations and generally accepted accounting practices).
- Financial records should be kept on a regular basis. In my opinion "regular" should read "daily".
- Accounting procedures should be such that they reflect the true financial position at any given time.
- Provision should be made for the periodic analysis of methods, funds and a classification system to ensure flexibility.
- There should be a formal organisational structure according to which management tasks and their attendant responsibilities can be allocated with regard to school finances.
- There should be adequate safety measures to protect financial data from being lost or altered.
- Accounting procedures should provide enough room for internal controls.
- The accounting procedures should be of such a nature so that a report can be made periodically to all parties concerned.
- External, independent auditing should be carried out annually.
- The accounting procedure should be such that controls can be instituted at any time by comparing the actual position with the budgeted position.

The application of the above rules should be seen as the standard to which financial systems should aspire; however, the practicality is that no accounting system can be standardised for all schools, as certain situational and other factors will determine the accounting system used by an individual school. Such factors can include the size of the school, the type and locality of the school, the standard of living of the community served by the school and the level of financial expertise of school personnel and members of the school's finance committee.

It should be apparent from the above that delegation and coordination are important aspects in the organisation of financial processes and should, therefore, for the purposes of this study, be scrutinised.

3.4.2.1 Delegating

The principal/SGB cannot be expected to personally handle the day to day administrative and accounting tasks and thus certain tasks are *delegated* to other personnel. However, the delegation does not divest the delegator of the responsibility for exercising the delegated power or duty; the delegator must ensure that systems and processes delegated are being complied with (National Treasury 2000:26).

Therefore delegation is not tantamount to abdication. By virtue of the Schools Act (1996b) the SGB should be deemed to be the accounting officer at the school. However, certain financial responsibilities are delegated to the principal, who in turn may delegate certain functions. However, the delegators at all times remain *responsible* for the efficient day to day running of the school's financial management process and are tasked with the monitoring and control of the financial duties delegated.

However, in order to understand the concept of delegation it is important to briefly discuss the concepts of *responsibility, authority and accountability* as these all are the "golden threads" that must coalesce for delegation to take place. Extensive use will be made of Sawyer (1981) in reviewing these concepts. Although it is acknowledged that this reference is dated, these concepts are succinctly described by an expert in the field of internal auditing, and thus have a financial control emphasis.

Responsibility: Responsibility is the *obligation* to perform. It is an unbroken chain from superior to subordinate and can never be relinquished (Sawyer 1981:688). However, the principal remains responsible for every task in the professional management of the school no matter how lowly that task may be. According to Sawyer (1981:688), responsibilities are grounded on tasks, and

tasks are grounded on objectives, thus the clearer the understanding of one's objectives, the more likely will responsibilities be carried out properly. Bisschoff (1997:88) refers to responsibility as the *duty* which rests upon a person to carry out his or her appointed task to the best of his/her ability.

Authority: Authority derives from responsibility and is the *right* to perform, to command and enforce compliance (Sawyer 1981:688). Most theories of organisational control emphasise the parity between responsibility and authority as there is no point having authority to carry out a task when there is no responsibility for it (Sawyer 1981:688).

Accountability: Accountability is the *obligation* of workers and management to *give a reckoning* for what they have accomplished (Sawyer 1981:689). Accountability refers to giving an account of actions taken and being held accountable for these actions (Mestry 2004:127). As accountability derives from responsibility, people cannot properly be held accountable for what they are not responsible and, furthermore, people should not be held accountable when their authority is not equal to the responsibility assigned (Sawyer, 1981:689). Sawyer further states that when responsibility is clear and authority is adequate, people should be asked to account for carrying out those responsibilities, for exercising the authority delegated to them and for fulfilling their stewardship of the resources entrusted to them (Sawyer 1981:689). Accountability with specific reference to school financial management is examined in section 3.5.4.

Delegation: The above concepts of responsibility, authority and accountability can now be utilised to more clearly define the concept of delegation, which Sawyer aptly does by stating that delegation includes *assigning responsibility, granting authority* and *exacting accountability* (Sawyer 1981:689). It must be noted, however, that only authority legitimately possessed can be delegated. Delegation demands control, thus there should be ongoing monitoring by the delegator with feedback to show how the delegated tasks are carried out. It is important in any management structure to have a system of monitoring progress and performance to ensure that tasks are completed on time and to an acceptable standard (Clark 2008: 4-5). Thus, it is imperative that principals conduct ongoing financial control checks to ensure that delegated duties are being complied with.

It is also further of vital importance that the delegates are qualified to undertake their assignment(s). As noted in research done by Mestry (2004:126; 2006:27), Heystek and Nyambi (2007:230) and Clark (2008:278) as reported in chapter one, a major deficiency in school financial management is the lack of financial knowledge and skills of principals and SGB members at many schools.

3.4.2.2 Coordination

Furthermore, in order to ensure that the task of organising takes place in an orderly manner centred in delegation, the school principal should coordinate all activities (Bisschoff 1997: 93). This is contrary to Campher (2003: 37), who states that the responsibility of coordinating all the administrative and accounting tasks rests with the financial committee of the school's governing body. It is suggested that the finance committee should coordinate accounting tasks and financial administration tasks, whereas the principle should be responsible for coordinating the administration and organisation of all school activities that support teaching and learning. However, as stated in section 3.3 above, the SGB and school management are obliged to assist each other in the performance of their functions.

Coordination is the synchronisation of all actions, means and techniques within the school (Niemann 2005: 382). It is important that all parties involved in school financial management should have total vision of the organising task and know how each person and their duties fit into the organisational structure (adapted from Niemann 2005: 382). Van der Westhuizen (2005:179) suggests that the purpose of coordination is:

- To synchronise people and various activities to achieve the set goal.
- To ensure cooperation between people.
- To develop team spirit and teamwork so that everyone works towards the same goal.
- To ensure that goals and policy are uniformly interpreted and applied.

3.4.3 Directing/guiding/leading

Directing is the function of moving resources towards a goal and includes leadership, motivation and communicating (Sawyer 1981: 695). Sawyer (1981:696-697) observes that directing is an intricate combination of actions and concepts made all the more complicated by the complexity of human beings; thus directing is people oriented, not transaction oriented. Bisschoff (1997:99) describes leadership in financial management as sound relationships, motivation of all people concerned with school finances and communication with all stakeholders, internal as well as external. Thus, both writers share similar views in this matter.

Bisschoff describes "directing" as formulating instructions, instructing personnel and ensuring that instructions are carried out according to plan (1997:96). He further describes "guidance" as an element of management involving the process of influencing people so that they will strive willingly and wholeheartedly towards the achievement of the objectives of the school.

3.4.4 Control of school finances

Planning and organisation are no guarantee that school business objectives will be effectively realised (Niemann 2005:392). A system of control is necessary to ensure that the actual financial performance is in keeping with the expected educational objectives (Niemann, *supra*).

As stated in Sawyer (1981:700) controlling is the process of making certain that directed action is carried out as planned in order to achieve some desired objective. Controlling and planning are linked, with some devices, such as budgets being utilised as both planning and control mechanisms. Sawyer (1981:700-701) identifies six elements or characteristics of sound control:

- *Setting performance standards* to provide a means of measuring and comparing, and to establish permissible variations.

- *Measuring performance* or progress to accumulate information on actual conditions.
- *Analysing performance* and comparing it with standards to determine variances
- *Evaluating deviations* and bringing them to appropriate attention in order to determine causes and take effective corrective action.
- *Correcting deviations* from standards to see that goals will be met.
- *Following up on corrective action* to appraise the effectiveness of action taken.

It must be emphasised that, as with the other functions of management, control cannot be viewed in isolation but is an integral part of the management system which includes planning, organising and directing/leading/guiding.

According to Sawyer (1981:701), management is responsible for establishing a control system, whereas internal auditors are responsible for evaluating its adequacy and effectiveness. While this is applicable in most commercial organisations, it will, however, be evident in discourses to follow regarding formulation of a school financial policy that, in a school organisation, it is the task of the SGB through the auspices of its financial committee to draw up a school financial policy and concomitant controls. The SGB should appoint or delegate a person with the required expertise to conduct ongoing internal audit of such controls. However, in applying financial management systems and monitoring such systems at the school the SGB may delegate certain control functions to the school principal. These control procedures involve laying down standards and criteria, the way in which financial performance should be observed and judged, and guidelines for corrective action (Niemann 2005:392). Control with particular reference to school financial policy and management will be further elaborated during an analysis below of internal financial control and internal auditing.

3.5 FORMULATION OF SCHOOL FINANCIAL POLICY

3.5.1 Responsibility for school financial policy formulation

In the analysis of the Schools Act above, mention was made of Section 30, whereby the SGB may establish committees and appoint to such committees persons with relevant expertise who are not members of the governing body. Section 30(b), however, makes the provision that a member of the SGB must chair each committee. According to Bisschoff (1997:134), it is possible and highly recommended that a financial committee should be formed to assist the governing body to handle the financial matters of the school. SGBs may thus delegate various financial functions to committees especially set up to manage aspects of the school's finances (Mestry 2006: 36). They may also delegate these functions to individuals who have the necessary expertise, specialised knowledge or skills in school finances (Bisschoff and Mestry, 2003:42). Donnelly (1999:91-92) emphasises the need for the establishment of a finance committee to manage the finances of a school, stating further that the finance committee of the SGB plays a pivotal role in managing funds of the school.

As part of the implementation of the Norms and Standards for School Funding (1998b), a number of financial directives were issued by the DOE, including a directive stipulating that each school should have a finance committee to control and monitor the school's fund on behalf of the SGB (Free State Department of Education, 2002:1). Due to the importance of the finance committee in school financial management it is necessary to detail the structure and duties of the finance committee as defined in the financial directives. Paragraph 2 of the Financial Directives stipulates membership and meeting procedures as follows (Free State Department of Education, 2002:3):

- The finance committee should consist of not more than eight persons.
- The principal should be the chairperson of the finance committee.

- The treasurer of the SGB should be the treasurer of the finance committee.
- A finance officer (bookkeeper) should be appointed from amongst the staff members of the school.
- In certain schools, the treasurer of the SGB could be a staff member of the school.
- Three parent members of the SGB should also be members of the finance committee.
- Members are appointed by the SGB, which has the right to add or remove members.
- Members are appointed for one year and may be re-appointed.
- Members should have some knowledge of accounting or bookkeeping.
- The finance committee should meet regularly (usually once a month);
- At each meeting the principal, chairperson (SGB member) and treasurer must be present.
- Minutes must be taken and approved at subsequent meetings.

According to the Free State Department of Education (2002:3), the duties of the finance committee are as follows:

- Being responsible for control and monitoring of all financial matters at the school.
- Implementing *financial policies* and procedures within the school, in accordance with the guidelines as set out in the financial directives, including ensuring "that proper acceptable controlling measures are implemented".
- Delegating authority to appropriate persons within the finance committee.
- Being responsible for coordinating and preparing the school's annual budget within the approved guidelines.
- Providing the SGB with sound financial advice regarding school funds:
 - how to generate funds
 - how to use them

- to invest funds
- To make recommendations to the SGB on the level of school fees to be levied per learner and to recommend the level and extent of appropriate school fee exemptions.
- To prepare and present prescribed financial reports to the SGB.

According to Bisschoff and Mestry (2003:64) the functions of the finance committee are, *inter alia*:

- Planning: to develop and implement a school finance policy, to develop policies and outline the role functions of each member of the finance committee and all the sub-committees that must be adopted, to study the respective sections concerning financial matters in the Schools Act and also apply them correctly and to draw up a budget each year and oversee control thereof.
- Leading: to devise strategies to raise additional funds for the school.
- Organising: to advise the SGB when preparing the budget on the amount of school fees, school fee exemptions and collections and the enforcement of the payment of school fees.
- Control: to keep overall control of school money, monitor and approve all expenditure, to maintain accounting documents and records systematically and accurately, to ensure that procurement of goods and services is done through correct quotation and tendering procedures, control the financial matters of the school, check financial records internally and to recommend the external auditor.

Clark (2008:53) adds the following duties of the financial committee:

- Financial oversight to ensure that SGB and education department's policies are adhered to.
- Check and act on auditor's reports.

Regarding the frequency of meetings, Clark (2008:53) recommends that the financial committee meets on a monthly basis, whereas the DOE (2007: 4-106) suggests that the committee should meet "regularly". The Free State department of education provides contradictory suggestions in this respect, stating in 2002 (2002:3) that the finance committee should "meet regularly (usually once a month)", whereas in 1998 (1998:4-4) it stipulated that meetings should take place quarterly. The standard recommended by the researcher is that finance committee meetings should be conducted monthly especially as ongoing daily budget control is not being effected in schools, as will be noted in the findings in chapter five.

Thus, it is incumbent upon the SGB, through the finance committee to formulate and implement the school financial policy. This is further supported by Mestry (2006:36) stating that one of the most important functions of the finance committee is the "developing and implementing" of a financial policy and is further supported by Bisschoff (1997:93) who categorically states that the "financial committee of the governing body should draw up the financial policy for the school". According to Clark (2008:282), the governing body must ensure that there are proper policies and procedures in place for the management of school finances. The Free State department of education's financial regulations in section 2(2) (1998) state that the SGB must set the minimum requirements for financial management and control at a public school. The regulations do give the SGB the prerogative "to implement a more elaborate system of recording and controlling finances, provided that such a system shall comply with the minimum requirements set". Thus, the provincial department of education determines that each SGB must take the required steps to set up a financial management system to implement the prescriptions of the departmental regulations and recommend that this task be entrusted to the finance committee of the SGB.

It must be noted that in both the regulations as published in 1998 and the 2002 training manual for governing bodies, the Free State department of education refers respectively to the principal as the accounting officer and financial controller. I have purposely refrained from referring to the principal as

the "accounting officer" in the light of the court case between *Schoonbee and others vs. MEC for Education, Mpumalanga and Another*, 2002 (unreported case No.33750/01,(T)), wherein the issue of financial accountability was raised (Mestry 2006:29). Although financial accountability and financial responsibility of the various parties will be discussed at length below it is suffice to mention that the judge in this case ruled that it was "absurd" that the principal be held accountable for the finances of the school, and that the SGB is held accountable for the efficient and effective management of school funds. This is consistent with the provisions of the Schools Act.

This study has consistently highlighted the importance of involving all role players in policy formulation and, thus, although it is the function of the finance committee to determine the school financial policy, it is essential that all stakeholders be directly involved in the drafting and implementation of the school's financial policy. One way of ensuring such participation, other than direct involvement in drafting the policy, is to ensure that any policy must be formally adopted in an official SGB meeting, thus ensuring that all key stakeholder groups are able to have an input therein. According to Gann, (in Mestry 2006:34) the SGB should be in at the start and at the end of each process creating or reviewing a policy or procedure, as this body remains accountable for the school funds even though most of the financial functions may be delegated to the finance committee.

3.5.2 Components of a sound school financial policy

In the following discussion regarding the elements that should constitute a sound school financial policy, reference must be made to paragraph 2.4.3.2 above wherein certain general guidelines are suggested for school policy making, all of which are equally applicable when drafting a school financial policy. Cognisance must also be taken of paragraph 3.1 above in this regard. Legislated financial functions and responsibilities of the SGB as reviewed above with reference to the Schools Act, together with other relevant legislation relating to school finance and school financial management are required content for a sound financial policy and the policy should provide all

the necessary guidelines for a school to discharge all such functions effectively.

Ryan (in Mestry 2006:35) states that a good policy identifies and articulates the values and the basic principles to be applied to specific needs in an organisation. It should not only set direction but should also give direction. Mestry (2003:131) mentions that a good policy has four distinct components that should be identifiable within any policy document:

- A statement of the need for such policy. When the need is clearly articulated the credibility of the policy and the policy making process will be enhanced.
- A statement of the values and principles that should be brought to bear on that need. Values and principles drive policy. Values such as transparency, democracy and honesty should form the basis of the policy.
- A statement of the "guide for discretionary action". Whatever the guide for discretionary action is identified, it must be a guide or a directive that an educator or administrator must merely implement.
- A statement of the expected outcomes. Identification of expected outcomes assists in the necessary process of policy review or evaluation.

According to Mestry (2006:35), the formulation of rules and regulations for handling the money and assets of the school in the financial policy is necessary. The policy should clearly state the procedures for handling of and accounting for monies received, receipting procedures, cheque authorisation, authorised signatories for the bank account/trust account, documentation, recording of transactions, segregation of financial duties, internal control procedures and indeed for every aspect related to school finances (cf. Mestry, 2006:35). Bisschoff (1997:93) adds further that the financial policy of a school should clearly indicate the functions of all those involved in the school's finance.

Kruger (2005:240) states that principals and members of the finance committee should be familiar with the correct procedures used in the school for:

- Handling the school fund account.
- Receiving, recording and administering school finances.
- Financial accounting and reporting.

Thus, by inference all these matters should be covered in the school financial policy. The school financial policy should also include sub-policies for fundraising, budgeting, school fees and other income generating concerns. Alternatively these matters could be incorporated into the overall school finance policy.

According to the Northern Cape Department of Education (undated: 35-40), the following aspects should be included in the school financial policy document:

- Receipting procedures and recording of money received.
- Depositing of monies.
- Payments.
- Withdrawals of money.
- Petty cash.
- Financial reporting.
- Budgeting.
- Fundraising.

The Free State Department of Education (1998:4-1) in its training manual for SGBs' stresses the need for effective management and competence in the following generic areas:

- Drafting an annual budget for the school;
- Raising funds for the school;

- Keeping financial records of funds and assets;
- Exercise control over funds and assets; and
- Drafting and submitting annual financial statements of the school.

The Free State Department of Education (1998: Module 4) further elaborates on procedures and control measures for each of these generic headings; thus a financial policy should also incorporate the above. Reference must also be made to section 1.2 above wherein various financial control deficiencies in Gauteng schools were detected during an outsourced review of financial processes, all of which should be incorporated into the financial policy and concomitant internal financial controls.

Clark (2008:284) suggests that a financial controls policy should include:

- How financial transactions are processed.
- The internal checks that need to be in place.
- The delegation of responsibility for the processing and recording of financial transactions.
- The delegation of responsibility for checking that this is done in accordance with the school's established systems and procedures.
- The system of authorisation (and the delegation of authority to approve the various kinds of financial transactions).

Thus, having reviewed the constituent elements that constitute policy and the policy formulation process, combined with an extensive review of legislation and literature relating to control of school finances, funding, inherent requirements for a sound school policy and further backed up by the writer's own extensive fifteen year practical experience in commercial financial management and internal financial control it is now possible to construct a recommended all embracing school financial policy which is appended in Appendix A. The policy as attached defines each policy constituent, followed by the requisite internal controls and procedures that are necessary to ensure the efficacy of the policy constituent.

The policy and procedures as listed in the recommended school policy have been used extensively in the qualitative research as detailed in chapters four and five.

3.5.3 The nature and objective of internal control, internal auditing and external auditing

3.5.3.1 Internal control

An effective financial and accounting system will always include comprehensive internal control measures. According to Faul *et al.* (1985: 161), the two are interlinked to form a set of mutual controls, the system being used to apply the measures, while internal control ensures the maintenance of the system. The application of a properly planned system will motivate the execution of policy, increase effectiveness in all spheres, protect the concern's assets against waste, fraud and theft, and ensure a constant supply of accurate and reliable accounting information. Faul *et al.* (1985:161) distinguishes between *accounting* control and *administrative* control:

- *Accounting* control is the concept embracing the organisation, planning, methods and procedures concerned with protecting assets and ensuring the reliability of financial records; and
- *Administrative* control refers to procedures and methods primarily concerned with the effectiveness of operations and managerial control.

Although measures for internal control will differ from one organisation to another, depending on the nature and scope of that organisation and other situational factors, every effective system, according to Faul *et al.* (1985:161) will have certain salient characteristics such as:

- Competent staff.
- Delegation of responsibility.

- Distribution of work.
- Separation of functions of accountability and administration.
- Use of suitable and adequate records and equipment.
- Staff rotation.
- Physical protection of assets.
- Internal auditing.

Internal controls are defined by Taylor *et al.* (1987:51) as those methods and procedures adopted by management of an entity to assist in achieving management's objective of ensuring that the business of the entity is properly conducted in an orderly and efficient manner. This definition is no less applicable to the school situation and can be adapted by replacing the word "entity" with "the school" and "management" with "the SGB and school management", thus: internal controls are those methods and procedures adopted by the SGB and school management to assist in achieving the objective of ensuring that the business of the school is properly conducted in an orderly and efficient manner. Internal controls may relate to the accounting system or to other aspects of the entity's operations. Internal controls relating to the accounting system are those designed to ensure that the financial information is complete, accurate and valid, and generally include such controls as authorisation procedures, separation of duties concerned with accounting record keeping and custody of assets, safeguarding of assets, regular comparison of physical assets to those recorded (by means of stocktaking/spot checks) and internal auditing (cf. Taylor *et al.*, 1987: 52).

