

CHAPTER 2 LITERATURE REVIEW

2.1 INTRODUCTION

As has been highlighted in the previous chapter, the acceptance of the principle of equal opportunities and equal education standards together with the phenomena of exceptional growth in numbers of learners and the present financial climate in the country resulted in the responsibility for financing education largely devolving on the education sector. This is true for the business community and the parent community. Schools themselves have to generate more and more money to be used, administered and managed as school funds. Effective financial management has, therefore, assumed a place of cardinal importance in schools in South Africa (**Bisschoff, 1997:14**).

Talking about schools in the United Kingdom, **Lavacic (1992:39)** asserts that considerable discretion is placed at school and college level to determine the allocation of a delegated budget. This power places great responsibility in the hands of school and college managers and governing bodies to allocate resources to the best possible effect. Schools and colleges are held accountable for the quality of their resource management, through external financial audit and inspection. Thus great reliance is placed on the quality of the professional judgements of decision-makers in education organisations (**Coleman and Anderson, 2000:4**).

In summing up the discussions, the South African government is faced with the challenge of not only transforming a segregated and authoritarian system, but also of setting in place enabling mechanisms to introduce and sustain continuous improvement in the current (post-apartheid) education system. It is against this background that the study will be explanatory in nature and will proceed as follows:

- (i) Government Policy as it relates to funding of public schools
- (ii) Administration Procedures in relation to control of funds in public school funds

2.2 GOVERNMENT LEGISLATION AND POLICY AS IT RELATES TO THE FUNDING OF PUBLIC SCHOOLS

2.2.1 The Constitution of South Africa

The state has a stake in the human capital that resides within its borders. It has a vested interest in the educational level of its citizens and is therefore obligated to fund education. The manner in which the state is involved in financing education, varies from country to country and has been determined for the past two centuries, by political and religious considerations (**Berkhout and Berkhout, 1992:5**).

In South Africa, the South African Constitution clearly states that the child has a right to education and the state has an obligation to provide this education. Section 29 states:

- (i) Everyone has the right –
 - a) to a basic education, including adult basic education;
 - b) to further education, which the state must take reasonable measures to make progressively available and accessible.

On the issue of the provision of public schools, the constitution contends the following in section 12:

- Section 12(i) the Minister of the Executive Council (MEC) must provide public schools for the education of learners out of funds appropriated for this purpose by the provincial legislation.

2.2.2 The South African Schools Act (No 84 of 1996)

The South African Schools Act 84 of 1996 has the following to say regarding the state's responsibility of funding public schools:

- Fund Public Schools from public revenue on an equitable basis to ensure that the rights of learners are exercised and past inequalities are redressed [sec. 34(1)]
- Provide annual funding information to Public Schools to enable these to budget for the next financial year [sec. 34(2)]

On the issue of Admission to Public Schools, Section 5.3(A) states:

- No learner may be refused admission to a public school on the grounds that his/her parent is unable to pay or has not paid the school fees determined by the governing body under section 39.

The South African Schools Act No. 84 of 1996 also makes provision for free and compulsory education for the first nine years of schooling.

As has been mentioned earlier in this study, the present financial climate in South Africa has resulted in the responsibility for the financing of education being devolved to the private sectors, particularly the parent and business communities of the institution. In this regard, Section 36 of the South African Schools Act (SASA) imposes a responsibility on schools to raise additional funds in order to augment on what the state provides, but schools are not required to charge compulsory school fees.

The Minister of Education has regulated criteria and procedures for exemption of parents who are unable to pay school fees. In terms of Section 39(2) of SASA, School Governing Bodies (SGB's) must notify all parents in writing about such criteria in sufficient time for the general meeting of parents at which the school budget for the following academic year is considered. The Minister must determine norms and minimum standards for the funding of public schools (Section 35). The norms relating to exemption (of payment of school fees) are designed to assist parent bodies make appropriate and equitable decisions about the fee level and the exemption thresholds. Circular 17/1999 has been issued on the exemptions of parents from the payment of school fees.

