



Reference: 20190513-4603
File no.: 12/12/2/P
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Circular: 0027/2019
Expiry date: None

To: Deputy Directors-General, Chief Directors, Directors, Circuit Managers, Heads: Management and Governance, Deputy Directors and Principals and governing body chairpersons of public schools

Short summary: *This circular should be read in conjunction with the Manual: Basic Financial System for Schools as an additional guideline when applying for approval when entering into a binding agreement.*

Subject: Financial management at schools

1. **Entering into financial agreements as prescribed by sections 36 and 37 of the South African Schools Act (SASA), 1996 (Act 84 of 1996)**
 - 1.1 **Loan or overdraft**
 - 1.1.1 Section 36(2) of SASA states that a governing body may not enter into any loan or overdraft agreement so as to supplement the school fund, without the written approval of the Member of the Executive Council (MEC).
 - 1.1.2 Section 36(3) of SASA goes further to state that if a person lends money or grants an overdraft to a public school without the written approval of the MEC, the State and the public school will not be bound by the contract of lending money or an overdraft agreement.
 - 1.1.3 Section 1(1) of SASA defines a 'loan' as "any financial obligation based on agreement, which obligation renders a school liable for making payment, in one or more instalments, in favour of any person, but does not include the payment of staff appointed by the governing body in terms of section 20(4) or (5);"

1.1.4 This essentially means that all financial contracts or agreements that schools enter into which place financial obligations on the schools to pay in instalments, are considered to be loans and require the approval of the Provincial Minister of Education, in accordance with section 36(2) of SASA.

1.1.5 Compliance with section 36 of SASA

If a governing body wishes to enter into an agreement for a loan or overdraft facility, the following documents must be submitted to the Deputy Director: Corporate Services at the relevant district office:

- a) A completed application form (Annexure A)
- b) Latest audited Annual Financial Statements
- c) Certificate of sound financial management
- d) Copy of governing body meeting minutes where the decision was taken, dated and signed by the governing body chairperson and secretary. The minutes should not be older than 6 months.
- e) Copy of the rental/lease agreement
- f) Should the loan or lease be of an infrastructural nature, a signed infrastructure approval letter from the Provincial Minister will be required. This signed letter can be requested via the Directorate: Infrastructure Delivery Management at Head Office.

1.1.6 Additional conditions

- a) Overdraft facilities are approved for a year, should you wish to renew, a new application must be submitted via the district office.
- b) Proof must be available of the full disclosure of all loans, leases and/or overdraft facilities to parents in a school newsletter or communiqué.
- c) A reasonable amount of due diligence and internal controls need to be taken into consideration when entering into a loan/overdraft agreement using public funds.

1.2 **Investments**

1.2.1 Section 37(3) of SASA states that:

The governing body of a public school must open and maintain one banking account, but a governing body of a public school may, with the approval of the MEC, invest surplus money in another account.

1.2.2 Compliance with section 37(3) of SASA

If a governing body wishes to invest surplus money in an account, other than the bank account referred to in section 37(3), the following must be submitted to the Deputy Director: Corporate Services at the relevant district office:

- a) Completed application form (Annexure B)
- b) Latest audited Annual Financial Statements
- c) Certificate of sound financial management

- d) Copy of governing body meeting minutes where the decision was taken to invest surplus funds, dated and signed by the governing body chairperson and secretary.

1.2.3 Additional conditions

- a) The investment account must be held in the school's name.
- b) The investment period must not exceed 12 months but may be renewed annually.
- c) Investments may not be held offshore.
- d) Newly elected governing bodies must ratify any existing investments.
- e) Monies may not be disbursed from the investment account.
- f) Interest must be funnelled back into the school's main bank account.
- g) There must be transparency in the Annual Financial Statements with regard to the disclosure of investment accounts.
- h) Money from the school fund may not be paid into a trust or be used to establish a trust.
- i) A reasonable amount of due diligence and internal controls need to be taken into consideration when investing school funds.

2. **Appointment of a person to examine and report on the financial records of public schools**

2.1 Section 43 of SASA states that:

(1) *The governing body of a public school must appoint a person registered as an auditor in terms of the Auditing Profession Act, 2005 (Act 26 of 2005), to audit the records and financial statements referred to in section 42.*

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

- (a) *is qualified to perform the duties of an accounting officer in terms of section 60 of the Close Corporations Act, 1984 (Act 69 of 1984); or*
- (b) *is approved by the MEC for this purpose.*