It is necessary to highlight significant statements emanating from a report of the Special Advisory Committee on Internal Accounting Control of the American Institute, which states that the "internal accounting control environment" has "a significant impact on the selection and effectiveness of an entity's accounting and control procedures and techniques' and includes the following elements" (Taylor *et al.*, 1987:54):

- The organisational structure.

- Competence and integrity of personnel.
- Delegation of authority.
- The use of budgets and financial reports as a means of formulating and communicating goals and objectives.
- The presence of organisational checks and balances that separate incompatible activities and provide for supervision by higher levels of management.
- The method of data processing used by an undertaking and in particular the degree of control exercised by management over the development and maintenance of a computer system.

Thus, any deficiencies in the above can affect the efficacy of internal control; for example, a particular control technique performed by someone incompetent to perform the task adequately would render that control ineffective. As stated in Chapter one, persons performing or delegated to perform financial functions and controls in schools must have the necessary competence and financial knowledge to perform these tasks, something which is lacking in many schools (Marishane and Botha 2004:100).

Sawyer (1981:63) suggests certain means by which managers can control functions within an organisation:

- Policies
 - A policy is any rule which requires, guides or restricts actions, and should follow certain rules, namely:
 - policies should be clearly stated in writing
 - policies should be systematically communicated to all staff and management
 - they must conform with applicable laws and regulations
 - they should be designed to promote the conduct of authorised activities in an effective, efficient and economically manner and to provide a satisfactory

degree of assurance that the resources of the enterprise are suitably safeguarded

- policies should be periodically reviewed and they should be revised when circumstances change.

- Organisation

- Organisation as a means of control is an intentional structure of roles assigned to people within the enterprise so as to achieve the objectives of the enterprise efficiently and economically.
- Responsibilities should be divided so that no one person will control all phases of any transaction.
- Each manager should have the authority to take the action necessary to discharge his/her responsibility.
- Individual responsibility should always be clearly defined.
- An official who assigns responsibility and delegates authority to subordinates should have an effective system of follow-up to make sure that tasks assigned are carried out.
- People should be required to account to their superiors for the manner in which they have discharged their responsibilities.

- Procedures

- Procedures are methods employed to carry out activities in conformity with prescribed policies. The same principles applicable to policies are also applicable to procedures.

- Personnel

- Personnel hired or assigned should have the qualifications to do the jobs assigned to them.
- Employees should be given training and refresher courses to provide the opportunity for improving competence.
- Employees should be given information on the duties and responsibilities of other segments of the organisation so that

they better understand how and where their job fits into the overall organisation as a whole.

- The performance of all employees should be periodically reviewed to ascertain whether all essential requirements of their jobs are being met.

- Accounting
 - Accounting is the indispensable means of financial control over activities and resources.
 - It furnishes a framework which can be fitted to assignments of responsibility.
 - It is the financial scorekeeper of the enterprise.

- Budgeting
 - A budget is a statement of expected results expressed in numerical terms. As a control it sets a standard of what should be achieved.
 - All those responsible for budget allocations and adherence to such should be participants in the budget preparation.
 - Those responsible for budget allocations must make ongoing comparisons of actual expenditure against budgeted expenditure and report on reasons for any significant variances. Such reports must include action steps to bring expenditure into line in respect of negative variances.
 - Budgets should set measurable objectives.

- Reporting
 - Reports should be timely, accurate, meaningful and economical;
 - Reports should be made in accordance with assigned responsibilities.
 - Reports should be as simple as possible and consistent with the nature of the subject matter.
 - Reports should be timely to be of maximum benefit.

- Internal review
 - The uninspected inevitably deteriorates.
 - All operations should be periodically reviewed by people who are independent of those operations.
 - Internal auditing is one such form of review.
 - Some principles for a system of internal review include:
 - all types of review activity, such as inspections and internal audits should be coordinated;
 - the duties and responsibilities should be clearly defined in order that the review authority is recognised;
 - internal review operations (such as internal audit) should not replace line authority and responsibility;
 - internal review is a staff function. Internal reviewers should not control or direct action - their responsibility is advisory: to provide information as a basis for decision making and action;
 - all internal review work should meet professional standards of competence, reliability and objectivity;
 - findings should be reviewed with those persons whose work is being appraised, except where the possibility of fraud requires different treatment;
 - suitable follow up procedures should be devised to see whether findings and recommendations have been considered and whether corrective action has been taken satisfactorily.

3.5.3.2 Internal auditing

As stated by Faul *et al.* (1985:161) above a salient feature of the internal control system is the internal audit function. Auditing is defined as "...the independent examination of financial information of any entity, whether profit-oriented or not, and irrespective of its size, or legal form, when such an examination is conducted with a view to expressing an opinion ..."
(International Auditing Guideline No 3, issued September, 1980, in Taylor *et*

al. 1987: 23). Internal auditing, as a branch of auditing, arises whereby management has the responsibility for adopting sound accounting practices, for maintaining an adequate and effective system of accounting records, for the safe-guarding of assets and to develop a system of checking procedures which will ensure the production of proper financial statements (Taylor *et al.* 1987: 24).

The basic difference between the (external) auditor and the internal auditor is summed up in the definition of an auditor by the South African Institute of Chartered Accountants, in auditing statement AU 001: "the auditor (sometimes referred to as the independent or external auditor) is a person who is in public practice as an accountant and should be distinguished from an internal auditor, who is an employee of the body by which he is engaged" (De Jager, *et al.* 1988:11).

Faul *et al.* (1985:164) state that the objective of internal auditing is to give an independent evaluation of the enterprises financial and business activities, and state further that, the internal auditing task extends beyond the scope of tracing fraud and irregularities to include ensuring that procedures and policies are implemented as prescribed, as well as eliminating situations or practices which could lead to waste or inefficiency. The internal auditing function is a staff or advising function which is based principally upon *continuous control and scrutiny* of activities (Faul *et al.* 1985:164).

The scope of internal auditing is described by Marx, Van der Watt, Bourne and Hamel (2007:4-20) as:

- To review the reliability and integrity of financial and operations information.
- To review the means of safeguarding assets.
- To appraise the economic and efficient management of the organisation.

According to Niemann (2005:394) internal auditing is carried out by administrative and academic personnel who are seconded for this purpose by the school principal and this includes checking on the cash flow, accounting activities, consumer supplies, capital expenditure and purchases. It is suggested, however, that the identification of a person to conduct the internal auditing function be a decision of the finance committee, (which includes the school principal) and should be a financially competent member of the finance committee or a competent person seconded by the finance committee. This person should be tasked with checking whether the systems and control procedures as defined in the school finance policy are properly adhered to and carried out. This person, thus, performs the duties of internal control, including the task of internal auditing. In delegating this responsibility, the SGB/finance committee must at all times ensure that an *independent* review (see definition above) takes place.

The consequential objectives and advantages of an internal audit are the timely *detection* of errors, omissions and fraud and the *prevention* of errors or frauds. Errors can be classified as follows:

- Unintentional errors.
- Intentional errors, generally accompanied by misappropriation, or made by management to manipulate or falsify records, but not with the purpose of misappropriation.
- Errors of omission, for example a transaction is omitted from the books.
- Errors of commission, which may occur in the following ways:
 - An amount incorrectly entered in a book of original entry.
 - An amount posted incorrectly.
 - An incorrect addition of a book of original entry or ledger account.
- Clerical errors and errors of principle: clerical errors arise through carelessness, whereas an error of principle is due to lack of knowledge. School management must be aware that poor internal control and inadequate training contributes to a plethora of such errors.

3.5.3.3 External auditing

In conclusion to this section it is necessary to briefly further expand upon the difference between internal and external auditing. The concept of internal auditing should be clear in respect of the discourse thereof above and note should also be taken of the definition of an auditor, as given by the South African Institute of Chartered Accountants (*supra*). Niemann (2005:397) states that external auditing involves the final checking process (of financial records and statements: *my brackets*) and is undertaken by independent, non-educational audit firms. He adds that, depending on the official instructions, external auditing may be done by either a private auditor or by the state auditor. A private auditor is, unless otherwise allowed or stipulated, a person registered as an accountant and auditor in terms of the Public Accountants and Auditors Act (RSA 1991). The Schools Act stipulates that the SGB must appoint a person so registered in terms of the Public and Accountants Act to audit the annual records and financial statements of the school. The Schools Act (RSA 1996b) does allow that, if an audit by a registered accountant and auditor is not reasonably practical, the SGB must appoint a person to examine the records and financial statements who 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 a person approved by the MEC for this purpose. It should be noted that the Schools Act (RSA 1996b:s.43(3)) further stipulates that no person who has a financial interest in the affairs of the public school may be appointed to conduct the external audit, which again stresses the principle of *independent examination* which forms the cornerstone of all auditing endeavours.

Kruger (2005:243) defines auditing (thus *external* auditing) as the process whereby an *independent* accounting firm or parent or community leader evaluates and controls the accounting system of the school to ensure that income and expenditure are managed according to the financial policy of the school. In my opinion, this definition abounds with errors due to the following reasons:

- i. The definition is not succinct, giving the impression that any parent or community leader may undertake this task. The definition should have referred to a person as described in the Schools Act (discussed above) or provincial regulation, and further should have stipulated that where a parent or community leader is authorised to undertake an external audit, such person must have the necessary financial competence for the task;
- ii. It is *not* the duty of the external auditor to control the accounting system of the school but to *verify* and *audit* the records and financial statements of the school; and
- iii. An external auditor's task is *more* than ensuring that income and expenditure are managed according to policy, and should also include an audit of records, financial statements, registers and assets, culminating with the declaration of an opinion regarding the veracity of the financial records and statements according to generally accepted accounting practices. The external auditor could also be tasked with the drafting of the final financial statements, namely the annual statement of income and expenditure and annual balance sheet. A further important component of an external audit is the compilation of an auditor's report, which highlights weaknesses found in the financial process and recommends ways to correct such deficiencies.

It should be noted that the Free State Department of Education (1998:4-25) "highly recommends" that a school, if possible, should appoint a public accountant (as defined in the Schools Act above) as the external auditor, failing which the school must obtain approval from the MEC for a person to conduct this task.

3.5.4 Accountability and responsibility for school financial management

Sawyer (*supra*) states that accountability is the obligation of employees and management to give a reckoning for what they have accomplished. Accountability is defined by Watt *et al.* (in Mestry 2004:127) as being

answerable to one's clients (moral accountability), liable to oneself, one's colleagues (professional accountability) and responsible to one's employers (contractual accountability). It entails giving an account of actions taken and being held accountable for these actions (Mestry 2006:31). As mentioned above, accountability derives from responsibility, which is the obligation to perform.

Thus, who is responsible and accountable for school financial management; the school or the SGB, or do both have joint accountability and responsibility? In order to answer this question one must refer to the analyses done above of the Schools' Act and the Public Finance Management Act (RSA 1999), together with relevant case law. Prior to the implementation of the School's Act the principal was assumed to be the chief accounting officer of the school.

According to findings by Mestry (2004:127) there is still a perception amongst many parents, educators and principals that the principal is the accounting officer of the school and is thus accountable to the DOE for school finances. Indeed, many DOE officials are of the opinion that the principal is the accounting officer of the school. It must be noted that in its training manual for School Governing Bodies (1998:4-2), the Provincial Department of Education, Free State, stipulates that "the Regulations of the Department therefore stipulate in Section 1(1) that the principal is the accounting officer of the school". It will be noted in the presentation of findings in chapter 5 that this is still the position in Free State schools.

However, the Schools Act states that governance of the school is vested in its governing body and obligates the SGB with the responsibility for the financial management and control of the school in Sections 20, 21, 29, 30, 36-38 and 39-43. Section 16 (3) of the Schools Act states that professional management of the school must be undertaken by the principal under the authority of the Head of Department, but the Act does not ascribe any financial responsibilities or obligations upon the principal, albeit that the Act prescribes that it is incumbent upon principals to render all the necessary *assistance* to

governing bodies in the performance of their functions in terms of the Act, which of course includes the ascribed financial functions of the SGB.

As "professional management" of the school refers to administration and organisation of all school activities that support teaching and learning, it could be argued that this should include financial activities as the objective of effective school financial management is to support teaching and learning in the attainment of quality education. The SGB, however, invariably delegates certain financial tasks to the principal and holds the principal accountable for these delegated tasks.

In a landmark case between *Schoonbee and others vs. MEC for Education, Mpumalanga and Another*, 2002 (unreported case No. 33750/01) the MEC argued that the principal was the accounting officer, and as such was accountable for the financial management of the school. The legal representative on behalf of the principal argued that there was no justification for the MEC/HOD (Head of Department) to claim that the principal is equivalent to the accounting officer of the school. He further argued that, in the principal, the professional management of the school vests under the direction of the HOD, and as such he/she has no executive role in relation to the SGB on property and financial matters (Mestry 2006:31). It was argued that the SGB is accountable to the parents for the efficient and effective management of school funds, and may *delegate* certain financial functions to the principal who is then *accountable* to the SGB. This is consistent with the Schools Act and the Public Finance Management Act. The Schools Act stipulates that the overall governance of the school vests in the governing body, whose role is described as fiduciary in respect of a school (Mestry 2006:31). Other than the stipulation in the Schools Act that the principal render assistance to the SGB, there are no specific duties entrusted to or vested in the principal relating to the assets, liabilities and the property of the school (Mestry 2006:32). The ruling of the judge in this case reflected this role of the principal stating that the principal is an educator who manages the school professionally. "Managing the finances is something that you cannot

expect from him. The contention that the principal should be held accountable for the finances is an absurd proposition" (Mestry, *supra*).

It is therefore quite evident that the SGB is accountable for the efficient and effective management of school funds and may delegate some financial functions to the principal. This is supported by Clark (2008:281) who states that it is clear that the SGB, and not the principal, of a public school has ultimate responsibility for its financial management. Clark (2008:282) continues that by stating that the SGB may delegate a number of duties to the principal, but they (the SGB) are responsible and liable should problems arise. The principal, by virtue of his/her position, plays a dual role: one who is responsible for the professional management of a school, and the other as an ex-officio member of the school governing body (Mestry, 2006: 32). It is contended that the principal should be delegated the task of overseeing the implementation and day to day running of the management tasks and systems relating to finance (i.e. the "mechanics" of the accounting system and financial administration processes) and that the SGB, through its finance committee determines the school's financial policy, determines adherence to that policy through strict internal controls including internal auditing and abides with the statutory provisions such as, *inter alia*, those relating to control of school and other funds, assets control, budgeting, preparation of annual financial statements, reporting and appointment of external auditors. Clark (2008:288) states that, although the SGB has ultimate responsibility for the financial management of the school, it is normal practice for the SGB to delegate the daily operational financial management functions to the principal and his/her staff.

As the "accounting officer" the SGB is accountable for effective management of school finances. However, a considerable amount of cooperation and open communication between the SGB and school management is vital, as is the cooperation and involvement of all relevant role players. Thus, the principal can play a *supportive* role in ensuring that the school's finances are managed efficiently (Mestry 2006:35).

3.5.5 Financial policy implementation

As Taylor *et al.* (1997:15-17) confirms, policy implementation is never straightforward. Literature on policy implementation abounds with references to the "policy gap" (cf. subsection 2.4.3.2), resulting in the failure of many sound policies in practice. Poor policy implementation can be as a result of a plethora of factors: Fullan (in Hariparsad 2004:11) argues that a large part of the problem is more a question of difficulties related to planning and coordinating, whereas Angula and Grant-Lewis (in Hariparsad 2004:11) ascribe implementation problems to, *inter alia*, a lack of will to act, limited understanding and skills and lack of support. Reimers and McGinn (in Hariparsad 2004:11) contend that policies fail because conditions to facilitate dialogue and organisational learning were absent. Thus, researchers on implementation of policy are in agreement in indicating that policy ideas rarely translate unproblematically into practice.

Other implementation problems can include lack of proper planning, incompetence, lack of training, deficiencies in the policy review process, lack of financial knowledge and ignorance. The latter two, lack of financial knowledge and ignorance, are particular reasons for ineffective implementation of financial policy in poorer, less educated communities. Parent members from such communities who are elected to the SGB often have little knowledge about financial affairs and are expected to make decisions regarding financial matters pertaining to school finances, including school financial policy. As stated by Prinsloo (2006:357), the parent majority in the SGB implies that parents have a strong and decisive voice in matters such as the financial affairs of the school.

Furthermore, some members of school governing bodies and principals either have little knowledge of the Schools Act or interpret it incorrectly, which results in many schools experiencing financial mismanagement, flowing from ineffective financial policy formulation, implementation and control (cf. Mestry, 2006:27). According to Mestry (2006:28), many principals and SGB members are placed under tremendous pressure to manage school finances due to

their lack of financial, knowledge, skills and expertise. Obviously these deficiencies could well lead to a lack of commitment to successfully implement the financial policy and it is thus vital that all affected personnel receive necessary financial management training in order to ensure successful implementation and control of the financial policy. During research conducted into this matter by Mestry (2006:33) many participants agreed that one of the reasons for mismanagement of funds was due to ineffective financial policy implementation. Heystek and Nyambi (2007:243) state that *many studies* (my italics) have revealed that SGBs in disadvantaged communities often do not have the necessary skills to handle their finances sufficiently, which detrimentally affects financial policy formulation, implementation and control.

The problems relating to successful policy implementation is highlighted here as it is necessary in this study to be aware of such problems when conducting later qualitative and quantitative research.

3.6 CONCLUSION

In Chapters two and three extensive review was conducted of policy, education policy and school policy, culminating in a discourse of school financial policy, school financial management and control. Due to the importance of prescriptive legislation relating to school finances it was further necessary to extensively review applicable legislation in this respect, during which various education/school related acts that referred to school finances were examined, most notably the provisions of the Schools Act.

The following chapter will provide an analysis of the research methodology and design that were utilised in the attainment of the aims of the research.

CHAPTER 4

RESEARCH METHODOLOGY AND RESEARCH DESIGN

4.1 INTRODUCTION

The literature study in Chapters two and three formed a framework for the empirical study. According to Fouché and Delport (2003b:265), a thoughtful and informed discussion of related literature should build a logical framework for the research. It is contended that the conducted literature study serves the undermentioned functions for qualitative studies as determined by Fouche and Delport (2003b:265-266). The italicized bullets affirm the applicability of this research to the recommended functions of a literature study as described by Fouche and Delport (2003b: 265-266):

- The literature study has demonstrated the underlying assumptions behind the research question (i.e. the research paradigm).
 - *The problem to be researched (subsection 1.2) is whether schools have an effective financial policy in place, supported by sound financial procedures and controls and which are verified by ongoing internal management checks. Literature as documented in subsections 1.1 and 1.2 have indicated shortcomings in financial policy and control procedures and in internal management checks at some schools.*

- That the researcher is thoroughly knowledgeable about related research and the intellectual traditions that surround and support the study.
 - *The researcher has extensive financial management experience, which has been enhanced by the extensive literature review in chapter three of school financial management and school financial policy. Thus, a sound*

knowledge base has been acquired through reference to related research and the extensive literature study as documented.

- Shows that the researcher has identified some gaps in previous research and that the proposed study will fill a demonstrated need.
 - *The literature study has highlighted financial management and control deficiencies in schools in Limpopo, Gauteng, and Mpumalanga provinces. This, therefore, begs the question: what is the situation in the Free State province? The researcher could not find studies devoted entirely to school financial management in the Free State. Much research has been conducted in overall school management in which financial management has been accorded a subsection or more. Thus, it was felt that there was a need for a comprehensive study on school financial management in designated schools in the Free State province.*
- Refines and redefines the research questions by embedding those questions in larger empirical traditions.
 - *The literature study has enabled the researcher to refine the research questions, thus, providing better focused interviews and direction in highlighting deficiencies to be aware of during the document study.*

As the aim of the research is to examine the efficacy of financial policies at designated schools and to establish that sound internal financial controls are being effected in the management of school finances this will necessitate the examination of school financial policy documents, school accounting procedures and internal control standards. The examination of documents will be supported by interviews with relevant personnel involved with school financial management. The research, therefore, lends itself to utilising an interpretive/constructivist paradigm, such as the selected qualitative research method. It is contended that the research results will be more accurately determined by adopting a personal, interactive mode of data collection by examining relevant documents and interviewing participants at source in their real working environment.

