# FINANCIAL STATEMENTS AND THE DISCHARGING OF FINANCIAL ACCOUNTABILITY OF ORDINARY PUBLIC SCHOOLS IN SOUTH AFRICA

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**Abstract**

The Schools Act, 84 of 1996 (section 42(b)), requires that all public schools in South Africa, "as soon as practical, but not later than three months after the end of each financial year, draw up annual financial statements". These schools must further submit audited financial statements to the Department of Education within six months after the school's year end (section 43) and according to section 43(6), "at the request of an interested person, the governing body must make the records referred to in section 42, and the audited or examined financial statements referred to in this section, available for inspection". The compilation, auditing and submission of these statements are therefore legally required and are compulsory for all schools.

The study aims firstly to establish whether schools in South Africa comply with the current legislative prescripts and accounting and auditing practices, and secondly to identify possible problem areas in this regard.

**Keywords:** Financial Accountability, Financial Reporting, Financial Statements, Scarce Resources

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## Introduction

The Schools Act, 84 of 1996 (hereafter SASA) in section 42(b), requires that all schools in South Africa, must "as soon as practical, but not later than three months after the end of each financial year, draw up annual financial statements". These financial statements must be audited and submitted to the Department of Education within six months after the school's year end. Furthermore, according to section 43(6), the governing body of a school must make these audited financial statements available for inspection at the request of "an interested person". The availability, compilation, auditing and submission of these statements are therefore legally required and are compulsory for all schools.(Republic of South Africa, 1996).

This paper explores firstly the availability of financial statements of South African schools and secondly analyses the contents of the financial statements of four ordinary South African schools to judge the quality and consistency of compliance with legal requirements and accounting and auditing practices.

## Aim and importance of the study

The study aims firstly to establish whether schools in South Africa comply with the current legislative prescripts and accounting and auditing practices, and secondly to identify possible problem areas in this regard.

The study should contribute to the information database on financial matters of schools and could provide information about the value of financial statements regarding the discharge of financial accountability in schools. This information could help improve public trust in the South African school system and could help the Education Departments to evaluate the financial management and performance of schools. Improved information could lead to improved policies and regulation.

The results could also inform the accounting and auditing professions about the adequacy of the current system of drafting and/or auditing the annual financial statements of schools.

## Limitations of the study

This is an exploratory study of the financial statements of only four schools and therefore the conclusions cannot be extrapolated to all schools in South Africa. Financial statements alone can also not provide all the information necessary to discharge financial accountability. Furthermore, one should realise that there are limitations to the information presented in financial statements. Because of the accounting practices that have become generally accepted, subjective qualitative factors, current values, the impact of inflation and opportunity cost are not usually reflected in financial statements. In addition, many financial statement amounts involve estimates and because of permissible alternative accounting practices, comparisons between different entities may not always be appropriate. (Koen and Oberholzer, 2002:9-10).

## Background

Education is one of the most important services provided by governments world-wide and this is also true for South Africa. According to South Africa Government online (2014), spending on education will reach R236 billion in 2014/2015. Schools, undoubtedly, form the foundation of the entire education system, with 25 826 ordinary schools in South Africa in 2012. (Department of Basic Education, 2014).

Public schools in South Africa receive funding from the respective provincial departments of education under which they fall. This money is derived from taxes paid by the public. Schools also receive further funds from a variety of sources like parents and other private individuals and/or institutions. Schools have a responsibility to use this money effectively to provide quality education and have to be able to demonstrate that they have done so. One way of providing evidence of how a school has managed their finances is by compiling financial reports. These reports include but are not limited to, annual financial statements. However, annual financial statements are the most widely used and most comprehensive way of communicating financial information about an entity, especially to external users (Shim 2008:15).

The South African education has in recent years been decentralised in an attempt to ensure quality education through the participation of parents and communities in the governance of their children's schools. Such sharing of power is in line with international trends as well as South Africa's constitutional imperative of democratic governance. For this potential to be realised, parents and community members need access to information about the school's performance. The increased school autonomy places a stronger demand on accountability as schools with more decision-making powers are required to account for their decisions and the impact thereof.