2.2 **List of professional accounting bodies**

- Association of Chartered Certified Accountants (ACCA)
- Chartered Institute of Business Management (CIBM)
- Chartered Institute of Management Accountants (CIMA)
- Chartered Secretaries Southern Africa (CSSA)
- Independent Regulatory Board for Auditors (IRBA)
- Institute of Accounting and Commerce (IAC)
- Institute of Chartered Secretaries and Administrators (ICSA)
- South African Institute for Business Accountants (SAIBA)
- South African Institute of Chartered Accountants (SAICA)
- South African Institute of Government Auditors (SAIGA)
- South African Institute of Professional Accountants (SAIPA)

2.3 Definition of “reasonably practicable”

2.3.1 The words “reasonable practicability” are defined in Department of Basic Education (DBE) Circular M1 of 2018, dated 04 September 2018, as follows:

Reasonable practicability referred to in section 43(2) of SASA includes the financial resources of the school, the values of the assets of the school and all other relevant matters. Whether or not it is reasonable practicable to perform an audit through a registered auditor as contemplated in sub-section (1) will be determined on the basis of the facts of each case. What is clear however is that sub-section (2) makes provision for further two options in relation to the inspection of financial statements and records of schools, which may be followed should all factors considered be against the appointment of a registered auditor.

2.3.2 Reasonable practicability, therefore, depends on the circumstances of the school which may differ from one school to another.

2.3.3 The governing body must have proper measures in place to determine whether the appointment of a registered auditor is feasible and if not, the appointment of a person in terms of section 43(2) of SASA will be the next alternative.

2.4 Compliance with sections 43(1) and 43(2) of SASA

2.4.1 The governing body of a public school must submit the following documentation to apply for the approval of an auditor in terms of **section 43(1) and 43(2)(a)**:

- a) Copy of governing body meeting minutes which state that the specific auditor was appointed, signed and dated by the governing body chairperson on a school letterhead. (Please note that the relevant subparagraph relating to the appointment must be referenced.)
- b) Section 43(1):
 - i) Proof that the auditor is a member of SAICA; and/or
 - ii) Proof that the auditor/firm is registered with IRBA.
- c) Section 43(2)(a):

Proof that the auditor/firm is a member of one of the professional bodies as contained in paragraph 2.2. In the event that member details are provided on behalf of the firm, a letter of appointment is required.

2.4.2 The governing body of a public school must submit the following documentation to apply for the approval of a person in terms of **section 43(2)**:

- a) Completed SBM02 application form (Annexure C).
- b) A recently certified copy of a relevant financial qualification (refer to section 43(2)(a)).
- c) A recently updated one-page curriculum vitae (documenting relevant work experience).

- d) Two quotations obtained from different companies offering audit services for comparison.
- e) A written request from the governing body requesting a deviation from section 43(1) and motivating why it is not reasonably practicable to appoint a registered auditor.

2.4.3 The application process coincides with the election of the new governing body and will run cyclically every three years. Should there be a change in governing body within the three year cycle, then the auditor/registered accountant will either be accepted as per a formal governing body meeting or a new auditor/registered accountant will have to be elected in line with legislative requirements.

2.4.4 Should the current auditor/registered accountant be accepted according to the prescripts and current Western Cape Education Department (WCED) records, which are available on CEMIS, the signed governing body meeting minutes regarding the auditor/registered accountant's appointment must be kept by the school for record purposes.

2.4.5 In respect of a person appointed in terms of sections 43(1) and 43(2)(a), the WCED will issue an acknowledgement letter.

2.4.6 In respect of a person appointed in terms of section 43(2)(b), a letter of approval/disapproval from the Provincial Minister will be issued.

3. School quintile allocations

3.1 How school quintiles are allocated

3.1.1 The DBE establishes the National Poverty Distribution Table, which is published in the *Government Gazette* with the National Norms and Standards for School Funding. These quintiles provide for the equal distribution of learners per quintile across the country, i.e. 20% of all learners across the country constitute Quintile 1 etc. This implies therefore that 60% of the country's learners will be classified as poor learners to be placed in no-fee schools (Quintiles 1–3).

3.1.2 The DBE bases the poverty scores used to compile the tables on the relative poverty of communities on Statistics South Africa's National Census data. This prescript limits the extent to which the WCED may allocate schools to other quintiles, unless schools in the desired quintile close or merge.

3.1.3 The National Poverty Distribution Table is also set out per quintile per province, aligned to the province's poverty rankings. The Western Cape is still regarded as one of the least poor provinces, resulting in the Western Cape's poverty distribution only allocating 40% of its' learners to Quintiles 1–3.