Thus, due to the practical nature of the research it is vital that this research is done *in loco*, involving relevant personnel in order that the real situation can be determined, thus ensuring the veracity of the research.

The choice of research methodology for this study is further substantiated when taking Denzin and Lincoln's (1994:2) definition of qualitative research in account:

Qualitative research is multimethod in focus, involving an interpretive, naturalistic approach to its subject matter. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret, phenomena in terms of the meaning people bring to them...Accordingly, qualitative researchers deploy a wide range of interconnected methods, hoping always to get a better fix on the subject matter at hand.

Marshall and Rossman (in Fouche and Delport 2003a:80) propose certain guidelines in which the qualitative approach would be the preferred one, such as, *inter alia*:

- Research that delves in depth into complexities and processes.
- Research that seeks to explore where and why policy...and practice do not work.
- Research on real, as opposed to stated, organisational goals.

The above guidelines further justify the selection of the qualitative method for this research study, as the study delves into financial processes at schools, school financial policies and their applicability to practical financial management and control.

During the qualitative research the perceptions of a variety of types of persons have been sought, such as members of the finance committee, the principal, the SGB chairpersons, the finance officer/clerk, personnel delegated to effect

internal auditing controls and other designated personnel involved in the control and administration of school finances and school budgeting.

Interviewing different role-players in the control and management of school finances, backed up with an extensive document study will eliminate the potential for individual interview bias. This chapter, thus, describes the qualitative process with an emphasis, *inter alia*, on the phenomenological approach to inquiry. The phenomenologist attempts to understand and interpret human behaviour by analysing conversations and observing the actions and reactions of participants (De Vos and Fouche 1998:80).

4.2 RESEARCH METHODOLOGY

4.2.1 Qualitative methodology: A theoretical basis

According to Mertens (1998:11), the basic assumptions guiding the interpretive/constructivist paradigm are that knowledge is socially constructed by people active in the research process, and that researchers should attempt to understand the complex world of lived experience from the point of view of those who live it. The ultimate aim of interpretivist research is to offer a perspective of a situation and to analyse the situation under study to provide an insight into which a particular group of people make sense of their situation or the phenomena they encounter (Maree, *et al.* 2007:60). Qualitative methods such as interviews, observations and document reviews, which are employed in this study, are predominant in this paradigm.

Guba and Lincoln (in Mertens 1998:14) state that qualitative methods are applied in correspondence with the assumption about the social construction of reality in that research can be conducted only through interaction between and among investigator and respondents. Eichelberger (in Mertens 1998:14) describes the work of the interpretive/constructivist researcher as follows:

[T]hey want to know what meaning people attribute to activities....and how that related to their behaviour. These researchers are much

clearer about the fact that they are constructing the "reality" on the basis of the interpretations of data with the help of the participants who provided the data in the study. They do a great deal of observation, read documents....do extensive and informal interviewing...

Qualitative research, thus, is idiographic and holistic in nature and aims mainly to understand social life and the meaning people attach to everyday life (Fouche and Delport 2003a:77). In its broadest sense, qualitative research refers to research that elicits participant accounts of meaning, experience or perceptions. It also produces descriptive data in the participant's own written or spoken word. The qualitative researcher is "... concerned more with understanding (*verstehen*) rather than explanation" (Fouche and Delport 2003a:77). The qualitative researcher is, therefore, concerned with "...the subjective exploration of reality from the perspective of an insider..." (McRoy, in Fouche and Delport 2003a:79).

Qualitative researchers thus study things in their natural settings, attempting to make sense of, or to interpret, phenomena in terms of the meanings that people bring to them (Denzin and Lincoln 2000:3).

Rather than beginning with a defined hypothesis, qualitative research commences with an idea or an interest and is often used in education in order to gain insight into some educational issue. In this regard McMillan and Schumacher (2001:339) stated that, "qualitative studies can provide a detailed description and analysis of a particular practice, process and event. Some studies document the happenings while other studies contribute to increasing the participant's own understanding of the practice to improve the practice". In the light of this statement, therefore, it is contended that qualitative methodology will be the most suitable for the researcher to achieve the aforementioned aims of this study.

4.3 RESEARCH DESIGN

According to Hariparsad (2005:67) the research design is the blue print for fulfilling the objectives and answering the questions set out in the research. Cresswell (2009:3) refers to research design as being the plan and procedure for research that spans the decision from broad assumptions to detailed methods of data collection and analysis. The researcher has opted to conduct multiple qualitative strategies comprising of semi-structured one-to-one interviews and document study because they are regarded as the most suitable means to achieve the objectives of this study.

4.3.1 Data collection

4.3.1.1 Sampling

Denzin and Lincoln (in Strydom and Delport 2003:334) point out that qualitative researchers seek out individuals, groups and settings where the specific processes being studied are most likely to occur. In this study a purposive sampling method was adopted because it illustrates some feature or process that is of interest for the particular study, namely that involving financial processes at schools. According to Strydom and Delport (2003:334), clear identification and formulation of criteria for the selection of respondents are of cardinal importance. Thus, the target population was chosen from a specific group involved in varying degrees in the financial processes in schools, as follows:

- Principal.
- Chairperson of the finance committee.
- Chairperson of the SGB.
- The school financial officer.
- The person delegated to conduct internal audits, if applicable.

As stated in section 1.5, five section 21 schools in the Motheo Education district of the Free State were selected for this study, comprising of three primary schools and three secondary schools. These schools are "township" schools which were selected based on their status as previously disadvantaged schools and based on the findings of the literature study that many previously disadvantaged schools were still experiencing difficulties in managing and controlling school finances. Thus, former model C schools were excluded as the researcher's rationale was to examine the level of financial management in such disadvantaged schools consequent to the implementation of the Schools Act.

4.3.1.2 Semi-structured interviews

Interviews are two-way conversations in which interviewers asks participants questions in order to collect data and are, thus, interactional events wherein interviewers are deeply and unavoidably implicated in creating meanings that ostensibly reside within the participants. Both parties, the researcher and the participant, are thus necessarily and unavoidably active and involved in meaning-making work (De Vos 2003:292). The aim of an interview is always to obtain rich descriptive data that will help the researcher understand the participant's construction of knowledge and social reality (Maree 2007:87).

Semi-structured interviews are defined by De Vos (2003:298) as those organised around areas of *particular interest* (my italics), while still allowing considerable flexibility in scope and depth. De Vos (2003:302) states further that semi-structured interviews are especially suitable where one is particularly interested in complexity or process ... Furthermore, as a semi-structured interview basically defines the line of inquiry (Maree 2007:87) it is contended that this format of interview will be well suited to the collection of data for this research.

Face to face semi-structured interviews were conducted with the following personnel at each designated school:

- Principal.
- Chairperson of the finance committee (see limitations of the study in 4.3.5).
- Chairperson of the SGB.
- The school financial officer.
- The person delegated to conduct internal audits, if applicable. (Refer to the limitations of study, paragraph 4.3.5 in this respect.)

The interviews of principals and chairpersons of the SBG/finance committee revolved around the under mentioned points of discussion:

Who, in your opinion, do you regard as responsible and accountable for effective financial management at your school and why?

Explain the procedures followed in your school regarding the formulation or amendment of school financial policy.

In your opinion, what is effective school financial management?

Describe the duties of the school financial officer.

Describe the internal audit function at your school, or alternatively, management involvement in internal financial control.

Explain the budget control process at your school.

Describe the working relationship between the school management team and the SGB/finance committee as regards financial management.

Discussion points for interviews with the school financial officer were as follows:

When you receive money on behalf of the school describe the procedures that you follow from receipt of the money to banking thereof.

How do you handle cheques or cash received through the post?

Explain the petty cash system at your school.

Explain the procedures for issuing and authorising cheque payments.

Explain how you would reconcile the monthly bank statement to the school's financial records.

Describe the internal auditing procedures affecting your portfolio, or in the absence thereof, management internal financial control affecting your portfolio.

Explain your involvement, if any, in budget control.

Who, in your opinion is accountable for financial management at your school, and why?

(In discussing the above the financial officers were requested to provide all the necessary documentation for examination and verification)

As stated the interviews were semi-structured, but were flexible enough to stimulate discussion and to allow supplementary and complementary questions as the need arose in order to probe deeper into respondents' views. However, the use of a semi-structured interview process was selected to provide some uniformity to each interview, thus ensuring that common themes were covered at all researched schools.

All interviews were tape-recorded with the permission of the respondents and subsequently transcribed verbatim. Interviews with the principals and SGB chairpersons lasted an average of thirty minutes, whereas interviews with the finance clerks combined with document examination and discussion of the documents lasted on average forty five minutes. Reflections of the researcher and observational field notes were also recorded immediately following the interview, especially observations relating to the document study such as correct completion of documents, document authorisation and whether financial records were up to date. All respondents were assured of strict anonymity and confidentiality. The researcher collected and analysed all the data.

4.3.1.3 Document study

A study of this nature, that is, an investigation into school financial policies, procedures and internal financial controls would be incomplete without examination of the stated financial policy, financial documentation and

financial processes in the school. Examination of such documentation is important to determine, *inter alia*, that financial transactions are recorded timeously, that basic financial rules such as separation of duties are being complied with, that internal checks are being conducted on an ongoing basis and that budget control techniques are in place, all of which should ensure that the true financial condition of the school is always currently available. Furthermore, in order to ensure credibility of the research it was essential that financial procedures as outlined verbally by the interviewees were cross-checked to the relevant documentation. Documents were examined *in situ*.

De Vos (2003:322) confirms that, "if documents are studied and analysed for the purpose of scientific research, the method of document study as a data collection method becomes operative". According to Bailey (in De Vos 2003:294) official documents are those compiled and maintained on a continuous basis by organisations and include documents such as financial records, statistical reports and annual reports. When use is availed of documents as a data gathering technique the researcher will focus on all types of written communications that may shed light on the phenomenon that you are investigating (Maree 2007:82).

Documents examined on site during this study at each school include:

- Receipt books.
- Analysis book.
- Petty cash register and vouchers.
- Bank deposit books.
- Cheque books and cheque authorising vouchers.
- Remittance register.
- Forms control sheets/registers (for controlled stationery).
- School financial policy.
- Bank reconciliation statements.
- Budget control documentation.
- Quarterly returns to the Department of Education, Free State.

4.3.2 Validity and reliability

4.3.2.1 Validity

To obtain valid and reliable data one must ensure that the measurement procedures and the measurement instruments to be used have acceptable levels of reliability and validity (Delpont 2003:166). According to Delpont (2003:166), in discussing quantitative data collection, validity broadly refers to the degree to which a measuring instrument is doing what it is intended to do. De Vos and Fouche (1998:83) state that validity refers to whether or not a data collection instrument actually measures the chosen concept, and whether the concept is measured with accuracy.

4.3.2.2 Reliability

Reliability with reference to the conventional positivist paradigm is described by Delpont (2003:168) as the extent to which independent administration of the same instrument (or highly similar instruments) consistently yields the same (or similar) results under comparable conditions. She notes further (2003:169) that high reliability does not guarantee valid results, but there can be no valid results without reliability.

However, in qualitative research, as the researcher is the data gathering instrument, it seems that when qualitative researchers speak of research "validity and reliability" they are usually referring to research that is credible and trustworthy (Maree 2007:80). Qualitative researchers commonly use a combination of possible strategies in order to reduce threats to reliability (Schumacher and McMillan 1993: 391)

4.3.3 Validity of qualitative research

Lincoln and Guba (in De Vos 2003:351) demonstrate the inappropriateness of the conventional positivist paradigm of internal validity, external validity, reliability and objectivity for qualitative inquiry and propose four alternative

constructs that more accurately reflect the assumptions of the qualitative paradigm and form the key criteria of trustworthiness (De Vos 2003:351) and (in Maree 2007:80), namely:

- Credibility.
- Applicability/transferability.
- Dependability.
- Confirmability.

The above are constructed to parallel the conventional criteria of inquiry of internal validity, external validity, reliability and neutrality respectively.

4.3.3.1 Credibility

This is the alternative to internal validity, in which the goal is to demonstrate that the enquiry was conducted in such a manner as to ensure that the subject was accurately identified and described (De Vos, 2003:352). Reliability and validity or trustworthiness of this research was ensured through triangulation of various methods of data collection (interviews, document study and content analysis of the documents). Interviewing various role players involved in school finances assisted in lending credibility to the research as responses by the various parties to similar themes could be compared for similarities or differences. In this study participants were encouraged to present their views in their own words, thereby contributing to the internal validity of the research. It will be evident in chapter five that this has been achieved. Credibility can further be described as the truth value gained through the research design, the participants and the context (Poggenpoel, 1998:349). Credibility is also established through the authority of the researcher. The researcher has a Baccalaureus Commericii degree in Business Management (which includes financial management), Internal Auditing and Accounting, backed up by extensive field experience as a Regional Financial Manager and Internal Auditor in the commercial world, and

is currently, *inter alia*, the financial manager for various financial entities at the Faculty of Education, University of the Free State.

4.3.3.2 Transferability

This is the alternative to external validity or generalisability in which the burden of demonstrating the applicability of one set of findings to another context rests more with the investigator who would make the transfer than with the original investigator (De Vos 2003:352). In this study detailed descriptive data was collected to facilitate comparison within contexts.

4.3.3.3 Dependability

This is the alternative to reliability, in which the researcher attempts to account for changing conditions in the phenomenon chosen for study, as well as changes in the design created by an increasingly refined understanding of the setting (De Vos 2003:352). According to Poggenpoel (1998:350), dependability refers to the stability and consistency of the study. If a study is dependable it can be repeated with the same participants or in a similar context and produce consistent results. Dependability was established by using more than one method to compensate for any possible weakness that may occur in using just one data collection method.

4.3.3.4 Confirmability

This captures the traditional concept of objectivity. Lincoln and Guba (in De Vos 2003:352) stress the need to ask whether the findings of the study could be confirmed by another.

It is generally accepted that engaging multimethods of data collection will lead to trustworthiness (Maree 2007:80). Thus, the employment of multiple modes of qualitative data collection described above, namely, interviews and document study, will enhance the dependability of the results of the research

and lead to an enriched explanation of the research problem, thus ensuring trustworthiness and credibility.

De Vos (2003:324) warns that when documents are studied it is of cardinal importance that the researcher evaluates the authenticity, or validity and reliability of the documents. Two ways in which the validity and reliability of documents were tested in this research were the following:

- Cross referencing of financial documentation (conducting an audit trail). For example, details of cash banked per a bank deposit slip can be cross-referenced to the cash receipts journal, which in turn can be cross-referenced to the receipts control.
- According to De Vos (2003:324) a further technique is to verify data by interviewing other informants...or persons knowledgeable on the subject, or who were personally involved in the event. In this way the content of documents is compared with an external source. According to Maree (2007: 83), "in the interests of the crystallisation of data, documents could serve to corroborate the evidence from other sources". Crystallisation is a concept proposed by Richardson (in Maree 2007:81) as an alternative to triangulation. She argues that triangulation is based on the assumption of a fixed point or object that can be triangulated and dismisses this fixed position as the outcome of a qualitative study, proposing instead that we should not triangulate but crystallise (in Maree 2007:81). The concept of crystallisation will enable us to shift from seeing something as a fixed, rigid, two-dimensional object towards the idea of a crystal, which allows for an infinite variety of shapes, substance, transmutations, dimensions and angles of approach (Maree 2007:81).

Document study was an essential requirement to, *inter alia*, verify the data collected by way of interviews.

4.3.4 Ethical considerations

In any research project certain ethical principles concerning the research participants need to be applied. Leedy and Ormond (2001: 108) mention the following ethical considerations (adapted), which were applied in this study:

- The researcher should not expose research participants to undue physical or psychological harm. Participants should not ...be subjected to unusual stress, embarrassment, or loss of self-esteem.
- Research participants should be told the nature of the study to be conducted and given the choice of participating. Any participation in a study should be strictly voluntary.
- Researchers should respect the participants' right to privacy. In general, the researcher must keep the nature and quality of participants' performance strictly confidential.
- Researchers must report their findings in a complete and honest fashion, without misrepresenting what they have done, or intentionally misleading others as to the nature of their findings.

Permission to conduct the research at the selected schools was obtained from the Department of Education, Free State (see Appendix D) and applied in compliance with their stipulated conditions that:

- Participation by participants was voluntary.
- The names of all schools and participants involved in the research remain confidential.
- The department's authorisation letter was shown to all participants;
- The interviews were conducted outside normal tuition time.

Letters requesting appointments (see Appendix F) were subsequently submitted to the principals, which letters appended the aforesaid approval letter from the department, thus ensuring that the principals were fully informed as to the voluntary nature of their participation. Thus, informed

consent was obtained from the participants, who were further assured of absolute confidentiality and anonymity by providing pseudonyms for them and the schools. Thus, data presented refers to participants simply as principal A, school B, etc.

4.3.5 Limitations of the study

For the sake of completeness and to enhance the comparative analysis it was the researcher's intention to include a study of the two farm schools in the Motheo District, but both principals were not prepared to participate in the research which had to be respected by the researcher in view of the "voluntary" stipulation laid down by the Department.

The SGB chairperson of school B refused to participate, citing time constraints relating to the nature of his employment. When the researcher indicated willingness to interview him after hours or at the week-end he declined.

It will further be noted that in schools A and B, the finance committee chairperson is the principal and in school C the SGB chairperson is also the finance committee chairperson. Thus, questions that would have been addressed to a separate finance committee chairperson were, in these instances, incorporated with the interview with the affected principal and SGB chairperson. Due to internal management problems, school E does not have a functioning finance committee, thus no interview was possible with a finance committee chairperson. Refer to findings and recommendations in this respect in chapters five and six.

A formal internal audit process is not in place in any of the researched schools, thus interviews with a designated internal auditor were not possible. However, discussions regarding the internal audit process were adapted to establish school management and the SGB chairpersons' involvement in internal financial control. Refer to the findings and recommendations in chapters five and six.

4.3.6 Data analysis

Data analysis is the process of bringing order, structure and meaning to the mass of collected data (De Vos 2003:339). According to Maree (2007:99), qualitative data analysis is usually based on an interpretive philosophy that is aimed at examining meaningful and symbolic content of qualitative data. Maree (2007:99) elaborates further that qualitative data analysis tries to establish how participants make meaning of a specific phenomenon by analysing their perceptions, attitudes, understanding, knowledge, values, feelings and experiences in an attempt to approximate their construction of the phenomenon. This is best achieved through a process of inductive analyses of qualitative data where the main purpose is to allow research findings to emerge from the frequent, dominant or significant themes inherent in the raw data, without the restraints imposed by a more structured theoretical orientation (Maree 2007:99).

In the identification of themes and related categories the researcher adopted an open coding process. Open coding is the part of analysis that pertains specifically to the naming and categorising of phenomena through close examination of the data (De Vos 2003:346).

The transcripts of the interviews, observational notes and notes relating to the document study were read and re-read a number of times, during which themes were identified, from which various categories were established. Thus, coding occurred at two levels: during the open coding process the researcher broke down the data into themes and categories/sub-categories relevant to the aim of the research, seeking recurring themes and similarities and differences, following which interpretive constructs related to the analysis were identified and findings established.

Identified themes and conceptual categories are presented in chapter 5.

4.4 CONCLUSION

In this chapter a synopsis of the qualitative research process was provided, including a description of the research design, data collection, data analysis as well as the measures implemented to ensure that the trustworthiness of this research was achieved.

The following chapter will be devoted to the identification of themes and categories, from which conclusions are presented in the form of findings of the research.

CHAPTER FIVE

COMPARATIVE ANALYSIS OF DATA COLLECTED AND PRESENTATION OF THE FINDINGS OF THE RESEARCH

5.1 INTRODUCTION

The previous chapter presented the rationale for the selected qualitative research methodology and the research design, which comprised of semi-structured interviews and document study in the researched schools. The process of data collection is not an end to itself. According to Patton (1997:371), the culminating activities of qualitative inquiry are analysis, interpretation, and presentation of findings, which are presented in this chapter. The main form of data analysis in this study was one of content analysis, which is the process of identifying, coding and categorising the primary patterns in the data (Patton, 1997:381).