The term "accountability" is commonly found in modern public administration theory and practice and is defined as the fact or condition of being "accountable". The Institute for Accountability in Southern Africa (IFAISA), defines accountability as the "obligation of those with power to explain their performance and justify their decisions" (IFAISA, 2014). The BusinessDictionary.com (2014), defines accountability as "the obligation of an individual or organization to account for its activities, accept responsibility for them, and to disclose the results in a transparent manner". Basically, accountability derives from the practical need to delegate certain tasks to others (agents). Those entrusted with these delegated duties are responsible for performing these actions in such a manner as can be reasonably expected under the relevant conditions. It is also expected that they render an account of their actions.

Evidence from the literature emphasises that accountability is made up of two parts, "the element of account" and the "holding to account". Rendering an account involves reporting and explaining or justifying the occurrence of activities (Wagner, 1989:7 - 16; Law, 1999:78-97). This involves providing information (i.e. reporting) to other people voluntarily or compulsorily (Maile, 2002). The second part, namely the holding to account, refers to parties to whom the "account" is given, the evaluation of the information provided, and the actions taken when after evaluating the information, a performance is found to be lacking according to some standard or expectation (Wagner, 1989:7-16; Law, 1999:80).

Accountability is clearly quite complex and dynamic and every accountability relationship implies the existence of a certain social framework, which will define the accountability relations (Rabrenović, 2009). It is not only a means through which individuals and organisations are held responsible for their actions (e.g. through legal obligations and explicit reporting and disclosure requirements), but also as a way for taking internal responsibility for shaping organisational mission and values, for opening entities to public or external scrutiny and for assessing performance in relation to goals. According to Ebrahim (2003), accountability operates along multiple levels – involving numerous actors (patrons, clients, selves), using various mechanisms and standards of performance (external and internal, explicit and implicit, legal and voluntary) and requiring various levels of organisational response (functional and strategic).

Accountability in an educational environment like a school also has many dimensions. Andersson (2005) describes three main types of accountability dimensions in education, namely: compliance with regulations, adherence to professional norms, and results driven accountability. Aucoin and Heinztzman (2000:45), describe the accountability in a school as serving three purposes. The first is to control the abuse and misuse of public authority. The second is to provide assurance in respect of the use of public resources and adherence to the law and public service values. The third purpose is to encourage and promote learning in pursuit of continuous improvement in governance and public management. Whittaker (1989:24) defines accountability in a school context as"…The duty or obligation of those given responsibilities and resources to explain and justify how they have used (or applied) the responsibility and resources in the achievement of agreed objectives. Whittaker (1989) stresses that this obligation is not only to "corporate entities, remote educational experts, or some restless national audience created by mass media, but rather to their local communities".

Financial accountability in a school is about assuring its stakeholders regarding the use of public resources (stewardship) as well as to underpin decision-making about how to allocate scarce resources like time, personnel, space, equipment and money. The allocation of resources may affect learner success (Xaba and Ngubane, 2010) and therefore the entire operation and success of a school often hinges on the quality of its financial management. It is therefore clear that a school has to provide information about financial activities to its stakeholders in order to discharge financial accountability.

The South African Schools Act renders the school governing body (SGB) responsible for the management of the school, including the financial management (Mestry, 2004; 2013). As elected officials, the SGB must demonstrate financial accountability for their performance to the different stakeholders to assure them that the funds entrusted to the school are being used to optimise the educational experiences of learners (Joubert, 2006; Joubert and Bray, 2007:28; Mbatsane, 2006; Mestry, 2004).

Demonstrating financial accountability can take many forms but essentially refers to the providing of financial information to stakeholders. The day-to-day financial operations and activities in any entity are usually too numerous to be reported individually to outsiders. The accounting system provides a mechanism to select, measure, and aggregate or summarise the financial activities for a specific time period into a variety of financial reports, including financial statements (Palepu and Healy, 2008: 1-4). A school's financial statements will therefore provide evidence of the school's financial operations and the management thereof.