- 3.1.4 Each provincial education department allocates schools to quintiles according to this National Poverty Distribution Table. Provincial education departments have to allocate schools to quintiles according to percentages contained in the tables for each province. These percentages determine the number of schools that departments may allocate to each quintile.
- 3.1.5 The Directorate: Management Accounting receives an email notification from the Directorate: Infrastructure Delivery Management about the intended opening of a new school.
- 3.1.6 New schools are plotted by the Directorate: Research on the Geographic Information System using Global Positioning System technology. The Directorate: Research provides the Directorate: Management Accounting with a geographical printout of the school's location in relation to their surroundings/ward.
- 3.1.7 The Directorate: Research also assists with poverty statistics for communities and confirms in which community boundary the new school resides.
- 3.1.8 The Directorate: Management Accounting subsequently determines the appropriate poverty score and quintile status for the school, according to the National Poverty Distribution Table as issued by the DBE, in line with the school's surrounding community.
- 3.1.9 The Directorate: Management Accounting then sends the national quintile and poverty score allocated to the school to the Head of Department, via the relevant branch management, for approval. The Directorate: Management Accounting communicates the approved national quintile and poverty score allocated to all relevant stakeholders.

3.2 **Appeal against quintile and/or fee status**

- 3.2.1 Section 39(7) of SASA states that:
Despite subsection (1), the Minister must by notice in the Government Gazette annually determine the national quintiles for public schools or part of such quintiles which must be used by the MEC to identify schools that may not charge school fees.
- 3.2.2 In terms of the amended National Norms and Standards for School Funding (NNSFF), published in *Government Gazette* No. 29179 of 31 August 2006, schools are ranked based on the poverty of the community surrounding the school and not on the poverty of the individual learners.
- 3.2.3 This placement of schools is done in accordance with the National Poverty Distribution Table published in the NNSFF. Only schools in their second year of operation may apply for a deviation where the school believes that it warrants special consideration. The WCED is obligated to apply a fair and transparent process in dealing with these applications.

3.2.4 **Compliance with section 39(7) of SASA**

In order to comply with the SASA and the NNSSF, the following procedures as well as roles and responsibilities will apply:

- a) Schools must submit an appeal in writing on a school letterhead, signed by the principal and governing body chairperson to the District Director at the relevant district office. The letter should indicate the following:
 - i) Purpose of their appeal, i.e. quintile and/or fee status
 - ii) Motivation outlining the factors that are placing the school in financial difficulty.
- b) District offices must submit the following to Head Office:
 - i) Recommendation letter in support of the appeal, signed by the relevant circuit manager and district director
 - ii) Latest Annual Financial Statements
 - iii) Budget in relation to the Annual Financial Statements submitted.

3.2.5 The Deputy Director: Corporate Services at the relevant district office must review every appeal for completeness, economy and appropriateness by using the information provided by the school and either recommend or decline the appeal with reasons.

3.2.6 The information is sent to the Directorate: Management Accounting for consideration and the Provincial Minister for approval.

3.2.7 Once the appeal has been considered, written feedback will be communicated to the school via the relevant district office regarding the decision taken by the Provincial Minister and whether the request has been deemed in the best interests of the school.

3.3 **Submission of appeals**

3.3.1 **Schools** must submit appeals for the Provincial Minister's approval, signed by the principal and chairperson of the governing body and accompanied by the documentation referred to above, to the District Director at the relevant district office.

3.3.2 **District offices** must submit reviewed appeals as follows:

By email to:

Elton.Bezuidenhout@westerncape.gov.za

(and cc Luthando.Sangqu@westerncape.gov.za)

Or hand deliver to:

Western Cape Education Department
Room 7-18, 7th Floor, Grand Central Towers
Lower Parliament Street
Cape Town
8001

Or post to:

Head: Education

For attention: Directorate: Management Accounting

Western Cape Education Department

Private Bag X9114

Cape Town

8000

- 3.3.3 Appeals must be complete. Incomplete appeals will be cancelled and referred back to the district office for finalisation.
4. Kindly bring the contents of this circular to the attention of all concerned.

SIGNED: BK SCHREUDER

HEAD: EDUCATION

DATE: 2019-07-19



The Director

EDUCATION DISTRICT OFFICE

FOR ATTENTION: The Deputy Director: Corporate Services

MARK WITH X

APPLICATION FOR:	LOAN		LEASE/ RENTAL		OVERDRAFT		CREDIT FACILITIES	
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NAME OF SCHOOL:

EMIS NO:

- We hereby apply in accordance with Section 36(2) of the South African Schools Act, 1996 (Act No 84 of 1996) as amended, for the approval of the Member of the Executive Council (MEC) to enter into a loan or overdraft agreement.
- Details for finance required: (Please complete 2.1 to 2.8)

2.1	Item/s to be financed:	
2.2	Motivation to enter into a financial agreement:	
2.3	Total amount (incl. VAT):	R
2.4	Less Deposit (indicate if nil):	R
2.5	Amount of agreement which school will enter into:	R
2.6	Period (total years) of agreement:	
2.7	Monthly payment:	R
2.8	What income will be used to repay the financial agreement entered into:	

- The following documents are hereby attached:
 - The latest Audited Financial Statements,
 - A copy of the signed and dated minutes where the decision was taken; dated and signed by the School Governing Body chairperson and principal,
 - Certificate of sound financial management, Section 38(1)(j), and
 - Should the loan or lease be of an infrastructural nature, the approval letter from the MEC will be required. This is done via the Directorate Infrastructure at Head Office.