As previously stated, an extensive literature study preceded the qualitative study. The aim, *inter alia*, of the extensive literature study was to establish as to what constituted a sound school financial policy and supporting financial procedures. This was one of the documented aims of the research. Thus, *prior* to the qualitative study a comprehensive school financial policy with supporting procedures was formulated (as per Appendix A). This was formulated with reference to policy and procedures as determined in the various publications as discussed and listed in the bibliography, namely Bisschoff (1997), Bisschoff and Mestry (2003), Campher (2003), Clark (2008), Faul *et al.* (1985), Eastern Cape Department of Education (undated), Free State Department of Education (2002 and 1998), Gauteng Department of Education (2004), Kruger (2005), Mestry (2006 and 2004), Northern Cape Department of Education (internet 2007), Sawyer (1981), Taylor *et al.* (1987), Van Deventer (2005 a and b), together with applicable legislation such as the Schools Act (RSA 1996b), National Norms and Standards for School Funding (RSA 2000) and the Public Finance and Management Act (RSA 1999).

All of the above have been supplemented by the researcher's own extensive practical fifteen year experience as a regional financial manager with a major listed retail company which encompassed extensive internal auditing of branch operations during this period. Thus, where the researched literature may have been silent on a particular financial control aspect the researcher has been able to supplement the literature based on years of financial management experience. It is, thus, contended that contributions of the above learned authors regarding financial policy can only be enhanced by the researcher's own contribution based on extensive field experience involving internal auditing of cost centres with a combined turnover of in excess of R500 million per annum.

The formulation of a comprehensive financial policy was a necessary precursor to the qualitative study as the recommended financial policy and procedures then served as the standard against which to measure adherence to financial policies/procedures at the researched schools and to highlight deficiencies which culminated in a set of findings and recommendations.

The five schools researched are referred to as schools A, B, C, D, and E, and the officials interviewed are referred to in a corresponding manner, principal A (that is, principal of school A), SGB chairperson A, etc. The contents of all sixteen interviews were analysed during which recurring themes or patterns were identified and coded. Categories were created within the broad themes identified, which are detailed hereunder.

5.2 CONCEPTUAL CATEGORIES

5.2.1 Interviews with Principals, SGB chairpersons and finance committee chairpersons

5.2.1.1 Theme 1: Financial accountability and responsibility

Consequent to the publication of the Schools Act and taking into account provincial directives it was important to obtain the perception of all principals

as to who, in their opinions, were accountable for school financial management. Accountability is referred to the obligation on an individual to account for actions taken and being held to account for these actions by a party/person legally entitled to do so (Joubert and Bray, 2007:141). Collins, in Joubert and Bray (2007:141) defines being accountable as: "if you are accountable to someone for something that you do, you are responsible for it and you must be prepared to justify your actions to that person".

Thus, categories within this theme were accountability/responsibility of the principal, SGB accountability/responsibility, empowerment and the basis for delegating accountability.

5.2.1.2 Theme 2: Formulation and updating of school financial policy

An examination of school financial policies was undertaken to ascertain whether schools had an effective, working school financial policy in place and the procedures followed by schools where financial policies needed amendment or updating.

Categories identified were: applicability of finance policy, currency of policy, communication of policy to all role players, and accessibility.

5.2.1.3 Theme 3: Effective school financial management

The aim here was to obtain principals and SGB chairpersons' perspectives as to what they believed to be sound and effective school management; what, in their opinion constitutes effective school financial management. In accordance with their responses, the following categories were identified: budget control, management supervision, quarterly returns and annual audits.

5.2.1.4 Theme 4: Duties of the finance clerk

The researcher's aim here was to obtain the principals and SGB chairpersons' views on the role of the finance clerk, their financial functions and their level of financial empowerment and authority within each school.

Categories identified: empowerment, delegation of financial duties, daily duties, expertise/training, segregation of duties and management checks.

5.2.1.5 Theme 5: Internal audit functions/management involvement in internal financial control

As sound financial control is, *inter alia*, dependant on effective and ongoing internal audit checks it was important to establish whether an internal audit process is followed in the investigated schools. Alternatively, in the absence of internal audit this void should be substituted by regular management checks of financial processes and financial records at the school.

Categories identified were: levels of authority, signing powers and evidence of internal audit/management checks.

5.2.1.6 Theme 6: Budgeting processes and control

The aim here was, principally, to establish whether the school had effective budget control procedures in place whereby availability of funds is monitored and recorded on a daily basis. The secondary aim was to examine the budgeting process at the school and involvement of personnel in the budget process.

Categories identified: budget control, budget process, cheque authorisation, budget projection, staff involvement.

5.2.1.7 Theme 7: Finance committee

As the formation and operation of a viable finance committee is an important "cog" in the management of school finances it was important to establish whether the researched schools had viable committees in place.

Categories emanating from responses in this respect were: regularity of meetings, procedures, membership, authority, relationship with SMT and SGB and standing of committee resolutions.

5.2.1.8 Theme 8: Working relationships between SMT and SGB regarding financial management

In terms of the Schools Act (RSA 1996b: s.19 and s.20(1)e) , there must exist mutual co-operation and sound relations between the SMT and SGB. This aspect was examined at the researched schools.

Categories identified: mutual co-operation and SGB involvement.

5.2.2 Interviews with school financial clerks and document examination

For ease of reporting of findings, themes will continue in numerical sequence from the above. It must be noted that recurring categories occur within the under mentioned themes, such as: correct completion of documents and records, records up to date, authorisation of documentation, management checks, financial expertise of the financial clerks, segregation of duties, security of controlled stationery, retention of records and internal audit control. These are, thus, categories common to all themes detailed below. Additional categories will, therefore, be added by exception to individual themes below where applicable.

5.2.2.1 Theme 9: Receipts and banking procedures

Categories: receipt issue, completion of receipts, amendments to receipts, cancelled receipts, security of receipt books, person delegated to do physical banking, management check of physical cash.

5.2.2.2 Theme 10: Recording remittances per post

Categories: No categories were identified as all interviewees stated that they do not receive remittances through the post.

5.2.2.3 Theme 11: Petty cash system

Categories: Allocated float, float balancing, float checks, maximum disbursement per transaction, petty cash vouchers and authorisation thereof, reimbursement of float, petty cash register completion, proof of purchase, cancellation of till slips/invoices/supporting documentation and policy for use of petty cash.

5.2.2.4 Theme 12: Cheque control procedure

The purpose of this research was to establish the level of security of cheque books such as, who is the possessor of the cheque book, access to or security of the cheque book when not in use and control of new and used cheque books. Additional aspects investigated revolved around authorisation procedures for cheque payment vouchers, authorised signatories of cheques and budget control procedures.

Categories: Authorisation of cheque payment vouchers, authorised signatories, control of cheque book, and budget control.

5.2.2.5 Theme 13: Financial recording

Categories: Correct completion, up to date, book/columnar balancing, management checks of books and financial records.

5.2.2.6 Theme 14: Bank reconciliation

Categories: delegated person, analysis book, process of reconciliation, bank reconciliation form and follow up of imbalances.

5.2.2.7 Theme 15: Internal audit control/management checks on portfolio

Refer to 5.2.1.5. However, this aspect is now investigated from the perspective of the finance clerk and document examination for evidence of internal audits or management control checks. Furthermore, what does internal audit or internal financial control mean to the finance clerk?

Categories in this theme: Management control checks, quarterly returns and the finance clerk's perspective on internal control.

5.3 COMPARATIVE ANALYSIS AND FINDINGS

In presenting the findings, quotes from interviewees are presented *ad verbatim* and have not been language edited to ensure that participants own words are recorded.

5.3.1 Theme 1: Financial accountability and responsibility

5.3.1.1 Comparative analysis

All principals and SGB chairpersons interviewed stated that in Free State schools the principal was the delegated accounting officer. However, there was a considerable difference of opinion as to how the principals acquired these powers. Principals A, C and D stated that the SGB had, by resolution

delegated the principal to be the accounting officer, whereas Principal B stated that she simply "took over" the function from the previous principal and was never delegated to be the accounting officer by the SGB or Provincial Department of Education. In elaboration, principal C stated that it is the policy of the Provincial Department of Education, Free State that the SGB appoint the principal as accounting officer in writing.

SGB chairperson A categorically stated that the SGB has "delegated the principal as the accounting officer accountable for financial management at the school. He must account for everything". This is the view shared by the other participating SGB chairpersons.

The principal of school E, however, stated that she has refused to be the accounting officer due to dissension over financial management at the school and advised that as an interim measure the accounting teacher (who has assumed certain finance functions) had been appointed as the accounting officer by the SGB. This was disputed by both the accounting teacher and the chairperson of the SGB.

When the principals were questioned whether they have been formally (preferably in writing) made aware of the implications of the appointment as accounting officer, especially in relation to losses caused by financial maladministration, all replied in the negative stating merely that they had been on financial management workshops.

Principal C in fact clearly felt that, although he was delegated as the accounting officer by the SGB, the SGB must take full responsibility for "maladministrations" not the principal, which is clearly contrary to the concept of accountability bestowed upon principals by their appointment as accounting officers. Chairperson A was of the opinion that as the SGB had delegated the principal as the accounting officer "he must be accountable for everything".

5.3.1.2 Findings

- Principals in the Free State are deemed to be the delegated accounting officer. This finding confirms the finding emanating from the literature study (refer to 3.5.4).
- In some schools the SGB delegated this function to the principal, whereas in one school the principal simply assumed this function without formal delegation by the SGB.
- Furthermore, the implications of the appointment as accounting officers, especially in relation to accountability for defalcation/losses, have not clearly been explained to principals. Some believe that, despite their delegation as accounting officers, the SGB must still take full responsibility for financial maladministration.

The researcher is of the opinion that the appointment of principals as accounting officers in the Free State is a reversion to the situation that was in place prior to the publication of the Schools Act and is in fact contrary to the intentions of the Schools Act (Sections 16, 20, 21, 29, 34, 36, 38 and 42), which are to delegate financial accountability to the SGB. The SGB should in turn empower principals with certain responsibilities regarding school financial management, but the SGB remains accountable for financial management at school (*cf. Schoonbee and others vs. MEC for Education, Mpumalanga and Another* (Mestry 2006:29).

5.3.2 Theme 2: Formulation and updating of school financial policy

5.3.2.1 Comparative analysis

All schools purported to have a financial policy in place. However, school A could not locate their copy, school B eventually located their copy after searching various files and the principal of school C admitted that "it is available but the clerk has it and she is on leave so I don't know where she

keeps it". Similarly, the principal of school D could not provide a copy of the policy as the finance clerk was not available.

The financial policies of schools A and E were drawn up four and three years ago respectively and, thus, obviously not updated on a regular basis. For example, both the policies determined an amount for the petty cash float which has subsequently been increased a number of times since the original policy was compiled. Principal A admitted that the policy should have been updated many times during the four years.

When questioned about the process involved whereby a financial policy needs to be updated, principals A, D and E stated that any proposed change/addition to the financial policy would be discussed at the finance committee, whereupon it would be presented to the SGB for approval. Principal B simply stated that "we have not made any changes". However, when it was pointed out to principal B that the existing financial policy stipulates that the petty cash float must not exceed R500.00 whereas the actual petty cash balance was R1000.00 she replied that "I just changed the petty cash amount because R500.00 was not enough". Principal C advised that review of all policies that require amending takes place at the final SGB meeting of the year.

Regarding the question of communication of the financial policy and amendments to parents, staff and other role players Principal A advised that when the financial policy was drafted four years ago a copy was handed to parents and staff. The financial policy had not been communicated to parents since then. Principals B, C and D confirmed that the financial policy is not communicated to parents, whereas Principal C advised that when the annual review of policies is conducted it is discussed with parents at the parents meeting.

5.3.2.2 Findings

- As certain schools could not locate their financial policies or produced old policies it is apparent that these schools do not have *working* financial policies in place which are regularly reviewed and updated to suit the needs of each school.
- There is no formal ratification process for policy changes in certain schools, with changes having been made unilaterally by principals in some schools without prior discussion and approval by the finance committee or SGB. The financial policies in these instances have not been updated.
- With the exception of one school the financial policy and any changes thereof are not communicated to parents.
- Financial policies are not displayed in a manner that is accessible for the edification of all role players.

5.3.3 Theme 3: Effective school financial management

5.3.3.1 Comparative analysis

All interviewees except principal E expressed the view that effective school financial management is tantamount to effective budget control, supported by the compilation of the quarterly return by the external auditors/accountants and annual external audit. The purpose of this question, however, was to ascertain whether *effective overall* financial management was being practiced in schools, which must include ongoing internal management control checks of financial processes and financial records, not merely budget control. Principal E expressed this view by maintaining that effective school financial management was "ensuring that all records and books are up to date, keeping strictly to the budget and checking all invoices and receipts on a regular basis". This view describes effective financial management more succinctly.

Chairperson A, while ascribing to the view of her principal that effective financial management means effective budget control did, however, elucidate that whenever she visits the school she spends time with the finance clerk to check payments made since her last visit and the budget position. This was confirmed by the finance clerk. However, chairperson A does not conduct any control checks of books and records.

5.3.3.2 Findings

- Interviewees have a blinkered view as to what constitutes effective financial management with the majority suggesting that effective financial management is a matter of controlling the school budget. Budget control is an important facet of financial management but effective financial management must include ongoing internal control and management checks.
- Effective internal control by management is lacking at all schools researched. The presentation of findings in relation to qualitative interviews with finance clerks and the document study hereunder will provide further elaboration in this respect (refer to 5.3.15).

5.3.4 Theme 4: Duties of the finance clerk

5.3.4.1 Comparative analysis

There was broad consensus among the interviewees as to the functions of the finance clerk, which include "receiving monies from parents, raising orders, writing receipts, responsibility for records such as the analysis book and petty cash, banking, completing cheque requisition forms and bank reconciliations". The schools researched have one finance clerk responsible for all financial functions from receipting through to completion of bank deposit slips, and in some instances including the physical banking as well. When questioned as to the dangers of defalcations and losses in the case of financial duties not being segregated all principals advised that due to staff constraints they were

unable to employ additional financial personnel and considered their finance clerks to be "trustworthy". It was observed that, despite the non-segregation of financial duties, internal management control checks are non-existent. Principal A, B and D do the physical banking prior to which they check the physical money to the deposit slip, but as will be evident in later findings neither they nor the other principals conduct ongoing regular checks of financial records and processes (refer to 5.3.15).

With the exception of school E, all finance clerks are experienced in their positions. As stated above, due to dissension regarding financial matters at school E, the principal has abdicated from any form of financial management at the school, stating that, "I want nothing to do with finances". A new finance clerk has been appointed who is undergoing training by the accounting teacher who has been temporarily delegated to control financial matters at the school. The principal advised that, as she has considerable financial management expertise she normally trains the finance staff but stated "when they are fighting with me I have no desire in teaching them".

Detailed findings of the various financial functions undertaken by the finance clerks are elaborated in sections 5.3.9-5.3.15.

5.3.4.2 Findings

- Segregation of financial duties is not possible in the researched schools due to staff constraints.
- Despite the non-segregation of financial duties, internal management control checks are non-existent.
- The newly appointed finance clerk at school E is not receiving satisfactory training in her portfolio.

5.3.5 Theme 5: Internal audit functions/management involvement in internal financial control

5.3.5.1 Comparative analysis

Interviewees were requested to explain the internal audit process, if any, at their schools, or in the absence thereof, their involvement in conducting ongoing management checks.

All confirmed that they do not have an appointed or delegated internal auditor. The interviewees confirmed that external auditors compiled the quarterly returns and year end statements.

Principal A stated that it is incumbent upon him "to check everything, the receipts and so on". When questioned about petty cash float checks he claimed that he conducts checks, which was disputed by the finance clerk. Principal B was of the opinion that the quarterly return compiled by the auditors was sufficient and negated the necessity for her to conduct internal checks, whereas principals C and D stated that they do not have time to conduct ongoing control checks.

All finance clerks interviewed confirmed that floats such as petty cash are not checked by management.

Principals cited restrictions in place for petty cash voucher authorisation and cheque signing powers as examples of internal control, which is valid. However, effective internal financial control encompasses ongoing management checks of the entire financial process and records, not merely document authorisation.

5.3.5.2 Findings

- A system of internal auditing is not in place at schools, nor is an alternative of systematic management checks in place.

- Too much reliance is placed on periodic returns completed by external auditors, rather than ongoing internal control.
- Regular float checks are not conducted which leads to the very real risk of defalcations.

5.3.6 Theme 6: Budgeting processes and control

5.3.6.1 Comparative analysis

Primarily it was important to establish procedures in place at the researched schools for "on-time" (my inverted commas) budget control. On time budget control purports to updating income and expenditure, comparing to the budget and recording budget availability on a *daily* basis, thus ensuring that at all times management information regarding budget availability is available. This is, *inter alia*, particularly important when signing cheques for payment and petty cash disbursements in that the authorising official(s) must know what the current budget availability is for the applicable expense item prior to authorising such expenditure.

When questioned, principals B, D and E advised that at the end of each quarter their respective finance clerks calculate quarterly expenditure compared to budget in preparation for the submission of the quarterly report to the Provincial office. This was confirmed in subsequent interviews with the respective finance clerks. Principal D's response to a question whether he knew what the budget availability was for a specific expense item prior to signing a cheque for payment against that expense advised that, " no we do not do that because to get that information before a cheque is signed is going to take the whole week". The problem is compounded at school D as a study of the analysis book at the school revealed that it had not been completed fully for four months.

Principal A advised that at the weekly finance committee meetings all cheque requests are considered for which the finance clerk will advise the committee

of progressive expenditure and "the finance committee will see if we have money in the budget". When finance clerk A was subsequently asked whether she could advise me of the current budget availability she advised that, "I can't say at the moment, I must calculate all the figures for the last two months".

Principal C advised that the budget availability is checked at each monthly finance committee meeting, but confirmed that no ongoing daily budget control system is in place. Thus, a calculation of all expenses and income and progressive budget availability must be made prior to each finance committee meeting.

All interviewees confirmed that their budget was projected on a monthly basis for the year. They further indicated that all applicable parties were included in the budget preparation process by completing budget requests for their portfolios which were then collated by the principal, amended where necessary, and submitted to the finance committee for consideration. After consideration by the finance committee the completed budget was submitted to the SGB for approval and subsequently ratified at a meeting with parents.

5.3.6.2 Findings

- Some modicum of budget control is in place at the researched schools, albeit at irregular intervals and historically-based.
- Quarterly budget control is enforced due to the compulsory submission of quarterly returns; however, no daily budget control system is in place at the schools, resulting in cheques being issued and payments being made in most instances without reference to current budget availability.
- Although budgets are projected monthly, the irregular and lack of ongoing budget control hinders budget projection and control which may result in the school prematurely exhausting budgeted funds.
- All applicable role players at school level are included in the budget preparation.

- Proposed budgets are presented to a meeting of parents for approval in accordance with legislative requirements.

5.3.7 Theme 7: Finance committee

5.3.7.1 Comparative analysis

All schools have finance committee structures but differ in composition, selection of chairperson/ treasurer and regularity of meetings.

Principal A and C are the chairpersons of their respective finance committees, whereas the chairperson of the finance committee at school B is the SGB chairperson. In school D a parent member is the chairperson due to his expertise as a practicing accountant. School E does not have a finance committee at present.

The composition of the finance committees varies from school to school as indicated below:

Figure 5.1 Composition of school finance committees

COMPOSITION OF SCHOOL FINANCE COMMITTEES				
SCHOOL A	SCHOOL B	SCHOOL C	SCHOOL D	SCHOOL E
Principal	SGB chairperson	Principal	Parent member	n/a
Deputy principal	Principal	Educator	Principal	n/a
Deputy principal	SGB treasurer	Finance clerk (treasurer)	Deputy principal	n/a
SGB treasurer	Educator	Parent	SGB treasurer	n/a
Finance clerk	Finance clerk		Finance clerk	n/a

Principal A and the SGB chairperson of the school confirmed that the finance committee meets on a weekly basis, whereas interviewees of schools B and C stated that meetings take place monthly during the term. The principal of school D admitted that "I want to be honest about this. Not that frequently". Finance committee meetings are not being held at school E due to the current financial management impasse at the school.

The principals and their SGB chairpersons, with the exception of school E, stated that decisions and resolutions passed at the finance committee meetings should be ratified at the following SGB committee meeting.

5.3.7.2 Findings

- Finance committee meetings are not being held at least on a monthly basis at some schools.
- No standard procedure appears to be in place for member composition of finance committees and for the appointment of chairpersons of the committee, as these vary from school to school.
- Decisions taken at the finance committees are submitted to the SGB for ratification.