The purpose of annual financial statements is to provide financial information to the governing body, parents, and other interested parties and as such, these statements form the basis of the governing body's responsibility to the community (in other words, accountability).

It is therefore no surprise that SASA, section 42(b) requires that all public schools in South Africa, must prepare annual financial statements. If the information is to be relevant it must be received on a timely basis and therefore a time limit is also specified. The statements must be prepared as soon as practical, but not later than three months after the end of each financial year. Section 43 of this Act further requires that all public schools in South Africa submit audited financial statements to the Department of Education within six months after the school's year end. Furthermore, a school's financial records and financial statements must be made available for inspection by any interested person if so requested as per section 43. (Republic of South Africa, 1996).

The availability, compilation, auditing and submission of financial statements are therefore legally required and are compulsory for all schools.

Several authors have addressed financial management and financial accountability in South African schools (Bischoff, 1997:26; Joubert, 2006; Mbatsane, 2006; Mestry, 2004; Mestry, 2006; Ngubane, 2009; Xaba and Ngubane, 2010), but very few have commented specifically on the role of financial statements in this regard. However, both Mngoma (2009) and Makrwede (2012) highlight specific areas of concern.

Although the Accounting Officer's Guide (Republic of South Africa, 2000:19) states that financial information has no intrinsic value, but must be used by managers to develop plans, evaluate alternative courses of action and institute corrective action when necessary, the literature indicates that this aspect may be lacking in South Africa. Mahlane (2007) reports that in the Mopanie Dsitrict of the Limpopo Province, the majority of schools do submit audited reports, but apparently these reports are not assessed by the Education Department. Griesel (2011:360) gives a similar report. This does not seem to be unique to South Africa as Tooley and Guthrie (2007) report that schools in New Zealand also receive no feedback on annual reports submitted to the Ministry of Education.

No South African study analysing or assessing the contents of financial statements of schools could be found although Xaba and Ngubane (2010) as well as Doussy and Doussy (2012) recognise the importance thereof regarding accountability.

## Quality of financial reporting

Over the years, the accounting profession through oversight bodies, developed certain international rules and guidelines on how financial information is treated and communicated. This ensures that measurement and presentation are less subjective (Elliot and Elliot, 2012: 212). These guidelines and rules for preparing financial statements are commonly known as Generally Accepted Accounting Principles (GAAP). In an attempt to set one international standard, the International Accounting Standards Board (IASB) issues International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs). These standards start with a conceptual framework which anchors financial reports to a set of principles such as materiality (the degree to which the transaction is big enough to matter) and verifiability (the degree to which different people agree on how to measure the transaction). The standards establish which resources and obligations should be recorded as assets and liabilities, which changes in assets and liabilities should be recorded, when these changes should be recorded, how the recorded assets and liabilities and changes in them should be measured, what information should be disclosed and which financial statements should be prepared. In other words, the standards prescribe recording and reporting practices that are deemed to be acceptable when reporting on the financial affairs of an entity. (IFRS, 2012).

In South Africa (SA), the Accounting Standards Board (ASB), used to issue SA GAAP which was based on international standards, but SA GAAP was withdrawn in 2012. For financial years commencing on or after 1 December 2012, South African entities should use IFRSs (International Financial Reporting Standards), as approved by the IASB (South African Institute of Chartered Accountants (SAICA), 2012). Externally communicated information must be prepared in accordance with IFRSs to ensure the same understanding of the information by both the preparers and users of that information. The financial statements of schools in South Africa should therefore be consistent with the requirements of IFRS. Thet enforcement of accounting standards improves the quality of financial reporting.

The literature recognises that measuring the quality of financial reports like the financial statements is problematic especially because different users may perceive the usefulness of information very different from each other (Botosan, 2004; Daske and Gebhardt, 2006).