GOVERNING BODY: **CHAIRPERSON**

Date:

PRINCIPAL

Date:



The Director

EDUCATION DISTRICT OFFICE

FOR ATTENTION: The Deputy Director: Corporate Services

APPLICATION TO INVEST SURPLUS FUNDS

NAME OF SCHOOL:

EMIS NO:

1. We herewith apply, in accordance with Section 37 (3) of the South African Schools Act, 1996 (Act No 84 of 1996) as amended, for the approval of the Member of the Executive Council (MEC) to invest surplus money in separate bank accounts.
2. Details of funds to be invested: (Please complete 2.1 to 2.5)

2.1	Type (Fixed Period/Money Market/Other):	
2.2	Motivation for the investment:	
2.3	Amount to be invested	R
2.4	Name of institution where investment will be held:	
2.5	Period of the investment (months)	

3. The following documents are hereby attached:
 - 3.1 The latest Annual Financial statements,
 - 3.2 A copy of the signed and dated minutes where the decision was taken to invest surplus funds; dated and signed by the School Governing Body chairperson and principal, and
 - 3.3 Certificate of sound financial management Section 38(1)(j).

 GOVERNING BODY: **CHAIRPERSON**
 Date:

PRINCIPAL
 Date:



**Wes-Kaapse
Regering**

Onderwys

Adres/Address: Direktooraat: Bestuursrekeningkunde, WKOD, Grand Central Towers, Laer-Parlementstraat, Privaatsak X9114, Kaapstad 8000.
Directorate: Management Accounting, WCED, Grand Central Towers, Lower Parliament Street Private Bag X9114, Cape Town, 8000. Tel.: (021) 467-2192, Faks/Fax 467-2594.

Aansoek om goedkeuring ingevolge artikel 43(2) van die SA Skolewet, 1996 (Wet 84 van 1996), deur die LUR verantwoordelik vir Onderwys, van die beheerliggaam se aanstelling van 'n persoon verantwoordelik vir die ondersoek van en verslagdoening oor die inrigting se rekords en finansiële state.

Application for approval in terms of Section 43(2) of the SA Schools Act, 1996 (Act 84 of 1996), by the MEC responsible for Education, of the governing body's appointment of a person to examine and report on the records and financial statements of the institution.

**Onderwysinrigting /
Educational Institution:**

DISTRIK/DISTRICT:

Besonderhede van Persoon : Details of Person

Volle voorname/Full first names		
Van/Surname		
Identiteitsnr/Identity No		
Posadres/Postal address		
Telefoon/Telephone	()	Selfoon/Mobile :
E-pos-adres/Email address		
Enige kriminele oortredings? Any criminal offences?	Ja/Yes Nee/No	Indien Ja, verskaf asb besonderhede op 'n addisionele bladsy. If Yes, please supply particulars on an additional page.
Ooit voorheen insolvent verklaar? Ever been declared insolvent?	Ja/Yes Nee/No	Indien Ja, verskaf asb besonderhede op 'n addisionele bladsy. If Yes, please supply particulars on an additional page.

Dokumente aangeheg : Documents attached

Curriculum Vitae (1 Page) & certified copies of relevant qualifications

Notule van beheerliggaamvergadering (Bewys: Aanstelling & datum) / Minutes of Governing Body Meeting (Proof: Appointment & date)

Beheerliggaam : Governing Body

Geteken/Signed :	Datum/Date :
Naam en Van/Name and Surname:	
Telefoon/Telephone: ()	Sel/Mobile:

Verklaring deur aansoeker : Declaration by applicant

Ek, _____, verklaar hiermee dat ek jaarliks onafhanklik sal verslag doen teen **30 Junie** oor die rekords en finansiële state van die inrigting vir die periode **1 Januarie tot 31 Desember**. Ek sal geen finansiële of enige ander voordele aanvaar wat my onafhanklikheid om my pligte uit te voer sal beïnvloed nie. Ek het geen finansiële belang by die sake van die inrigting nie.

I, _____, hereby declare that I will annually by **30 June** report independently on the records and financial statements of the institution for the period **1 January to 31 December**. I will not accept any financial or other benefits that may influence my independence to perform my duties. I have no financial interest in the business of the institution.

Geteken/Signed : _____
Aansoeker/Applicant

_____ Datum/Date