5.3.8 Theme 8: Working relationship between the SMT and the SGB regarding financial management

5.3.8.1 Comparative analysis

Principal A stated that a good relationship existed between school management and the SGB, which was verified by the SGB chairperson who stated that "there is a very good relationship and wonderful cooperation. We confer on almost a daily basis..." Although it was not possible to interview the SGB chairperson at school B (see limitations of the study at 4.3.5), the principal indicated that a sound relationship existed between SMT and the SGB. There was a similar situation at school D. When questioning principal C

his response was "it is wonderful, wonderful". The chairperson echoed these sentiments. The only exception was the situation at school E, which has been adequately documented above.

5.3.8.2 Findings

With the exception of school E, a good relationship exists between school management and the SGB.

Themes 9 to 15 hereunder relate to interviews with the finance clerks, supported by document examination. Findings will thus be recorded as a combination of both responses to qualitative interviews and findings emanating from the document review.

5.3.9 Theme 9: Receipts and banking procedures

5.3.9.1 Comparative analysis

In all researched schools official receipts were completed in duplicate and issued in numeric sequence.

With the exception of school B receipts were issued in a timely manner, which is on the day of receipt of monies or at least by the next morning. However, when interviewed on 10 September 2008 by the researcher, Finance Clerk B had not written up receipts for the month to date despite having received monies. When questioned further she stated that she had recorded the payments in the payments received column of the analysis book per parent/payee and banked the money. This was verified by the researcher. The clerk elaborated that when she is not busy she then writes out receipts for parents/payees according to the entries in the analysis book.

In respect of payment of school fees at other schools, schools A and D stated that their policy is not to receive school fees at the school. Parents are instructed to deposit school fees in the school's bank account and on receipt

of a copy of the deposit slip the finance clerk will then write a receipt which is handed to the relevant learner. The researcher detected an interesting difference in *modus operandi* between these two schools in this respect. When questioning finance clerk A, the researcher noted boxes filled with blank individual deposit slips and on querying this he was advised by the finance clerk that it is incumbent upon her to write out a deposit slip for *each* parent who has to pay school fees, which amounts to over 900 deposit slips which the finance clerk has to complete per term. Taking into account her other financial duties this is an onerous and time consuming task.

The *modus operandi* at school D, however, is to supply parents/persons responsible for payment of fees with the school's bank account number with instructions that they must deposit monies directly into the school's bank account.

Other than Finance clerk D, other clerks explained and showed documentary proof that cancelled/alterd receipt procedures were being complied with. Finance clerk E applied the procedures inconsistently; in some cases receipts were properly cancelled and both copies accounted for, whereas in other instances the top copy of a "cancelled" receipt was missing. Where a mistake is made on a receipt it should be cancelled and re-written; however this is not applied by finance clerk E as various alterations to receipts were detected.

None of the researched schools had a stationery control register in place to control the unused stock of receipt books and to control the issue of new receipt books and return of full receipt books. Furthermore, security of new (unused) books was lacking in all schools. Finance clerk A did retrieve her current receipt book from a locked cabinet, but when questioned about the unused receipt books she pulled these out of an unlocked drawer in her office and confirmed that she did not have a keys for her drawers. Thus, while access to the current receipt book is restricted, the entire stock of new receipt books is accessible. Unused receipt books at school D are stored on the top of a cabinet in the finance clerk's office, thus being visible and accessible to

all, leading to a very real risk of theft of a receipt book or individual receipts which could then be fraudulently utilised for nefarious purposes.

Full receipt books are stored at the researched schools in the school safe/strong room in accordance with policy. However, stationery control system for, *inter alia*, controlling a returned receipt book is lacking. The risk in this case is that all receipt books, unused and used, may not be accounted for.

It was noted at school E that two receipt books are in use, one for school fees controlled by the finance clerk and another for uniforms/tracksuits controlled by the accounting teacher who is relieving as the accounting officer. In school B five receipt books are in circulation, one for each grade (from grade 1-5).

5.3.9.2 Findings

- Procedures relating to altered and cancelled receipts are not applied uniformly in two schools.
- Receipts are not written up daily at school B.
- Differences were noted relating to payment of school fees.
- No stationery control system is in place to control the issue of new receipt books and return of used receipt books, nor are receipt books being stored securely in most schools.
- Multiple receipt books are currently being used in two schools leading to an increased control risk and risk of misuse of receipts for nefarious purposes.

5.3.10 Theme 10: Recording remittances per post

5.3.10.1 Comparative analysis

All researched schools stated that they do not receive remittances through the post.

5.3.10.2 Findings

None

5.3.11 Theme 11: Petty cash system

5.3.11.1 Comparative analysis

The petty cash floats at schools differ depending on the size and needs of each school. The amount of the petty cash float at schools A, C and D is R1000.00, whereas the float at schools B and E is R500.00 and R750.00 respectively.

Only school A has a correct imprest petty cash system whereby only the *balance* between the float amount (R1000.00) and the remaining cash is reimbursed. At the other schools the amount reimbursed is always the full float amount, irrespective of any outstanding petty cash balance available. This latter system thus has the effect of increasing the stipulated petty cash float.

All finance clerks advised that they conduct a float check only when reimbursement of the float is required. Thus, floats are not checked on a regular (at least weekly) basis. As none of the petty cash registers seen had a progressive balance column, the procedures for float checking is protracted as all disbursements for the period need to be added before the "book" value of the remaining float is ascertained whereupon the physical cash on hand can be counted and checked not the register balance.

No evidence of management float checks was noted. All finance clerks confirmed that management does not conduct regular float checks.

Petty cash vouchers/requisitions are being used in the schools, but authorisation procedures of vouchers prior to disbursement vary. Finance clerk A advised that the person requesting funds is given a petty cash voucher

by the finance clerk to complete. Once the payee has completed the voucher it is returned to the finance clerk who signs (authorises) the voucher and gives the requested money to the payee. Thus, petty cash disbursements are not authorised by the principal in school A or any SMT member prior to disbursement.

The principals or deputy principals of schools C and D authorise petty cash vouchers prior to disbursement of funds. Finance clerk B admitted that it is the policy to obtain the principal's signature prior to disbursement but this is not done if the principal is out. However, she ensures that he signs on his return. Thus, School B has no person delegated for this function (such as the deputy principal) in the absence of the principal. The accounting teacher who is temporarily responsible for part of the financial management function at school E authorises petty cash vouchers.

The recipient of petty cash should provide proof of expenditure by way of supporting documentation such as a receipt, till slip, invoice, cash slip, etc. This was not applied rigorously at schools B and D, where numerous disbursements that had been made were devoid of such proof of expenditure. When this was queried the finance clerks stated that some items are purchased from vendors who do not provide documentation. Such instances will arise, but they should be by exception, not the norm.

In all schools instances were noted of larger disbursements for transport, such as taxi fares to attend meetings or education-related functions. In most cases no documentary proof of payment to the supplier was evident.

In cases where the recipient of cash provided proof by way of till slips, cash slips, etc. it was noted at all schools that such slips are not cancelled to prevent recycling.

5.3.11.2 Findings

- Petty cash floats are not checked on a regular (at least weekly) basis by the finance clerk, nor is management conducting regular or spot checks of petty cash floats.
- Petty cash registers are devoid of a progressive balance column to facilitate float checking (see recommendations and example).
- The petty cash float is not checked by management of any researched school at the end of each term.
- Instances were noted whereby petty cash vouchers/requisitions are not authorised by management prior to disbursement of funds.
- Petty cash registers are not up to date in some schools.
- Documentary proof of payment to a supplier by the recipient of petty cash is lacking at some schools.
- Petty cash vouchers and proof of payment documentation are not being cancelled and securely filed in order to prevent recycling.

5.3.12 Theme 12: Cheque control procedure

5.3.12.1 Comparative analysis

In all schools the cheque book is retained by the principal. Principals A, B and C, stated that the cheque book is locked in their drawer when not in use, whereas principals D and E stated that the cheque book is stored in the strong room/safe.

None of the principals have signed for the cheque book on a stationery control register (or forms control register) nor is the completed cheque book signed back on the register before storage.

With the exception of school B, cheque authorisation vouchers (alternatively named cheque requisition forms/vouchers at some schools) are used in all

schools. Finance clerk B admitted that "we do have them but I do not use them".

The person requesting a cheque payment is generally requested to complete the cheque requisition form, although the principal at school A claimed that the SGB chairperson completes the cheque authorisation voucher for all cheque payments. In subsequent interviews with the SGB chairperson and finance clerk of school A, both parties denied this but did agree that the completed voucher is submitted to the principal and SGB chairperson for authorisation. This is the standard adopted in school C where both the principal and SGB chairperson authorise the voucher. In schools D and E the authorisation vouchers are signed only by the principal and the accounting teacher respectively.

As regards cheque signing powers and authorised signatories all schools are implementing accepted standards that all cheques are signed by at least two authorised signatories. The authorised signatories at the schools are the principal, SGB chairperson and SGB treasurer, with the exception again being school E where the authorised signatories are the accounting teacher (having temporarily been assigned accounting officer duties due to the current financial impasse at the school, as documented above), the SGB chairperson and the SGB treasurer.

None of the principals nor SGB chairpersons/treasurers interviewed had updated specimen signatures at the bank, nor are procedures in place to submit notification and specimen signatures to the bank in the event of changes to authorised signatories, such as election of new SGB chairperson and/or treasurers.

All principals and SGB chairpersons/treasurers were asked whether they were aware of current progressive expenditure of an expense item when signing a cheque. In other words did the officials know what is available in the budget for that particular expense item prior to issuing a cheque? Without exception, all interviewees admitted that a daily and progressive budget control system is

not in place and were generally unaware of actual expenditure to date when signing a cheque. This is elaborated under Theme 6 above (5.3.6).

5.3.12.2 Findings

- A stationery control register is not in place to control the issue of new cheque books and return of used cheque books.
- Cheque authorisation vouchers are not being utilised in all schools.
- Cheque authorisation vouchers at schools utilising them are being signed by management before a cheque is written and paid; however, authorising officials vary in the schools.
- Accepted standards regarding authorised signatories are in place in the researched schools.
- Daily budget control procedures are not in place at the schools, resulting in cheques being issued without reference to accumulated actual expenditure and budget availability.
- Specimen signatures of authorised signatories are not lodged with the bank nor are procedures in place to submit notification and specimen signatures to the bank in the event of changes to authorised signatories.

5.3.13 Theme 13: Financial recording

5.3.13.1 Comparative analysis

Schools in the Free State generally utilise an "analysis" book to record payments and receipts (payments and receipts journal). This is in place at all the researched schools except school B, which uses separate books to record receipts (receipts journal) and payments (payments journal).

The analysis books in schools A, C, D and E do not correctly reflect the financial condition of the school. The payments and receipts columns are merely added to record total receipts and payments for the month. No net

figures are brought forward from the previous month, nor are net figures for the current month calculated (receipts/credits minus payments/debits) and added/subtracted to/from the brought forward balance and carried forward into the following month. Monthly bank statements are not properly reconciled at all researched schools (see 5.3.14 below). Debits and credits recorded on the bank statement and not recorded in the analysis book are not picked up in the analysis book.

The cash payment and receipts journals at school B were not up to date; no entries had been recorded in the journals for two weeks despite having received and paid monies during that period. The analysis book at school C had not been completed for three weeks prior to my visit. At school D receipts for four months had not been captured in the analysis book. Only payments had been recorded during this period.

Petty cash registers at schools C and D were not up to date, being one month and six weeks behind respectively, despite numerous petty cash disbursements having been made during those periods.

5.3.13.2 Findings

- Financial records are not being kept up to date at all schools, other than school A.
- Analysis books (cash payment/cash receipt journals) are not being completed correctly and are devoid of balancing figures. Progressive month end totals are not being calculated and carried forward to the following month.
- It is impossible to conduct thorough bank reconciliations with the result that school financial records are never balanced or reconciled to bank records.
- Petty cash floats cannot be checked regularly at schools, due to, *inter alia*, petty cash registers not being kept up to date.

5.3.14 Theme 14: Bank reconciliation

5.3.14.1 Comparative analysis

None of the schools could provide evidence of a complete and effective bank reconciliation process. All schools presented variations on this theme.

School A does not record the final progressive net total in the analysis book and has not reconciled the school balance per the analysis book to the bank balance for over four months. Receipts and payments were recorded on a regular basis throughout these months with columnar balances for each, that is, a balance of receipts and a balance for payments. However, no net balance for the month was calculated (receipts/credits minus payments/debits), thus there was no carrying over of the net progressive figure into the next month as an opening balance. Therefore, when the bank statement is received each month it is, in any event, impossible to conduct a proper bank reconciliation.

Finance clerk A's form of bank reconciliation when done five months ago, is to simply check the deposits and cheque payments as recorded in her analysis book against the deposits and presented cheques as recorded on the bank statement. Any deposits recorded on the bank statement and not reflected in the analysis book are "picked" up in the analysis book. Unpresented cheques and deposits not recorded on the bank statement are highlighted for checking on the following month's bank statement. Other bank statement debits and credits, such as bank fees, interest earned/charged, etc. are not picked up in the analysis book as a precursor to a formal bank reconciliation using a bank reconciliation form.

Finance clerk B follows a similar procedure to the above. It was noted that, even in the format as described above, no checks had been done to the bank statement for the preceding three months. When asked whether she used a formal bank reconciliation form she replied "no I just check for deposits and unpaid cheques."

Finance clerk C advised that when she receives the bank statement all she checks is whether all the cheques have been presented and thus she, too, does not follow a formal bank reconciliation process.

The analysis book at school D has not been fully completed for the past four months. Payments have been recorded during this period but receipts have not been entered into the analysis book during this period. Thus, a bank reconciliation has not been possible over the past four months.

The finance clerk at school E does not conduct any form of bank reconciliation.

5.3.14.2 Findings

- Standards for proper bank reconciliation are not being applied in the researched schools.
- Relevant financial records are not up to date or being completed correctly in some schools.
- School management is neither involved in bank reconciliation nor do they conduct internal control checks in this respect.

5.3.15 Theme 15: Internal audit control/management checks on portfolio

5.3.15.1 Comparative analysis

Refer also to 5.3.6.1.

When questioned whether internal audit or management control checks were conducted of books and procedures Finance clerk A advised that the principal "checks my books every month". No evidence of such checks was apparent by way of signature or endorsements, but the statement could not be disputed. The SGB chairperson at the same school advised that she regularly calls on the finance clerk to provide details of payments, which was verified by

the finance clerk. However, this type of check falls short of a formal internal control cheque of records, procedures, float checking, etc. Finance clerks B, C, D and E confirmed that school management do not conduct any internal control checks.

As recorded above, numerous instances are noted of lack of management involvement in internal financial control, such as authorisation procedures, float checks, bank reconciliation procedures, failure to detect incomplete recording of financial records, etc.

5.3.15.2 Findings

- No system of internal auditing, or alternatively management control checks, was in place in the schools researched.
- External auditors complete (or verify) quarterly returns for submission to the Department of Education.

5.4 CONCLUSION

This chapter has presented a detailed comparative analysis of data collected from which recurring themes or patterns were identified and coded. Categories were created within broad themes identified. Findings from the comparative data have been presented from which will follow recommendations relative to these findings in the next chapter. Major deficiencies were detected relating to appointment of accounting officers at schools, petty cash procedures, budget control procedures, bank reconciliations, recording of financial records and internal financial control by school management. The recommendations in the next chapter will be preceded by a brief summary of the study.

CHAPTER SIX

SUMMARY, RECOMMENDATIONS AND CONCLUSION

6.1 INTRODUCTION

This chapter includes a brief summary of the study, recommendations arising from the findings in chapter five and concludes with certain suggestions for further research.

6.2 SUMMARY OF THE STUDY

Chapter one provided an introduction and background to the research. The decision to conduct this research emanated from a desire to examine the situation regarding financial management and procedures in Free State section 21 schools following reviews of articles in journals and newspaper reports highlighting financial mismanagement in other provinces. Effective financial management has assumed a place of cardinal importance in schools in South Africa (Bischoff 1997:14), due to the devolution of financial management to the school community, especially to section 21 schools. Thus, chapter one determines the problem statement which was whether the researched schools have effective financial policies in place supported by sound financial procedures. An efficacious financial policy must incorporate ongoing internal controls, preferably internal auditing or at least ongoing management control checks of financial procedures. Thus, the aims of the research were formulated from the stated problem statement. This chapter summarised the intended research design and methodology which the researcher believed would provide the information needed to achieve the aims of the research, to obtain increased knowledge of policy *per se*, school financial policy and school financial management through a literature study and to apply that knowledge in the understanding at first hand of the phenomena of school financial management in its natural setting, that is, *in loco* at the designated schools through the application of a qualitative methodology. The application of the aforesaid methodologies in achieving the

aims of the research is supported by the researchers own extensive expertise in financial management and internal auditing. This chapter concludes with the demarcation of the research area and the research outlay.

Chapter two consisted of an extensive literature review relating to achieving the aims of the research and providing a sound framework for the empirical study. This review included a theoretical review of policy *per se*, followed by an extensive review of the formulation of education and school policy in South Africa, post 1994. As education and school policy falls under the ambit of public policy it was necessary to review applicable legislation. The review of education and school policy was a necessary precursor to the examination of school financial policy in chapter three in order to place the study of school financial policy in perspective.

Thus, chapter three represented a continuation of the literature review concentrating initially on school financial policy. The intention of the reviews on policy in chapter two and three was to establish as to what constitutes a sound school financial policy, being one of the aims of the research as stated in chapter one. This was a necessary determination in order to have a standard against which actual school policy could be compared during the qualitative research and document examination at schools. Again it was necessary to conduct, *inter alia*, an extensive review of applicable legislation and regulations, at both national and provincial level.

As with all policies, the school financial policy should be supported by sound financial and financial control procedures. Legislation such as, *inter alia*, the Schools Act (RSA 1996b) and provincial regulations were reviewed as these impose financial duties, obligations and procedures on financial management at schools. Having confirmed these legislative requirement this assisted the qualitative research by examining whether schools were compliant with these requirements. Accountability and responsibilities of the SGB and the principal were examined and determinations made. It was, furthermore, essential to conduct an extensive review of applicable financial accounting and auditing (internal control) literature to first establish what constitutes generally

accepted accounting standards and internal control standards and secondly to investigate compliance with these standards during the qualitative research.

All of the above assisted in achieving the aims of the research.

The literature study in chapters two and three formed the framework for the empirical study in Chapter four, which employed a qualitative research methodology. The qualitative methodology was examined on a theoretical basis followed by details of the research design, embodying semi-structured interviews with financial management role players and finance clerks, together with a document study/examination of financial documents. This chapter includes an exposition as to how this study will ensure reliability and validity in the employment of qualitative techniques, the application of ethical considerations, limitations of the study and the format of the data analysis.

Chapter five presents a comparative analysis of data collected, the identification of recurring themes/patterns and the coding thereof. Categories were created within the broad themes identified and findings emanating from the comparative analysis were presented. Recommendations arising from the findings are detailed hereunder.

6.3 RECOMMENDATIONS

6.3.1 Theme 1: Financial accountability and responsibility

Recommendations

The stipulations of the Schools Act, supported by case law, whereby the SGB is responsible for governance, including financial governance, of the school should be applied in the Free State. Thus, the SGB should be regarded as the accounting authority for school finances. Refer to chapter three (3.3): relevant sections of the Schools Act that support this recommendation are Sections 16, 20, 21, 29, 34, 36, 38 and 42. The Schools Act does not ascribe any financial duties to the principal.

Refer also to the court case between *Schoonbee and others vs. MEC for Education, Mpumalanga and Another* (Mestry 2006:29), which held, inter alia, that the SGB is accountable for the efficient and effective management of school funds.

The judge in the aforesaid case further found that the Department (of Education) as the employer is not entitled to impute to employees and hold them liable for statutory functions vested in governing bodies with regard to assets, liabilities, property, and the financial management of a school (Prinsloo 2006: 365). It is, thus, further recommended that provincial education departments desist from appointing principals as accounting officers.

All persons and bodies involved in school financial management and control should be provided with extracts from the Guide for Accounting Officers: Public Finance Management Act (National Treasury 2000:26), relating to responsibilities of accounting officers and delegation by accounting officers, in order to ensure that they are aware of the implications of their delegated financial duties.

6.3.2 Theme 2: Formulation and updating of school financial policy

Recommendations

The finance committee at all schools should review and update existing school financial policies and submit same to the SGB for ratification. Thereafter, the financial policy must be monitored and updated on an ongoing basis as the need arises.