However, it is a fact that most of the stakeholders in schools will not have the ability or need to analyse the financial statements in detail or test the compliance with accounting standards. This study will therefore not test whether the sample financial statements adheres to all the requirements of IFRS but will rather concentrate on the quality in terms of fundamental characteristics like relevance and faithful representation which are enhanced by characteristics like understandability, comparability, verifiability and timeliness. This study therefore concentrates on the quality and therefore value of the financial statements of schools to discharge their financial accountability to the parents, sponsors and general community. Stakeholders in schools like the parents and community members are probably only interested in whether the statements are trustworthy, that no corruption took place, the budget were complied with and that the school is in a position to provide value for money. To enable this it is extremely important that the statements are transparent and easy to understand. Understanding the information contained in the financial statements is a key step to making informed decisions, especially during budget adoption. Parents and other members of the community should also serve as "watchdogs" and possible areas that can reveal mismanagement or corruption should be identifiable and clear. As stakeholders become more involved in the management of schools and in holding governing bodies accountable as is the vision of the government, they will become more skilled in financial matters and the quality and clarity of the financial statements of South African schools will therefore probably become even more important.

The format, contents, and value of financial statements of schools are briefly explored in the next part.

## Format and contents of financial statements

According to IAS1 *Presentation of financial statements*, paragraph 10, a complete set of financial statements comprise:

- a statement of financial position as at the end of the period (balance sheet);
- a statement of profit and loss and other comprehensive income for the period (income statement);
- a statement of changes in equity for the period;
- a statement of cash flows for the period; and
- notes, comprising a summary of significant accounting policies and other explanatory information. (IFRS, 2012: A562).

An auditor's report will accompany the financial statements if these were audited.

Although each of the financial statements has its specific purpose, the statements are of equal importance and are interrelated (IFRS, 2012: A563).

Financial statements are usually presented on a comparative basis (for more than one year) to allow users to easily spot significant changes (IFRS, 2012:A569).

## The value of financial statements of schools

Accounting theory has long recognised that financial reporting (as in financial statements) is based both on a decision-usefulness paradigm and a stewardship rationale (Coy, Fisher & Gordon, 2001:2). The New Basic Financial System for Schools (WCED, 2013:36) Western Cape Department of Education list the objectives of financial statements as follows:

- give effect to legislative requirements of the South African School's Act as well as Section 38 of the Public Finance Management Act (PFMA), Act 1 of 1999 (Republic of South Africa, 1999);
- provide guidelines to the finance committee;
- indicate the financial position, financial performance and cash flows of the school;

- show the results of management's stewardship of the resources entrusted to them.

The financial statements also

- form the basis for decision-making regarding financial matters;
- provide a means of tracking the growth or decline in a school's assets or liabilities;
- form the basis for determining the value of school property;
- provide a means for budgetary control, for instance by comparing actual financial results with legally adopted budgets; and
- provide data to target specific areas for improvement.

Different stakeholders or groups of stakeholders may use the financial statements for different reasons but they will all perform some form of analysis of its contents to interpret the information in the financial statements.

## Financial statement analysis

Shim (2008:2) describes financial statement analysis as: 'a process which examines past and current financial data for the purpose of evaluating performance and estimating future risks and potential'. Koen & Oberholzer (2002:3-5) describe financial analysis as the measurement and evaluation of information in financial statements in order to make the information more useful for decision making. The results of the analysis are interpreted by seeking the reasons for, and the repercussions of the results for the entity. Analysis can be seen as the link between the financial statements and the decision-making process.

Steyn, Warren and Jonker (2004:11) stress the importance of comparing current financial statements to those of previous years or with similar enterprises. This will highlight areas which are different or have changed. Users can then establish the reason for the difference or change and see whether it is positive or negative. A stable historical track record is usually an indication of a financially sound school.

By comparing the financial statements with the budget, users are able to judge whether actual performance is in line with planned performance.

A user can also identify unexpected variances and trends that do not meet expectations. This may bring to light issues that need further attention.

Koen and Oberholzer (2002:11) suggest the following basic steps for analysis.