Finance policy changes must be served at the finance committee and recommended to the SGB for ratification.

Once policies and changes are ratified by the SGB they should be communicated to parents per circular or at the annual meeting with parents.

The school financial policy should be displayed in the school foyer and/or principal's office and finance clerk's office. At the beginning of each year a copy of the financial and other policies should be sent to all parents/guardians.

A recommended school financial policy and supporting procedures is appended (cf. Appendix A).

6.3.3 Theme 3: Views on effective school financial management

Recommendations

School management must implement effective holistic financial management, comprising all facets of financial control, including ongoing internal control and management checks.

A system of ongoing internal audit/management checks must be implemented. A recommended internal audit/management check system is proposed 6.3.15.

6.3.4 Theme 4: Perspectives on the duties of the finance clerk

Recommendations

In the absence of properly segregated financial duties, a system of ongoing internal audit/management checks must be implemented. (See recommendations for a recommended system to facilitate internal audit/management checks in 6.3.15).

The newly appointed financial clerk at school E must receive satisfactory training in her portfolio.

The Provincial Department of Education, Free State must take urgent steps to resolve the financial management impasse at school E.

6.3.5 Theme 5: Internal audit functions/management involvement in internal financial control

Recommendations

It is recommended that an ongoing system of internal auditing is implemented at schools and a person is appointed or identified for this purpose. Alternatively, should staffing constraints preclude such an appointment, school management should institute a system of ongoing internal financial management controls. An internal audit control system that can be implemented by management is proposed in 6.3.15.

6.3.6 Theme 6: Budgeting processes and control

Recommendations

For a budget to have value and be effective as a financial management tool, it must be controlled (Campher *et al.* 2003:41). Budget control should be seen as a specific multiple control task that should include the following functions (Berkhout and Berkhout 1992:75-76, adapted):

- Comparison between the amounts budgeted and actual expenditure.
- Analysis and interpretation of discrepancies.
- Audit and calculation.
- Accounting and reporting.
- Implementation of corrective measures to recover over expenditure.

A daily and progressive budget control system must, therefore, be implemented at schools. A recommended budget control system is suggested in figure 6.1 below. The budget control system recommended can be manually controlled or it can easily be adapted to a computer format.

Figure 6.1: Example of budget control documents

Cleaning materials		Annual budget: R6000.00			
February		Paid	Monthly Expenditure	Available	Yearly Prog
	Monthly budget			500.00	5600.00
6	Invoice 234:ABC Chemicals	250.00	250.00	250.00	5350.00
9	Petty cash voucher 123: Pick 'n Pay	13.50	263.50	236.50	5336.50
14	Invoice 334: Columbus cleaning	100.00	363.50	136.50	5236.50
				1	

1. Positive variance transferred to Variance Analysis report

Cleaning materials		Annual budget: R6000.00			
March		Paid	Monthly Expenditure	Available	Yearly Prog
	Monthly budget			500.00	5236.50

(Manning, A.D.: Financial Management module: Quids-Up programme 2008:52)

6.3.7 Theme 7: Finance committee

Recommendation

Paragraph 2 of the Financial Directives (Free State Department of Education, 2002:3) should be applied at all schools. Refer to 3.5.1.

6.3.8 Theme 8: Working relationships between SMT and SGB regarding financial management

Recommendation

The Free State Department of Education must take urgent steps to resolve the financial impasse at school E.

6.3.9 Theme 9: Receipts and banking procedures

Recommendations

Receipting details must be captured in the cash receipts journal or cash receipts column of the analysis book on a daily basis.

Alterations must not be allowed on receipts. All copies of such receipts must be endorsed "cancelled" and the original stapled to the "fast" book copy for inspection and audit.

The number of receipt books in use concurrently must be restricted preferably to one in order to ensure increased control of receipt books. Alternatively one receipt book should be allocated for receipt of school fees and a second for uniforms/tracksuits and sundry receipts.

A stationery control system as suggested below in Figure 6.2 and recommended in appendix A must be implemented to control the issue and return of receipt books, cheque books, order books and petty cash vouchers.

Figure 6.2: Stationery control register

STATIONERY CONTROL REGISTER						
Document type: Receipt Books						
Date received	Document numbers		Date issued	Issued to: Signature	Date returned	Returned to: Signature
	From	To				
02.06.08	101	200				
02.06.08	201	300				
1			2	3	4	5

1. Date taken into stock (received from printers/Department etc.)
2. Date the new book is issued to receipting official
3. Signature of **receipting official**
4. Date full book is returned for safekeeping
5. Signature of person **receiving** full book for safekeeping

(Manning, A.D.: Financial Management module: Quids-Up programme 2008:45)

The enforcement of a stationery control register ensures that the recipient who signs for a receipt book/document takes full responsibility for the safeguarding of the receipt book and can be held accountable for a lost receipt book or missing receipts and any subsequent defalcation as a consequence therefor.

6.3.10 Theme 10: Recording remittances per post

Recommendation

Although none of the researched schools claimed that they receive remittances/stock by mail, the following example of a remittance register (cf. Figure 6.3) is recommended where remittances or stock are received through the post.

Figure 6.3: Example of a remittance register

Date	Type of item	Received from	Amount R c	Payment type				Receipt/ invoice no	Purpose	Persons opening mail		Received by
				Ch.	Cash	PO	Stock			Signature	Signature	
	1	2	3	4	5	6	7	8	9	10	11	12

Notes:

1. Indicate if ordinary mail ("ord") or a registered item. If the latter, record the registered slip number. If a stock item is received, record "S" followed by the delivery document number.
2. Name of person making the payment or supplier (if stock)
3. Only for money/cheque/postal order receipts
- 4-7 Tick or cross as applicable
- 8 Record receipt number for cash or invoice number/delivery note if stock
- 9 Indicate what payment is for: school fees, donation etc.
- 10-11 Both persons involved in opening the mail must sign after all entries have been recorded
- 12 Cash/cheques/postal orders handed to the person responsible for receipting must be signed for by the person receiving the cash. Stock items must be signed for by the stock controller.

(Manning, A.D.: Financial Management module: Quids-Up programme 2008:20)

6.3.11 Theme 11: Petty cash system

Recommendations

Management must ensure that the petty cash clerk conducts a float check on a weekly basis and reconcile the physical money with the float amount in the petty cash register. The float check must be recorded on a cash count form and shortages/overages reported to the principal and finance committee.

The principal or a delegated member of management must conduct a float check in the presence of the finance clerk on at least a monthly basis and at the end of each term and record details on the cash count form. Both the finance clerk and management member must sign the cash count as verification of the physical float amount. The petty cash register must be signed by the management member as evidence that the book has been checked.

The petty cash register must include a float column to record the current book float balance at all times. See figure 6.4 below. This will facilitate balancing and float checking and provide a progressive record of the float amount. In the absence of this column, float checking becomes a tedious process as all disbursements for the period must be added before the book value of the remaining float is ascertained, whereupon the physical cash on hand can be counted and checked to the register balance. Furthermore, this also facilitates management surprise spot checks as the float balance must be recorded on an ongoing basis and can be expeditiously checked to the cash on hand.

None of the literature consulted, such as Bisschoff (1997), Free State Department of Education (2002 and 1998), Kruger (2005), Northern Cape Department of Education (Internet 2007), Campher (2003), and Eastern Cape Department of Education (undated), reflect a float column in examples of petty cash registers which, in the opinion of the researcher is a major omission in the light of comments above.

Figure 6.4: Petty Cash Register

RECEIPTS			PAYMENTS				FLOAT	ACCOUNT
Date	Detail	Amount	Date	Vouch. No.	Detail	Amount	Balance	
01.06.yy	Ch 234	500.00					500.00	
			08.06.yy	34	C.N.A.	18.36	481.64	Stationery
			10.06.yy	35	X Store	20.50	461.14	Maintenance

(Manning, A.D.: Financial Management module: Quids-Up programme 2008:36)

(Note that the above illustration is a "compacted" version of a petty cash register. The "account" column is generally broken down into a number of columnar common disbursement items, such as postage, stationery, cleaning, refreshments, sundry, etc.)

A correct imprest petty cash system must be applied at all schools, implying that at the end of each month (or lesser period if the petty cash balance is running low) only the amount of total disbursements (payments column) for the period is reimbursed, thus restoring the float to its original balance. The amount to be reimbursed must be recorded on a cheque requisition voucher which, together with the petty cash register, must be presented to the principal for authorisation. Thus, the principal must check the payments total in the petty cash register, which must balance to the cheque request before authorising the cheque payment. Refer to figure 6.5 below.

Figure 6.5: Petty Cash Register

RECEIPTS			PAYMENTS				FLOAT	ACCOUNT
Date	Detail	Amount	Date	Vouch. No.	Detail	Amount	Balance	
01.06.yy	Ch.234	500.00					500.00	
			08.06.yy	34	C.N.A.	18.36	481.64	Stationery
			10.06.yy	35	X Store	20.50	461.14	Maintenance
			12.06.yy	36	J.XX	30.60	430.54	Cleaning
			20.06.yy	37	A.AAA	100.00	330.54	Transport
30.06						169.46	330.54	

RECEIPTS			PAYMENTS				FLOAT	ACCOUNT
Date	Detail	Amount	Date	Vouch. No.	Detail	Amount	Balance	
01.07.yy	B/F						330.54	
01.07.yy	Ch.240	169.46					500.00	
			06.07.yy	38	C.N.A.	20.00	480.00	Stationery

Petty cash vouchers must be numerically numbered and issued in sequence. The principal or delegated member of management must authorise petty cash vouchers prior to disbursement. Finance/petty cash clerks may not issue money without an authorised voucher.

Individual disbursements should not exceed R50.00, except in exceptional circumstances as determined by the Finance Committee (such as taxi costs for attendance at meetings/seminars, etc.)

Petty cash vouchers and supporting documentation must be endorsed "cancelled" to avoid recycling and properly filed for inspection and audit purposes. (A "CANCELLED" stamp should be purchased for this purpose).

The petty cash register must be written up and balanced daily.

6.3.12 Theme 12: Cheque control procedures

Recommendations

All issues of new cheque books and return of used cheque books must be controlled on a stationery control register. See figure 6.2 above. By signing for a cheque book the recipient assumes full responsibility for its safekeeping and correct usage thereof and can be held accountable for any losses that may occur as a result of fraudulent use of cheques which have been stolen through the negligence of the signatory of the cheque book.

Cheque authorisation forms/vouchers must be utilised at all schools. Cheques may only be completed on receipt of a properly completed and authorised cheque authorisation form. Signatories to cheques must ensure that the requisition form accompanies the cheque before signing the cheque.

Cheques should not be signed by authorised signatories without reference to budget availability. A daily budget control system must, therefore be in place at schools (see recommendations: theme 6).

The cheque requisition form must have a block to record budget availability for that expense item before presenting to management for completion and signing of the cheque. See figure 6.6. The cheque requisition form in the example has been adapted by the researcher to include a block reflecting budgeted funds available, which can be easily ascertained if a proper ongoing budget control system as proposed is in place at all schools. This important addition is also not suggested in the literature as itemised above.

Figure 6.6: Cheque requisition form

XYZ SCHOOL Private Bag X2 Bloemfontein 9301	Requisition	Number: 132
		Tel: Fax:
Date:	Cheque number:	
Payable to:	Amount:	
Details:	Funds available:	
Signed:	Date:	
Authorised by: _____ Date: _____ Designation: _____ Signature: _____		
<i>Staple the order form and invoice to this form, before completing the cheque</i>		

(Adapted from DOE: ACE School Leadership 2007:250)

The SGB must ensure that up to date specimen signatures of all authorised signatories are lodged with the school's bank. Procedures must be put in place to submit notification and specimen signatures to the bank in the event of temporary or permanent changes to authorised signatories (in the event of leave, transfer, dismissal, election of new officials, etc.)

6.3.13 Theme 13: Financial recording

Recommendations

Financial books must be written up and balanced on a daily basis.

Analysis books (cash receipts/payments journals) at all Free State schools should be examined for:

- Correct completion, especially relating to month end balancing, calculation of progressive totals and carrying forward of progressive totals to the following month.
- Picking up figures from the monthly bank statement that are not reflected in the analysis book.
- Daily and ongoing entries (some books had not been completed for fully for up to six weeks).

Petty cash registers must be kept up to date and monitored by management. Failure to do so can result in defalcations including float tampering and "rolling over" of monies to conceal fraudulent activities.

It is further recommended that finance clerks be instructed to leave all financial books with the principal (or delegated management member) when they leave at the end of the day. Principals can conduct a cursory check to ensure that books are up to date and conduct spot checks of columnar and cross calculations. This will ensure that finance clerks write up and balance books on a daily basis. More detailed checks can be conducted when management conduct formal internal management checks of financial procedures.

6.3.14 Theme 14: Bank reconciliation

Recommendations

Refer to 6.2.1.4. Analysis books must be kept up to date and balanced correctly each month.

On receipt of the bank statement, sundry bank income (such as interest earned) and bank charges/debit orders etc must be entered in the analysis (cash book), balanced and cross cast to ensure that the analysis books reflects an accurate record and balance. This will facilitate an accurate bank reconciliation exercise.

Standards for proper reconciliation must be applied and enforced at schools by applying above procedures and the utilisation of a standard bank reconciliation form (cf. Figure 6.7).

Finance clerks and school management need training on the correct procedures for effective bank reconciliation.

Figure 6.7: Bank reconciliation statement

SCHOOL XYZ: BANK RECONCILIATION STATEMENT AS AT 31 January 200Y				
Balances as per Bank statement No:	61	31-Jan		3204.00
Less: Balance per Cash Book				2262.00
Balance to be reconciled				942.00
Plus: Outstanding deposits	DS58	31-Jan	900.00	
Total:			900.00	900.00
				1842.00
Less: Outstanding cheques	74	24-Jan	802.00	
	81	26-Jan	300.00	
	83	30-Jan	740.00	
Total			1842.00	1842.00
Difference				0.00

(Adapted from DOE: ACE School Leadership 2007:250)

6.3.15 Theme 15: Internal audit control/management checks

Recommendations

A system of internal auditing must be installed at schools or in the absence thereof a systematic process of ongoing management checks of finances at the schools must be implemented.

It is recommended that schools adopt the internal audit critical areas checklist and action plan as detailed below (cf. Figure 6.8) as a tool for financial control checks in order to achieve a standard of financial management excellence.

The checklist is constructed from the suggested policy (Appendix A) and the researcher's own extensive commercial field experience in internal auditing and concentrates on critical areas which, if not continually monitored, could lead to financial and stock losses due to embezzlement, defalcations, errors and omissions. This checklist should be seen as the *minimum* requirement for internal audit and should be conducted on a monthly basis. Should major deficiencies be detected during this check the audit should immediately be upgraded to a major internal audit utilising the financial policy document as per Appendix A as the basis for the major internal audit.

In conducting the critical areas audit the delegated internal auditor/management member should place a tick () where the control is found to be in order and a cross (×) against a control that is deficient. All items that are found to be deficient are recorded on the action plan document (the reference is the item number, e.g. 1.3) with a brief description of the deficiency and the recommended action step(s) to be implemented for correction. This document forms the basis for the feedback to the principal and affected personnel member(s). The internal auditor and principal must agree on a completion date for correction of the deficiencies, which must be followed up by the internal auditor/management. A copy of the check and action plan is given to the principal, the chairperson of the SGB and placed on the agenda for discussion at the next finance committee meeting.

In constructing the critical audit checklist the researcher has taken cognisance of the fact that in many schools, financial management is undertaken by non-professional staff and has thus constructed the check in a simplified, "hands on manner" capable of being utilised efficaciously in schools as a tool towards sound financial management.

To facilitate completion of monthly checks according to the checklist in a less onerous manner for one person, it is recommended that at each monthly finance committee meeting each committee member is given a section of the checklist to complete before the next meeting and report adherences and deficiencies plus action steps taken for correction to the next meeting. Thereafter, the exercise is repeated for the next month with committee members being allocated different sections to investigate. Thus, apart from ensuring that monthly financial control is being implemented by management, members are gaining experience and expertise in financial management of the different areas of the financial system and processes.

In the interests of financial transparency the checklist could also be made available to staff involved in the financial process, such as the finance clerks, as a training tool in which important control functions of their portfolio are highlighted. They then become aware of standards expected of them which should motivate them to proactively ensure that the control standards are always in place ahead of the regular internal audit inspection. In other words, they are given the tool to audit themselves in ensuring that applicable standards expected of them or their departments are always in place. Thus, a culture of financial excellence is developed in the school and inculcated in financial personnel.

Figure 6.8: Suggested internal audit critical areas checklist and action plan

INTERNAL AUDIT CRITICAL AREAS CHECKLIST				
	Date	Date	Date	Date
1.FLOATS				
1.1 The person responsible for the float checks the float daily and records the count on a float count sheet				
1.2 The accounting officer checks the float on a weekly basis in the presence of the person responsible for the float and both sign the float count sheet				
1.3 Internal auditor/treasurer checks the float on a monthly (but irregular) basis				
1.4 Shortages are investigated and overages banked to the school fund account				
1.5 Suitable procedures for float handover/takeover in place i.e. float checked by both parties, recorded on the float count sheet and signed by both parties				
2. BANKING				
2.1 Spot check daily banking procedures. Ensure that receipts balance to daily deposit slips				
2.2 Separation of duties in place. The receipting official cannot make up the bank/complete the deposit slip. If separation of duties is not possible the accounting officer must check the banking before submission to the bank				
2.3 Check returned deposit slips/books from the bank for alterations.				
2.4 Are copies of deposit slips stamped as received by the bank.				
2.5 Ensure that all monies received are accounted for and banked to the school fund account				

3. RECEIPTING				
3.1 Receipts are made out on the day of receipt of monies.				
3.2 Is the receipt book securely locked away and inaccessible when not in use?				
3.3 Receipts are number controlled.				
3.4 Receipts must be issued in strict numerical sequence.				
3.5 Ensure that cancelled receipts are accounted for i.e all copies of the receipt must be endorsed "cancelled" and all copies retained in the receipt book for inspection				
3.6 Missing copies must be investigated				
3.7 Blank receipt books are recorded on a stationery control form and kept secure.				
3.8 The receipting official signs for a new receipt book and the full receipt book returned.				
4. PETTY CASH DISBURSEMENTS				
4.1 Ensure that the petty cash float is checked according to float procedures above.				
4.2 The petty cash float must balance to the petty cash register and variances investigated				
4.3 Ensure that petty cash slips are authorised by the Accounting officer/principal				
4.4 Petty cash slips should be number controlled and issued in sequence				
4.5 Proof of expenditure (invoices/till slips etc) must be provided by the recipient of cash				
4.6 All used petty cash vouchers and supporting documentation must be endorsed cancelled and removed from the petty cash officer to prevent recycling				

4.7 Spot check entries in the petty cash register to petty cash vouchers and supporting documentation				
4.8 No I.O.U's or personal cheques in the float.				
5. PAYMENTS				
5.1 All payments (other than petty items) are made per cheque from the school fund account				
5.2 Ensure that the current cheque book is kept securely and inaccessible to unauthorised users when not in use.				
5.3 Each cheque book must be recorded on the forms control sheet and signed for by the authorised user				
5.4 An authorised cheque payment voucher must be available for each cheque issued.				
5.6 Ensure that all issued and blank cheques are accounted for				
5.7 All cheques signed by two authorised signatories.				
5.8 Details of authorised signatories and specimen signatures lodged with the bank and updated when changes occur				
5.9 Spot check payments to records in the analysis book.				
6. ASSETS				
6.1 Conduct spot checks between assets register and physical stock				
6.2 Check receiving procedures for new stock				
6.3 Ensure that all orders are authorised in accordance with policy				
6.4 Check order control register and ensure that all orders are issued in sequence.				
6.5 All copies of cancelled orders must be accounted for,				

clearly endorsed cancelled and stapled in the order book				
6.6 Missing blank order documents must be investigated.				
6.7 Blank orders/order books must be stored securely and issued to the person responsible for ordering, who must sign for receipt on the stationery control sheet				
7. BUDGET CONTROL				
7.1 Check that budget control sheets are being used and are up to date				
7.2 Obtain an explanation from the principal for any areas of overspending and request details of action plans to bring expenditure within budgetary limits				
8. DEBTOR CONTROL				
8.1 Ensure that all debtor statements are up to date				
8.2 Total of debtor statements must balance to the debtor control book balance and variances investigated				
8.3 Check aging of debtor accounts and collections action for defaulters				
8.4 Examine the legal file (accounts handed over for collection) and assess collection action/success of attorneys/collection agencies				

6.4 Areas for further research

Due to space and time constraints, areas such as debtors' control (in respect of school fees), fundraising policy/control and assets/stock control were not investigated. Although certain aspects relating to debtor's control, such as receipting and recording of payments and banking thereof were examined this was insufficient to report accurately on the status of the overall debtor's control policy which should include an efficacious collection policy. Therefore, these are areas for further research which need investigation.

However, the researcher has included these items in the extensive suggested school financial policy and procedures, appendix A and are included in the recommended audit checklist in 6.3.15 above.

6.5 CONCLUSION

It is contended that this study has achieved the aims and objectives as stipulated in 1.3 above. This has been achieved through an extensive literature study followed by qualitative "hands on" research at the designated schools.

It is hoped that the findings and recommendations can be employed at schools to improve the standards of financial procedures and encourage school management/SGBs to implement ongoing internal management control checks which are severely lacking in the researched schools.

An intention of this research was to assist schools by providing an extensive suggested financial policy and related procedures (refer to Appendix A), together with a recommended aid to ensure the implementation of effective internal management control. The latter is encompassed by the suggested internal audit critical areas checklist (6.3.15) which, if used correctly and conscientiously together with the suggested financial policy, can lead to the schools achieving a culture of financial excellence, which should be the aim of all role players involved in the management and control of school finances.

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APPENDICES

NOTES REGARDING THE APPENDICES A and B.

1. APPENDIX A: SUGGESTED SCHOOL FINANCIAL POLICY

As indicated in subsection 5.1 the suggested school financial policy as per Appendix A has been formulated, *inter alia*, with reference to relevant authors and publications as listed in the bibliography, namely Bisschoff (1997), Bisschoff and Mestry (2003), Campher (2003), Clark (2008) Faul *et al.* (1985), Eastern Cape Department of Education (undated), Free State Department of Education (2002 and 1998), Gauteng Department of Education (2004), Kruger (2005), Mestry (2006 and 2004), Northern Cape Department of Education (internet 2007), Sawyer (1981), Taylor *et al.* (1987), Van Deventer (2005 a and b), together with applicable legislation such as the Schools Act (RSA 1996b) the Norms and Standards for School Funding (RSA 2000) and the Public Finance and Management Act (RSA 1999). The aforesaid sources have been supplemented by the researcher's own extensive practical fifteen year experience as a regional financial manager with a major listed retail company which encompassed extensive internal auditing of branch operations during this period.

Of course, the policy per Appendix A is neither exhaustive nor prescriptive. It is merely a suggested policy. However, this study, together with many (other) studies (Heystek and Nyambi 2007:243), has revealed that many SGBs often do not have the necessary skills to handle their finances sufficiently, necessitating the urgent need to have a reference base such as this policy to assist such SGBs with their own financial policy formulation.

2. APPENDIX B: RETENTION OF DOCUMENTS

The safe custody and retention periods of important financial records and documents is largely ignored in relevant school related legislation such as the Schools Act, national and financial directives and its importance underplayed

in research studies relating to financial management areas referred to in this study. Section 42 of the Schools Act states that the SGB must "keep records of funds received and spent by the public school and of its assets, liabilities and financial transactions" but does not assist in prescribing how and for how long such records should be kept. It underplays the most important aspect, that of *safe* custody of these documents. Section 43 (6) of the Schools Act states that at the request of an interested person, the governing body must make the records as stipulated in section 42 and the audited or examined financial statements available for inspection. Again the Act is silent in prescribing retention periods as is literature consulted in this study. Mestry (2004:129) makes reference to the importance of ensuring that back-up systems are in place in cases where the school makes use of computers.

The importance of safe custody of important current and historical accounting and financial documentation/records cannot be overemphasised. The initial (and sometimes only) *modus operandi* of most embezzlers is to cover their tracks by destroying records or documentation that can prove their guilt. Many courts of law in dealing with cases of fraud require documentary evidence as proof of the fraud in order to obtain a conviction. Thus, sound internal financial control combined with secure storage of financial/accounting documentation which restricts access to such documentation by unauthorised personnel is vital. Many cases of fraud are only discovered when the perpetrator leaves employment; thus some time may elapse before such fraudulent actions are uncovered, necessitating investigation of "old" records which should have been stored in safe custody.

Retention of many wage related documentation and employment records are legislated in acts such as, *inter alia*, The Basic Conditions of Employment Act No. 75 of 1997, the Wages Act No.5 of 1957 and Labour Relations Act No. 66 of 1995 which are applicable to schools and it is vital that prescriptions therein are complied with.

In respect of retention of school financial and accounting records the researcher has, in the absence of legislation applicable to school records,

referred to legislation such as the Companies Act No.61 of 1973, Income Tax Act, and standard business practice as a guide. This is reflected in Schedule 1, which has been expanded to cover employee records for the sake of completeness and as a reference source for schools. Again, the list is far from exhaustive and has covered what the researcher considers to be critical documentation. The researcher has accessed an internet source (Qicklink: 2008) in this respect for ease of reference.

APPENDIX A

APPENDIX A: SUGGESTED SCHOOL FINANCIAL POLICY

CASH CONTROL

Policy: All money received must be properly receipted and paid into the school fund banking account promptly.

1. Receipting control procedures:

Policy: A receipt must be issued for all money received

1.1 All controlled stationery should be recorded on forms control sheets/ stationery register. (See ***policy on stationery control and retention of records***)

1.2 The "receipting officer" must sign for blank receipts/new receipt book

1.3 All receipts must be number controlled

1.4 Receipts must be issued in strict numerical sequence

1.5 Receipts must be correctly completed and issued in triplicate:

- a. Original receipt handed to the payee
- b. Copy submitted to "banking officer" with money
- c. Fast/third copy utilised for control purposes

1.6 No alterations are allowed on any receipts. If a mistake is made all copies of the receipt must be clearly endorsed "cancelled" and stapled to the fast copy in the receipts book.

1.7 All payments received by post must follow the policy for incoming mail (see ***policy for incoming mail***). The person(s) opening mail should record the detail, that is, date, name of payee, type of payment (cheque, cash , etc.) and amount in the remittance register and immediately give the register and monies received to "the receipting official" to complete a receipt. The "receipting official" signs the remittance register as proof of having received the money and records the receipt number in the remittance register, before handing the register back to the person responsible for opening the mail.

1.8 Segregation of duties: different people must be responsible for receipting and banking/completion of the bank deposit slip. If this is not feasible due to staff limitations then school management must ensure that strict daily and weekly internal auditing controls, conducted by school management are in place.

1.9 All daily receipts must be recorded on a "cash received backing sheet", in numerical sequence and totalled. The backing sheet reflects date, name of payee, amount, type of payment (cash, cheque, postal order) and purpose of payment such as school fees, donation, outing, sports fees etc. The duplicate copy of receipt is attached and given to the "banking officer" who signs for the money on the backing sheet. The backing sheet forms the basis for the bank deposit and deposit details are recorded on the backing sheet. The backing sheet is then submitted to the person responsible for completion of the cash receipts journal/analysis book.

1.10 Payment by post-dated cheques should be discouraged: however, if received:

- a. All post-dated cheques should be recorded in a "post-dated cheque register" (*see policy on post-dated cheques and dishonoured cheques*) and stored securely;
- b. the register must be monitored daily and as a cheque becomes current it should be handed to the receipting officer for completion of a receipt;
- c. the receipting officer signs the post-dated cheque register as proof of receiving the cheque and records the receipt number in the register before returning the post-dated cheque register to the custodian thereof; and
- d. no receipt is to be issued for a post-dated cheque until it becomes current

1.11 If the financial officer is the "receipting official" then the deputy head or another delegated *financially competent* staff member, or treasurer must do a weekly internal audit of the above procedures, ensuring that all receipts are accounted for, have been issued correctly and correct monies banked. In addition, ongoing spot checks of the procedures or part thereof must be conducted at irregular intervals.

1.12 If the receipting official is a delegated person *other than the financial officer*, the financial officer can be tasked with the weekly internal audit, and with the irregular, ongoing spot checks, provided that the principal/deputy principal or treasurer conduct a monthly internal audit of procedures, and irregular "surprise" spot checks.

2. Banking control procedures

Policy: All monies received must be banked into the school fund account on a daily basis

2.1 Issue a receipt immediately for all money received (**see receipting policy above**)

2.2 The receipting official should not be the same person who "makes" up the banking/completes the deposit form. If separation of this function is not possible due to staffing constraints then the banking must be checked by the accounting officer (or another delegated official such as the deputy principal) after completion of the deposit form, but before the money is sent to the bank.

2.2 The total amount of daily receipts per the receipts backing sheet must be recorded on the bank deposit form.

2.3 All copies of the bank deposit slip are presented to the bank: the bank retains the original and stamps the fast copy in the deposit book as proof of having received the money.

2.4 The accounting officer/internal audit official must conduct regular checks of the returned deposit books to check for any tampering/alterations and conduct spot checks of the total of daily receipts to the amount banked.

2.5 When the school receives the bank statement from the bank the balance of the bank statement must be compared with the school's cash book or cash column of the analysis book and any difference between the balances must be reconciled. (**See bank reconciliation procedures**)

2.6 Money 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.

2.7 Money from the school fund may not be paid into a trust or be used to establish a trust.

SCHOOL FEES

Policy:

- School fees may be determined and charged only if a resolution to do so has been adopted by a majority of parents attending a general meeting of parents convened in terms of section 38(2) of the Schools Act.
- The adopted resolution to levy school fees must stipulate the amount of fees to be charged and determine equitable criteria and procedures for the total, partial or conditional exemption of parents who are unable to pay school fees.
- No learner may be refused permission to school due to non-payment of school fees.

(Note: the term "parent" below includes guardian/person responsible for the learner)

1. School fees control/debtors control ledger

1.1 Statements of account for fees due per term must be opened for each parent liable for school fees and the amount due debited on the individual statements (or added to outstanding statement balances where applicable). A copy of the statement must be submitted to the parent.

1.2 Where reduced school fees are determined for certain parents the statement must reflect the actual (reduced) amount due by that parent with an endorsement clearly reflected on the statement that permission has been granted for the reduced fees.

1.3 Should a parent be exempted from school fees a "nil" statement must be opened which must be clearly endorsed "exempt" and exemption terms detailed in order to prevent follow up procedures being effected against such a parent.

1.4 Procedures as legislated for fee exemption and criteria thereof must be strictly complied with.

1.5 The sum of all new statements must be added and the total entered into the debtors control register. The debtors control balance (carried forward) must be updated.

1.6 At all times the total of debtors statements must balance to the debtors total in the control register.

1.7 On receipt of monies from parents for school fees:

1.7.1 Receipting/banking procedures as detailed above are to be followed.

1.7.2 After completion of the days banking and updating of the analysis book, the receipts backing sheet is forwarded to the person responsible for debtors' control.

1.7.3 Individual debtor statements must be credited with fees paid and statement balances updated.

1.7.4 Total daily debtor receipts must be totalled and the total entered in the receipts column of the debtor control register and the register total updated.

1.7.5 An adding machine strip (or computer printout, if applicable) of individual debtor statements must be made and the total thereof balanced to the control book total. Variances must be investigated and corrected.

2. Debtor collections

2.1 Should fees not be paid within thirty days of statement date, a first letter ("a friendly reminder") is submitted to the parent requesting payment within 14 days.

2.2 If no response is received a stronger letter must be submitted to parents requesting payment within seven days and further stating that, failing payment or suitable arrangements being made for payment, the account may be handed over for collection.

2.3 The letter in 2.2 above can be supported by telephonic/personal contact with the parent.

2.4 Parents who offer to pay fees by installments must be accommodated, provided that the request is reasonable.

2.5 Failing response to the above the parent will be listed on a defaulters list for presentation to the finance committee of the SGB for consideration to hand the account over for legal collection.

POLICY ON INCOMING MAIL AND REMITTANCES PER MAIL

Policy: All incoming mail should be opened in the presence of another responsible official and remittances/registered mail notifications recorded in a remittance register.

1. Incoming mail

1.1 Two persons must be in attendance for mail opening.

1.2 The school must open a remittance register to record all monies or goods received through the mail. Columns in the register must include at least the following:

1.2.1 Date

1.2.2 Payer

1.2.3 Type of payment (cheque, postal order or cash)

1.2.4 Amount

1.2.5 Signature/initials of persons involved with opening the mail

1.2.6 Receipt number

1.2.7 Signature/initials of person completing receipting details

1.2.8 Details of stock/goods received through the mail

1.2.9 Signature of person to whom stock/goods are handed to for recording in assets register if applicable.

1.2.10 Asset register page/asset number allocated if applicable.

1.3 All monies received (cheques, postal orders, cash) must be immediately written in the school remittance register.

1.4 Uncrossed cheques and postal orders must be immediately crossed by the designated mail official.

1.5 The remittance register including monies received must be handed to the receipting official who must immediately issue receipts for all monies received and record the receipt number in the applicable column.

1.6 The receipting official may not be the same person(s) who opened the mail.

1.7 The top copy of the receipt (original) is sent to the office/ mailing official for mailing to the payer.

1.8 The second copy of the receipt is attached to the daily receipts backing sheet (see receipting procedure above) for completion of the bank deposit slip.

1.9 If stock/goods are received through the mail these must be recorded in the remittance register by the mail official and handed to the accounting official/person responsible for stock, together with the remittance register and packing notes/invoice in the parcel. The person receiving the item will sign the remittance register as having received the goods.

1.10 Registered slips and/or parcel slips for collection at the Post Office are to be recorded in the back of the remittance register and signed for by the official who will collect items from the Post Office. Registered items/parcel slips collected will be handed to persons opening the mail and receipt of the registered item is signed off by the person receiving the registered item.

1.11 Recording of the contents of the registered mail/stock items will thereafter follow procedures as detailed above.

FUNDRAISING PROJECTS POLICY

Policy: A fund-raising committee must be formed and procedures implemented for precise recording and control of income received and expenses incurred.

1. A project plan must be completed in detail which must be approved by the projects committee, who must, in turn recommend it to the SGB for approval.
2. A project planning document must be opened for each project which must reflect income received and costs incurred on an ongoing basis.
3. All income received must adhere to the receipting policy as above.

STOCK CONTROL

Purchases

Policy: The accounting officer must authorise all purchases

1. Ordering control procedures:

- 1.1 Goods may only be ordered from official suppliers.
- 1.2 An official order in duplicate must be completed for all orders and authorised by the principal before the order is placed.
- 1.3 Orders must be numerically controlled and entered in an "order control register" as follows:
 - Date of order
 - Order number (must be listed sequentially)
 - Supplier
 - Amount of order
 - Invoice number (when received)
 - Invoice amount (to verify the order amount)
- 1.4 Weekly checks must be made of the order control register to the official order book to ensure that orders are issued in numerical order, are valid and that all blank/cancelled copies of orders are accounted for.
- 1.5 The original copy of the order is submitted to the supplier of the goods.
- 1.6 The duplicate copy of the order is filed in a "deliveries pending" file.

2. Receiving control procedures

Policy: All goods received must be checked for correctness

- 2.1 Goods received must be checked by a designated "receiving officer" who may not be the same person who ordered the goods.
- 2.2 All goods received must be counted, checked for damages and checked to the relevant order and to the supplier's delivery note.
- 2.3 Damaged/unacceptable/incorrect goods must not be accepted and endorsed on both copies of the delivery notes (the suppliers copy and the school's copy).
- 2.4 Goods short delivered must be recorded on both copies of the delivery notes.
- 2.5 The receiving officer should only sign the delivery note on completion of the check and recording of any discrepancies.

2.6. The copy of order must be attached to the suppliers deliver note and submitted to the accounts department to await the invoice.

2.7 The principal or person delegated to undertake internal audit/controls should make spot checks on the receiving process in order to minimise collusion between receiving officer and supplier's staff resulting in fictitious stock receipts being entered as charge.

3. Purchases recording function

Policy: No invoice should be entered into the purchases ledger/record unless it has been passed as correct by the person whose duty it is to check invoices.

3.1 On receipt of the copy of order and delivery note it is filed alphabetically (per supplier name) until receipt of the supplier's invoice.

3.2 On receipt of the invoice it should be checked to the delivery document and order for quantity and charge correctness.

3.3 The invoice is then stamped and signed as being correct, attached to the delivery note and order copy and presented to the official authorised to make out cheques.

3.4 The cheque, together with supporting documentation per 3.3 above and the cheque authorising document, is presented to the principal for signature.

(See policy on payment procedures)

Control of stock

Policy: A structure for the control and verification of physical stock must be in place.

1. Assets register

1.1 All non-consumable assets must be recorded in an assets register.

1.2 On receipt of new stock and after checking of stock by the "receiving official" a copy of the order and delivery note/invoice is submitted to the official responsible for the assets register for recording therein.

1.3 The official responsible for recording of assets must conduct a count of the stock to ensure that all stock received is accounted for.

1.4 Once recorded and checked the stock is moved to a central store or direct to a permanent location.

1.5 The assets register should provide for:

- Date of purchase of the item

- Full description of the item
- Identity number (school identity number/code)
- Purchase price of the item
- Location of the item
- Rate of percentage applied for depreciation
- Actual amount of annual depreciation
- Value after depreciation has been deducted

1.6 Stock issued to a permanent location, other than the central store must be recorded in the assets register

1.7 Each location (classroom/offices, etc.) must have an inventory of stock. New allocations must be updated on the location inventory.

2. Internal control of stock

Policy: All stock must be accounted for by ongoing checks

2.1 On a monthly basis the official appointed to fulfill the internal audit function must inspect and count selected stock items and compare physical quantities to recorded quantities in the assets register.

2.2 Losses are to be immediately recorded and reported to the school principal and SGB

2.3 Official stocktaking of all stock items must take place half-yearly and yearly. Losses are to be immediately recorded and reported to the school principal and SGB.

2.4 The SGB is to attend to the investigation of such losses in accordance with directives issued by the Provincial Department of Education.

2.5 The SGB must take appropriate action for losses based on the findings of the investigation.

2.6 Losses of stock and equipment supplied by the Department of Education must be reported to the District Office.

2.7 Thefts, burglaries and cases of vandalism must be reported to the SAPS for which a case number must be obtained.

2.8 All stock/assets must be adequately safeguarded against loss and theft.

PAYMENTS CONTROL

Policy: All payments, except petty cash payments, will only be made from the school fund bank account by means of a properly authorised cheque.

1. Payments from the school fund banking account

1.1 The school cheque book must at all times when not in use be securely kept by the accounting officer.

1.2 The school should mandate by resolution of the finance committee, two authorised signatories for all cheques, details of which must be lodged at the bank. (It is recommended that the two signatories be the school accounting officer and chairperson of the finance committee). Any changes to the authorised signatories can only be effected by financial committee resolution and the bank immediately informed thereafter.

1.3 No cheque can be issued by the school without the relevant cheque authorising document, duly completed and authorised by a person as appointed by the SGB. Copies of other relevant documentation (invoice/order) must be attached to the cheque authorising documents.

1.4 The cheque authorising document should be number controlled and issued sequentially. Each "batch" of authorizing documents must be recorded on a forms control sheet and signed for when needed.

1.5 Cheques may only be signed by the two authorised signatories.

1.6 The accounting officer must ensure that the amount of cheque being issued does not exceed funds available. The amount of available funds should be endorsed on the cheque authorising document or verified by examination of the school's budget control documentation.

1.7 No cash cheques are to be issued, except for reimbursement of the petty cash float.

1.8 A "cheque issued control register" must be maintained by the financial officer in order to ensure that all cheques and cheque authorising documents are accounted for and issued in numeric sequence. The control register must include the following:

Date of cheque

Cheque number

Cheque authorising document number

Beneficiary

Amount

The control register is to be checked to the cheque book and forms control sheet (for cheque authorising documents) on a weekly basis by the designated internal audit official.

1.9 Cancelled cheques should be clearly endorsed as cancelled and attached to the cheque control register. The beneficiary column is endorsed "cancelled cheque".

1.10 The control register is to be checked to the cheque book and forms control sheet (for cheque authorising documents) on a weekly basis by the designated internal audit official.

1.11 The functions of the employee handling cheques must be separated from the employee performing the financial recording process.

2. Petty cash payments

Policy: Payments for items/services rendered not exceeding R30 must be made from a properly implemented imprest petty cash system.

2.1 The amount of the petty cash float and limit of any petty cash payment is to be determined by the finance committee of the SGB (and recorded by way of resolution in the minutes) according to the needs of each school.