- Examine the auditor's report and director's report (principal's report in a school) for any exceptional comments.
- Study the accounting policy and notes to the financial statements.
- Examine the cash flow statement with special attention to the purchase and disposal of assets or possible restructuring of financial resources.

More in-depth analysis like financial ratios, etc. can then be applied to areas of concern.

## Analysis specific to school financial statements

Public sector entities like schools are expected to be accountable for:

- the extent to which the entity performed in accordance to its financial plan;
- the extent to which current activities/results have an effect on the activities/results of future periods; and
- the financial condition of the entity

Schools does not have profit as their main purpose, but rather good education, and unlike profit-oriented businesses, a school's resource allocation is often set by policy rather than by forces of supply and demand. When looking at a school's financial statements, one should therefore first consider whether the school has complied with the relevant rules and regulations.

In South Africa, school financial statements have to comply with the following legislative prescripts and regulatory framework:

- GAAP (or IFRS from 1 December 2012)
- The South African Schools Act, Act 84 of 1996, Sections 43(1) & (2)
- The Public Finance Management Act, Act 1 of 1999
- Circulars issued by Education Departments (WCED, 2013).

Secondly users must consider the school's financial position and judge whether its financial performance was satisfactory.

Those things in the financial statements that relate to **financial position** are:

1. The assets and liabilities of the entity
2. Cash and cash equivalents
3. Debt and other liabilities
4. Other resources

The financial statements provide information regarding **financial performance** through:

5. Budget compliance
6. Annual surplus/deficit
7. The extent to which revenue of the current period is sufficient to cover the cost of providing services in the period plus any costs of previous years that were not covered by revenue in previous years
8. A change in net assets/liabilities
9. A change in net debt/net financial assets
10. The sources and uses of cash.

Other information which can be obtained from the financial statements are:

- Did the school receive enough cash to cover operations, or is it using its reserves?
- How much of the available funds are spent on teaching activities?
- How much money did the school raise from a specific fundraising project?

- Does the school have the ability to meet its obligations – will the school be able to pay its bills and repay any debts?
- Is the school better or worse off financially than the previous year and why?
- How much (cash, fixed assets, equipment, etc.) does the school own?
- How much money does the school owe?
- Are there any looming issues that may affect finances in the future?

The audit report is the final stage of an audit of annual financial statements.

## Audit

The South African School's Act in section 43 requires that financial statements of schools are audited, and that an auditor's report should be submitted together with the financial statements.

According to both the International Standard on Auditing 200 (ISA200) and the South African Auditing Practice Statement 2 (SAAPS 2), the main objective of an audit of financial statements is to enhance the degree of confidence that users of financial statements place on the information presented in such statements. An audit involves performing procedures to obtain evidence about amounts and disclosures in the financial statements. An audit enables the auditor to form an opinion on the accuracy of the financial statements prepared by an entity (for instance a school) for a given period. (SAICA, 2012).

The audit opinion is intended to provide reasonable assurance that the financial statements are presented fairly, in all material respects, and/or give a true and fair view in accordance with the financial reporting framework (ISA700). The recognised financial reporting frameworks in South Africa are IFRS and GAAP. An audit should therefore confirm that the school has handled the financial records in accordance with GAAP/IFRS.

The secondary objective of auditing is to detect or prevent errors. By promoting transparency and accuracy in the financial disclosures made, auditing reduces the possibility of unscrupulous dealings being concealed. Auditing ensures that managers use accounting rules and conventions consistently over time and that any estimates are reasonable.

Financial audits are typically performed by firms of practicing accountants who are experts in financial reporting. The fact that the external audit is done by someone with special knowledge provides assurance that the financial statements are acceptable.

According to Hack, Candoli and Ray (1998:170), auditing is the final stage in the process of managing school funds and helps to improve the school's accounting system. Auditors' reports also help school governors to "build bridges of confidence" with stakeholders.

Appointed auditors do not examine every transaction, nor do they guarantee that the financial statements are completely accurate. Because of the test nature and other inherent limitations of the annual audit, together with the inherent limitations of any accounting and internal control system, there is unavoidable risk that some material misstatements may remain.