2.2 It is recommended that the petty cash float does not exceed R500 and that petty cash disbursements should not exceed R30 per individual disbursement.

2.3 At all times petty cash should be securely locked in a cash box and stored preferably in a safe (if available) or secure place.

2.4 A petty cash float must be determined for which a cash cheque, drawn on the school fund bank account, will be issued. The amount of the determined float will be reimbursed only from the school fund banking account whenever the balance of the float is inadequate for further petty cash payments.

2.5 Payments from petty cash can only be effected by presentation of a duly authorised petty cash voucher. The authorising official is designated by resolution of the finance committee and should be the accounting officer and/or the principal.

2.6 Proof of expenditure by the recipient of cash should at all times, where feasibly possible, be supported by documentation (invoice, receipt, till slip, cash slip etc.) which must be handed to the petty cash official.

2.7 One person should be delegated to control the petty cash. Should it be necessary to hand over the control of petty cash (leave, sickness) a float count must be conducted by both parties under the supervision of the accounting officer and balanced to the petty cash book. All parties will sign the float check.

2.8 All transactions are to be recorded in the petty cash book.

2.9 The petty cash book must be written up and balanced daily.

2.9 The petty cash book must be checked weekly by the accounting officer/designated internal audit official and the float checked to the balance recorded in the petty cash book.

2.10 All petty cash vouchers and receipts are to be separately and securely filed to avoid recycling and to be available for audit and inspection. (Ideally all such documentation should be cancelled with a "paid" stamp to prevent recycling).

2.11 The cashing of personal cheques and IOU'S from petty cash is prohibited.

FLOAT CONTROL PROCEDURES (other than petty cash)

Policy: A separate float should be securely kept for the handling of change.

1. The finance committee must determine an amount of the float which should not exceed R500.00.
2. A person should be identified for handling the float, which he/she must sign for. Only the person delegated to control the float will have access to the float.
3. The float must at all times be locked in a money container and locked in the safe/other secure locality.
4. The float controller must complete a float count form daily which must balance to the physical cash. The float count form is to be signed by the controller and filed in a file.
5. The person delegated to conduct internal audit checks must check the float weekly in the presence of the cashier and record details on the float control form which both parties must date and sign.
6. Shortages discovered by the float check must be investigated and disciplinary action implemented where deemed necessary. Any excess amounts are to be immediately banked to the school fund account.
7. The accounting officer must conduct a float check at least once a month and/or conduct irregular float spot checks.
8. Proper float handover procedures must be conducted should it be necessary to hand over the float to another party for any reason. The float controller, together with the person taking over the float must together count the money in the presence of the delegated internal auditor or accounting officer, details recorded on the float control sheet and signed by all parties.
9. No I.O.U's from the float or cashing of personal cheques out of the float are allowed.

RECORDING POLICY AND PROCEDURES

Note: Discussion and controls relating to the recording function will be restricted to the manual analysis book. Obviously, depending on facilities available (such as electricity, computers, and competent computer proficient staff) the analysis book can be computerised and, furthermore, many schools have more sophisticated computerised accounting systems/packages.

1. Analysis book

- 1.1 Officials performing the financial recording function must be divorced from the officials who pay out, handle or deposit cash.
- 1.2. The analysis book represents the cash receipts and cash payments journal and must be updated on a daily basis.
- 1.3. All monies received must be recorded and credited to the bank account of the school and must be captured on the debits side.
- 1.4. Payments must only be made per cheque and are recorded on the credit side of the analysis book, together with sundry charges such as bank charges.
- 1.5. The analysis book must be balanced on a daily basis and checked weekly by the appointed internal audit official for balancing, capturing of all entries and for budget control purposes.
- 1.6. The accounting officer must conduct checks of the analysis book at least on a monthly basis.
- 1.7 The analysis book must be reconciled monthly with the bank statement.

2. Bank reconciliation procedures

Policy: The bank statement must be compared to the balance of the analysis book and differences reconciled monthly.

- 2.1 Transactions recorded on the bank statement and not recorded in the analysis book must be "picked up" in the analysis book. These items may include bank charges, interest earned or charged, direct deposits by debtors (such as school fees), etc.
- 2.2 Transactions recorded in the analysis book but not appearing on the bank statement must be accounted for. Examples of these could include outstanding deposits and outstanding cheques which have not been presented for payment. These must be recorded on the bank reconciliation.

2.3 The financial committee must be responsible for ensuring that a proper filing system be in place to safeguard all source and other documents pertaining to entries in the analysis book.

2.4 Such documentation must be made available for inspection in accordance with section 43 of the Schools Act.

2.5 Statutory regulations pertaining to the retention of records (security and duration) must be strictly complied with.

3. Financial statements

Policy: Properly audited financial statements comprising of a statement of income and a balance sheet must be prepared within three months of the financial year end.

3.1 The chairperson of the SGB and school accounting officer must sign the financial statements and submit to the Provincial Directorate: Financial Management within three months of the financial year end (31 December of each year).

3.2 A financial report on financial matters, including performance to budget must accompany the financial statements.

3.3 An external auditor registered as an accountant should be appointed to audit the financial records, registers, assets and financial statements of the school and draft an auditor's report thereon reflecting the financial soundness or otherwise of financial/recording practices, with recommendations to correct weaknesses found.

(It is recommended, in this study, that the external auditor appointed be a registered accountant or auditor in terms of the Public Accountants and Auditors Act. However cognizance must be taken of the provisions of the Schools Act (section 43) and Provincial regulations in this respect).

STATIONERY CONTROL POLICY AND RETENTION OF DOCUMENTS/ FINANCIAL RECORDS.

Policy: All controlled stationery (numbered) must be recorded and signed for by the recipient (user).

1. Forms control register (or stationery control register)

1.1 Number controlled stationery must be recorded on a forms control sheet/in a stationery register (one sheet per document) on receipt by the school (from printers/department/bank).

1.2 The forms control sheet/stationery register (separate sheet/page per document) must be headed with the document type, such as receipt numbers (if individual receipt forms) or receipt book (if receipts are in a book form), order book, cheque book(s) and should have the following headings:

Date of receipt of blank document(s)

Document/book number, for example receipt numbers 1-100, 101-200, or order book number 200-250. (see example of forms control sheet)

Date issued

Received by

Date full book returned (if applicable)

1.3 There must be segregation of duties: the person controlling the issue of controlled documentation cannot, for example, be the receipting official or person placing orders.

1.4 The person requesting controlled forms/stationery such as the receipting official must sign for the documents needed for a limited period depending on daily/weekly usage. For example, "batches" of twenty receipts can be signed for by the receipting official (issued in numerical sequence). Refer to **receipting policy** above, especially control procedures to ensure that receipts are issued in numerical sequence and are all accounted for.

Should receipts or blank orders be in the form of a "bound book" the recipient (user) signs for receipt of the book.

1.5 Blank forms, documents or books to be controlled include:

- Blank (unused) receipts or receipt books
- Blank order documents or order books (including order requisition books, if applicable)

- Cheque books
- Bank deposit books
- Cheque authorisation documents (which must be number controlled).

2. Retention of records

Policy: Statutory and Education departmental requirements regarding periods documents must be retained for and security therefore must be adhered to.

2.1 If the school has a computerised accounting system and/or uses computers for administrative purposes all data must be backed-up and stored securely in the school safe.

2.2 Accounting and financial records must be securely retained for minimum periods as stipulated in Appendix B.

SCHOOL BORROWING POLICY

1. Overdrafts.

Policy: A school cannot negotiate for an overdraft or encumber school assets therefore without prior approval from the Head of Department.

1.1 Permission for entering discussions with a registered financial institution for the provision of an overdraft must be obtained from the Directorate: Financial Management.

1.2 The school must submit a written motivation to the Directorate, including details regarding how the overdraft will be serviced.

2. Loans

Policy: The SGB cannot negotiate a loan with a financial institution that will exceed 30% of the school's net income (Free State Department of Education regulation).

2.1 All loans negotiated must be reported in writing to the Head of Department via the Directorate Financial Management.

BUDGETING PROCEDURES AND POLICY

POLICY: The SGB must prepare a budget each year according to guidelines determined by the Member of the Executive Council (MEC) which shows the estimated income and expenditure of the school for the following financial year.

1. Procedure

1.1 The estimated annual income of the school and hostel (where applicable) and estimated expenditure must be reflected in the budget.

1.2 The budgeted income and expenditure must at all times be in balance or reflect a surplus. At no time should a school budget for a deficit.

1.3 Expenditure items must be prioritised with preference given to items directly linked to the provision of quality education. Expenditure on other activities such as sports, projects and culture should only be considered if funds are available.

1.4 The budget must be prepared and referred to a general meeting of parents at the school convened with at least 30 days notice. This should be in November of the preceding budget year after the Department has informed the SGB of the amount the Department will make available to the school.

1.5 Where applicable the governing body must provide sufficient details in its annual budget of all posts created additional to the establishment as determined by the MEC, including the estimated costs of employment of staff in such posts and how these costs will be met.

1.6 A separate budget must be prepared for the school and for the hostel where hostels are provided.

2. School budgeting guidelines

2.1 Estimated income must include, *inter alia*:

2.1.1 Funds made available by the Department for personnel expenditure on the staff establishment as determine by the Department, other current expenditure and immovable capital improvements

2.1.2 School fees

2.1.3 Donations, interest on savings, investments and trust funds

2.1.4 Funds raised through fund raising campaigns

2.1.5 Sale of products which learners produce as part of their curriculum

2.2 Estimated expenditure items include, *inter alia*:

2.2.1 Recurrent expenditure (telephone, electricity, water, etc.)

2.2.2 Education materials and repairs thereto.

2.2.3 Costs and expenditure in connection with the administration of the school fund account including expenditure on related stationery and bank charges

2.2.4 General expenditure, including insurance premiums

2.2.5 Minor repairs to school property

2.2.6 Improvement to school and schools grounds

2.2.7 Purchase of sports equipment

2.2.8 Payment of fees, such as affiliation fees

2.2.9 Expenditure relating to fund raising functions or projects

2.2.10 Necessary expenses incurred by a member of the SGB in the performance of *bona fide* duties

2.2.11 Auditing fees

2.2.12 Educational tours and excursions

2.2.13 Expenditure on any other educational purpose as approved by the Head of Department.

3. Hostel budgeting guidelines

3.1 A hostel's estimated income may consist of the following:

3.1.1 Hostel fees payable by learners

3.1.2 Hostel fees payable by residential staff

3.1.3 Fees from accommodating people in the hostel, if applicable (such as renting rooms during holidays)

3.1.4 Fees for providing meals to visitors

3.1.5 Fund raising campaigns

3.2 The following expenditure items should be provided for: Provisioning of food to the learners, residential staff and visitors:

3.2.1 Provisioning of food to the learners, residential staff and visitors

3.2.2 Recurrent expenditure

3.2.3 Supplies such as cleaning materials, bedding and linen

3.2.4 Services such as laundry

3.2.5 Supervisory staff not paid by the department

INTERNAL AUDIT CONTROL POLICY

Policy: All financial and accounting systems must be subject to ongoing internal auditing checks.

1. The SGB (through its finance committee) must identify a financially competent member of the finance committee to be delegated the functions of an internal auditor.
2. In the absence of a financially competent member a person with suitable experience can be seconded to the finance committee.
3. The delegated internal auditor must not be a person actively involved in the school financial system or a member of the school management team.
4. The delegated internal auditor reports directly to the treasurer/chairperson of the finance committee. When giving feedback to the treasurer/chairperson regarding any internal audit activity conducted the principal should be in attendance.
5. A "critical area internal auditing check" must be conducted at least once per month (on varying dates: not for example, always at month ends). This is tantamount to a mini-internal audit; should this audit reveal glaring deficiencies a full internal audit should be conducted and, depending on the gravity of the situation as determined by the detailed internal audit, the SGB must recommend to the Head of Department that an external/provincial audit be conducted.
6. A detailed internal audit must be conducted at least twice a year. The full school financial policy forms the basis for the detailed internal audit.
7. Where deficiencies are revealed by the internal audits written action plans for correction must be communicated to relevant personnel and copied to the principal. The internal auditor must conduct a follow up audit concentrating on the deficiencies in order to ascertain whether action plans have been implemented.
8. All copies of internal audit checks and action plans must be securely filed for inspection by provincial/district personnel.

APPENDIX B

APPENDIX B: RETENTION OF DOCUMENTS

MINIMUM PERIODS OF RETENTION		
ACCOUNTING RECORDS	RETENTION (YRS)	REF*
Ancillary books of account and supporting schedules - Analysis book/cash book	15	2&3
Annual financial statements	15	2&3
Bank statements/vouchers	4	3
Books of account	15	2&3
Cheques	4	3
Debtors ledger - Debtors control book	15	2&3
Debtors' statements	4	3
Deposit slips	4	3
Fixed asset register	15	2&3
General ledgers	15	2&3
Petty cash books	15	2&3
Purchase invoices (with supporting documentation)	4	4
Purchase journals (with supporting documentation)	15	2&3
Purchase orders	4	3
Receipts	4	3
Stock records	15	2&4
Stock sheets (stocktaking)	4	3

CONTRACTS AND AGREEMENTS		
Licensing agreements	5	1
CORRESPONDENCE		
General	3	1
Accounting related	5	1
Agreements (after termination)	5	1
EMPLOYEE RECORDS		
Accident books and records	7	4&5
Arbitration award records	3	7
Collective agreement records	3	7
Dispute records prescribing details of strike, lockout, protest action involving employees	3	7
Payrolls	7	3,4&5
Staff records (after date of employment ceases)	7	4&5
Tax returns- employees	4	3
INSURANCE		
Claims reports and accident reports (after date of settlement)	3	1
Policies (after date lapse)	4	3
MEETINGS		
Minutes of SGB meetings *	Permanently	1

Minutes of financial committee meetings*	Permanently	1
Minutes of general meetings (parents/staff meetings etc.)	Permanently	1
TAX RECORDS		
Income tax required records	4	3
VAT DOCUMENTATION		
Bank statement, deposit books (from date of last entry)	4	6
Books of account (from date of last entry)	4	6
Invoices (from date of last entry)	4	6

*** References: (as listed by the source)**

1. *Standard business practice*
2. *Companies Act No.61 of 1973*
3. *Income Tax Act No. 58 of 1963*
4. *Basic Conditions of Employment Act No. 75 of 1997*
Manpower Training Act No. 56 of 1981
Wages Act No. 5 of 1957
5. *Compensation for Occupational Injuries and Disease Act No. 130 of 1993*
6. *Value Added Tax Act No. 89 of 1991*
7. *Labour Relations Act No. 66 of 1995*

APPENDIX C

26 July 2008.

Director: Quality Assurance
Free State Department of Education
Bloemfontein
Fax: 051 447 7318

Dear Sir/Madam,

M.Ed Dissertation: Permission to conduct qualitative research

I attach herewith an application form to register a research project and respectfully request your kind permission to allow me to undertake this research project.

The subject of my research is to investigate the level of management of school financial policy and internal financial controls in designated section 21 schools in the Motheo district. I believe that sound school financial management is an imperative in the achievement of quality education and, of course, sound financial management is an integral part of school management.

I trust that my intended research may also be beneficial to your Department.

For your information, I am currently employed at the School of Education and hold, inter alia, a B.Ed (Hons) degree in Education Management, hence the selection of a research topic in the management field.

However, I must further advise that I have had extensive financial management experience and expertise, having been the Regional Finance Manager of a major commercial concern for over fifteen years, during which time I was responsible for a budget of in excess R450 million, and my job entailed, inter alia, ongoing internal audits of financial functions and procedures at my many branch offices. (I have a B.A. (Law) and B.Comm in Business Management, Accounting and Internal Auditing).

I have presented school financial management modules to upgrading students at the University and recently presented a school financial management module to over 300 school management personnel during the Quids-Up programme, which was organised by our Centre for Development and your department.

I believe, therefore, that I have the expertise to conduct my research according to your high standards and with the necessary objectivity brought about by my many years of experience in the field of financial management.

The intended qualitative research will entail semi-structured interviews with the principals, SGB chairperson, finance committee chairperson/members and the school financial officer (finance clerk). With your permission the interviews will be supported by document examination, such as the analysis book (cash book), petty cash register/documentation, cheque requisition/payment procedures, bank reconciliation, receipting procedures etc. Document study is necessary to establish validity, reliability, objectivity and veracity of the research topic.

I can assure you that at all times the confidentiality of all participants and schools will be strictly enforced. Neither the names of participants nor the names of schools involved with this project will be disclosed in my reasearch dissertation.

I sincerely trust that my application to conduct the research will be granted at your earliest convenience as I am anxious to complete the qualitative research at the schools by end of August 2008.

Your sincerely,

A.D. Manning

B.A (Law)., B.Comm., B.Ed (Hons).,PGCE

APPENDIX D



Enquiries: Mallmane IM
Reference: 16/4/1/35-2008

Tel: 051 404 8662
Fax: 051 447 7318
E-mail: malimane@edu.fs.gov.za

2008 – 08 – 06

Mr. AD MANNING
UNIVERSITY OF FREE STATE

Dear Mr. Manning

REGISTRATION OF RESEARCH PROJECT

1. This letter is in reply to your application for the registration of your research project.
2. Research topic: **The management of school financial policy and internal financial controls in designated section 21 schools in the Motheo Education District.**
3. Your research project has been registered with the Free State Education Department.
4. Approval is granted under the following conditions:-
 - 4.1 Educators and officials participate voluntarily in the project.
 - 4.2 The names of all schools and participants involved remain confidential.
 - 4.3 The questionnaires are completed and the interviews are conducted outside normal tuition time.
 - 4.4 This letter is shown to all participating persons.
 - 4.5 A bound copy of the report and a summary on a computer disc on this study is donated to the Free State Department of Education.
 - 4.6 Findings and recommendations are presented to relevant officials in the Department.
5. The costs relating to all the conditions mentioned above are your own responsibility.
6. **You are requested to confirm acceptance of the above conditions in writing to:**

The Head: Education, for attention: DIRECTOR : QUALITY ASSURANCE
Room 401, Syfrets Building, Private Bag X20565, BLOEMFONTEIN, 9301

We wish you every success with your research.

Yours sincerely



FF SELLO
DIRECTOR : QUALITY ASSURANCE

Directorate: Quality Assurance, Private Bag X20565, Bloemfontein, 9300
Syfrets Center, 65 Maitland Street, Bloemfontein
Tel: 051 404 8750 / Fax: 051 447 7318 E-mail: quality@edu.fs.gov.za

APPENDIX E

15 August 2008

Director: Quality Assurance
Free State Department of Education
Bloemfontein
Fax: 051 447 7318

Dear Sir/Madam,

M.Ed Dissertation: Permission to conduct qualitative research

I refer to your letter dated 06 August 2008 and express my sincere appreciation to you for granting me permission to conduct research in your schools.

I hereby agree to abide by the conditions as stated by you in the aforesaid letter.

Your sincerely,

A.D. Manning
B.A (Law)., B.Comm., B.Ed (Hons).,PGCE

APPENDIX F

20 August 2009

The Principal
 XXX
 Bloemfontein
 Fax: 051

Dear Sir/Madam,

M.Ed Dissertation: Intention to conduct qualitative research at your school

I attach herewith a copy of a letter from the Free State Education Department granting me permission to conduct research at your school and I respectfully request your kind cooperation in enabling me to complete this research project.

For your information, I advise that the title of my research project is:

The management of school financial policy and internal financial controls in designated section 21 schools in the Motheo Education District

Your school is one of the designated schools which were chosen by me purely in an arbitrary manner and communicated to the Department.

The intention of the qualitative research is to:

- conduct short semi-structured individual interviews with yourself, the chairperson of the finance committee, the SGB chairperson and the finance officer/clerk at your school
- document study and examination

As this is merely a research project you are assured of absolute confidentiality, in that the names of participating school officials and the school itself will remain strictly confidential. The research dissertation will record participants and schools simply as Principal A, B, etc., and school A, B, etc.

It would be appreciated if you would therefore accord me 25-30 minutes of your valuable time for an interview and I thus wish to make an appointment with you at a time convenient to you. In the interest of transparency and openness I attach herewith a list of topics/questions that I would like to cover in our discussions.

I will thus make contact with you or your secretary shortly in order to arrange for an appointment with you and other participants, which I trust will be in order. I plan to complete this research project by the end of this term.

Your faithfully,

A.D. Manning

B.A (Law)., B.Comm., B.Ed (Hons).,PGCE