An audit report should be clear, constructive and concise. The auditor should point out in writing:

- any weaknesses/strengths in the accounting system of the school
- deficiencies in the financial control system
- inadequacies in the financial policies and practices
- non-compliance with accounting standards and legislation.

The report should also explain any implications of the above points and give advice or recommendations for improvement. The auditor should give in clear terms his/her professional opinion on the state of the accounts.

The auditor's opinion can be unqualified, qualified or adverse depending on the records and any other evidence the auditor may have examined and evaluated. An unqualified opinion is positive and satisfactory and a qualified opinion indicates that the auditor has some reservations about the state of the school's accounts (ISA 700(Revised), par 40-41).

In the light of the above, a discussion of the analysis of the financial statements of four ordinary South African schools follows in the next section.

## Preliminary evaluation of four sets of financial statements of schools

### *Availability*

Section 43(6) of the South African Schools Act states that "at the request of an interested person, the governing body must make the records referred to in section 42, and the audited or examined financial statements referred to in this section, available for inspection". A large number of schools in South Africa have websites where they provide extensive information about their particular school. These websites are used both as promotional platforms to encourage potential learners to enrol in the school as well as information platforms for current parents and learners. A school's financial state will probably influence the facilities available at the school, curricula choices offered by the school and the school fees payable. One would therefore assume that prospective scholars and parents will be interested in information in this regard. It would therefore seem logical that a school should provide some financial information on its website and seeing that financial statements are the main method of external financial communication, one would expect to find these statements on the websites although it is not an official requirement. An attempt was therefore made to try and find school financial statements on the internet.

The SA Schools web site, listing 516 web sites of schools in South Africa was used as basis as on 8 August 2012 (SA Schools, 2012). A statistical sample of 25% (every fifth web site) was selected and 129 web sites were thus identified. In cases where web sites were inaccessible or did not exist anymore, the next available web site was visited. These web sites identified were visited searching for annual financial statements.

Only three sets of financial statements could be obtained in this manner. In other words, only 2,3% of the 129 schools provided their financial statements on their websites. As this was a rather extensive search, it can be concluded that schools very seldom publish their annual financial statements on the internet.

A number of schools in Pretoria were then phoned to obtain their financial statements but it soon became clear that schools, as represented by the school principals, were not willing to provide their financial statements despite section 43(6) of SASA. The reason indicated in most cases was that the statements are confidential.

One extra set of financial statements was obtained on the basis of personal contacts with a school, therefore a total of four sets of annual financial statements were available for this study.

The compliance of these financial statements regarding the requirements of the Schools Act and GAAP was then evaluated regarding the following predetermined areas of interest:

- Timeliness of the publication of the annual financial statements
- Comprehensiveness of the annual financial statements
- The audit report
- Bank account
- Non-current assets with specific reference to property, plant and equipment.

## Timeliness of the publication of the annual financial statements

As indicated earlier, financial reports must be prepared on a timely basis to be effective. The Schools Act, section 42(b), also prescribes specific time frames in which the financial statements must be prepared and submitted. Audited annual financial statements must be prepared by each school within three months after the end of each financial year.

Three of the four sets of annual financial statements were published within the three months period as prescribed.

One set of annual financial statements for the year ended 31 December 2011 was only published on 12 April 2012, thus 12 days late. Even though this date falls outside the prescribed three-month period (31 March 2012) it still is a very reasonable period after the required date and therefore does not seem to be a reason for concern.

## Comprehensiveness of the annual financial statements

A complete set of financial statements comprises the following (IFRS, 2012:A562):

- A statement of financial position as at the end of the period.
- All four schools complied.
- A statement of profit or loss and other comprehensive income for the period.
  All four schools complied.
- A statement of changes in equity for the period.
  All four schools complied.
- A statement of cash flows for the period.

Three schools complied. One school did not include a statement of cash flows but included a "statement of receipts and payments". Even though useful information was provided in this manner it is not in accordance with the IAS 1. A statement of cash flows should have been provided and the "statement of receipts and payments" should have been given as additional information if so required by the users of the financial statements. No further explanation was given in the statements, or elsewhere, as to the reason for this deviation.

- Notes, comprising a summary of significant accounting policies and other explanatory notes.
  All four schools complied.

## The audit report

Two sets of financial statements received an unqualified audit report. The other two had qualified opinions.

One audit report stated the following opinion qualifications:

"It was impractical for us to extend our examination beyond the receipts actually recorded"; and "the assets were not audited".

This is of concern taken into consideration that schools often have extensive assets at their disposal and control. It might indicate serious problems regarding the control of cash received and asset management but the extent of this could not be ascertained from the audit reports.

The other audit report did not mention assets at all, despite the fact that it was stated in the accounting policies that property, plant and equipment is written off in the year of purchase. This definitely raises the question of whether the financial statements provide a fair representation of the financial position of the school. Obviously, in this case assets were also not audited. It can be argued that by writing off all assets and then not referring to this at all in the audit report is an attempt by the auditors to absolve themselves from any responsibility regarding the assets of the school. This seems unacceptable.

### Bank account

According to the South African Schools Act 84 of 1996, section 37(3) "The governing body of a public school must open and maintain a banking account."

All four schools have a bank account.

### Non-current assets with specific reference to property, plant and equipment

According to the South African Schools Act 84 of 1996, section 37(5) "All assets acquired by a public school on or after the commencement of this Act are the property of the school." Section 42(a) also state that the governing body of a public school must "keep records of funds received and spent by the public school and of its assets, liabilities and financial transactions". The best way to "keep record of its assets" is to include all assets of the school in its financial statements and to present it as such to the users of a school's financial statements. Assets should also definitely be audited.

Of extreme concern is that only two schools actually had the line item "Property, plant and equipment" in the Statement of Financial Position with appropriate policies and notes. The other two schools wrote down (depreciated) all the assets to Rnil in the year of purchase as an expense! This is in direct contradiction to the above mentioned requirements of the SASA. This is also in direct contradiction of the International Accounting Standard 16, paragraph 1 (Property, Plant and Equipment). Paragraph 1 state: "The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the asset, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them".

To exacerbate the situation even further, is the fact that the two schools writing down these assets to Rnil, spent material amounts on assets. Large amounts were spent on items like vehicles, computer equipment and sport equipment that just 'disappeared" from the annual financial statements. This practice can definitely encourage both misuse and theft, and the "concealment" thereof should be addressed as a matter of urgency.

## Conclusion

As this is an exploratory study with only four sets of annual financial statements examined, no conclusion can be made representing South African schools as a group. Section 95(1) of the Constitution of South Africa (Republic of South Africa, 1996a), prescribes the fostering of transparency by providing the public with information. SASA also demands that financial statements should be available to interested parties. The fact that schools do not want to provide the financial statements therefore seems suspicious, especially because these statements contain the basic information that will indicate to parents and taxpayers where their money is going.

It is also clear from the above analysis that financial reporting by schools is not consistent. Schools also do not always comply with SASA, or with IFRS/GAAP, in preparing their annual financial statements.

Practices regarding the recording, reporting and auditing of assets indicate a real risk of potential corruption and concealment of misuse or even theft of assets. The variations found in the financial statements that we examined have the potential to influence decision makers who rely on the financial data provided.

It appears that schools in South Africa are held to different standards of financial reporting and auditing than commercial firms and therefore it can be questioned whether assets are properly protected.

The evidence from the literature regarding lack of feedback on the submitted financial statements by the education departments to schools combined with the clear indication that schools are not always compliant with statutory requirements and do not always adhere to proper accounting procedures, seem to indicate that schools are allowed to function outside legal requirements without consequence. This is of great concern.

It is therefore concluded that a more comprehensive and representative study of the contents of financial statements of South African schools is urgently needed to establish the extent of compliance or non-compliance with regulatory frameworks. Audit practices regarding the schools should also be investigated to ensure public trust.

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