2.2.2.1 New Context: Self Managing Schools (SMS)

During the 1990's many countries have modified their educational systems to give greater autonomy to schools/colleges. There is a shift towards educational institutions becoming self-managed (**Coleman, 1994:1**). In South Africa, SASA clearly states in Section 16:(i) subject to this Act, the governance of every public school is vested in the hands of the governing body. **Gilbert (1990:16)** emphasises the financial and managerial aspects of Local Management of Schools (LMS). He asserts that LMS delegates the school's financial budgets to governors. This is a major financial responsibility.

The fundamental aim of SMS is to move away from centralized power which is now devolved to local school level. Schools are the primary unit of improvement and development. School managers, educators, parents and learners are empowered to assume responsibility over educational and organisational matters in their own schools.

Self-Managing Schools will be granted the full range of allocated functions. Circular 55/1999 deals with all functions of SGB's according to SASA of 1996. Its directives are:

1. Subject to SASA Section 21(1), SGB's may apply in writing to the Head of Department to be allocated any of the following functions:
 - (a) To maintain and improve the school's property, buildings and grounds occupied by the school...;
 - (b) To determine the extra mural curriculum of the school and the choice of subject options in terms of provincial policy;
 - (c) To purchase textbooks, educational materials or equipment for the school;
 - (d) To pay for services to the school; or
 - (e) Other functions consistent with this Act and any applicable provincial law.

- (2) Subject to SASA Section 21(b) the Member of the Executive Council may: by notice in the Provincial Gazette, determine that some SGB's may exercise one or more functions without making an application contemplated in Section 21(1) if:
 - (i) he/she is satisfied that the SGB's concerned have the capacity to perform such functions effectively;
 - (ii) there is reasonable and equitable basis for doing so

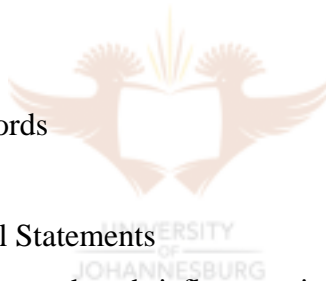
- (3) Criteria for Allocations
 - (a) The school must have a democratically elected SGB which functions in terms of Section 18 of the SASA as read in conjunction with the Provincial Gazette No. 341, Notice No. 993 of 1997.
 - (b) The SGB must have the capacity to ensure the following:
 - Proper management systems, namely planning and monitoring systems;
 - Proper budgeting and accounting systems that will ensure the proper use of funds;

- A safe and secure storage facility, and adequate administrative systems to perform all these functions;
- Capacity building programmes aimed at developing its members. Should a school not apply with the requirements stated above, Section 21 functions may not be allocated.

2.3 ADMINISTRATIVE PROCEDURES REGARDING FINANCIAL MANAGEMENT IN SECTION 21 PUBLIC SCHOOLS

Practical aspects of financial management procedures in public schools include the following control systems:

- (1) Budgeting
- (2) Banking
- (3) Accounting Records
- (4) Petty Cash Fund
- (5) Annual Financial Statements



This study will now proceed to briefly examine each of the above mentioned aspects of financial management at public schools.

2.3.1 Budgeting

A budget is a plan of expenditure and income activities for the next year. The main purposes for drawing up a budget are:

- To plan expenditure and income for the next year
- To supplement the resources provided by the state according to Section 36 of SASA.

After consultation within the school, and based on planned activities, the School Management Team will provide budgetary requirements for:

- Academic Activities
- Co-curricular Activities
- Administrative Activities
- Maintenance Costs
- Personnel Costs
- Health and Safety Costs

The Governing Body needs to evaluate the requests and decide whether or not they are affordable. If some requests are excessive or questionable, one may go back to the activity heads and ask them to re-think their budget amounts.

According to the National Norms and Standards for School Funding the Provincial Education Departments (PED) must annually provide sufficient information by the 30th September, so that the schools governing bodies can develop their budgets as required by Section 34 of SASA. This amount should include the amount of the total allocation by the PED to the school, and the total allocation amount divided by the enrolment figure. This is necessary so that schools become accustomed to thinking about their total cost per learner.

So the SGB will know the total amount that will be provided by the PED. In October then, the SGB should draw up its Admission plan for the next academic year. Important to note here is that the number of learners admitted to the institution will directly affect the monetary allocation that the school will receive from the PED.

Once the number of learners admitted for the following year is known, the Treasurer (of the SGB) can draw up a written budget. The Treasurer knows the number of learners to be catered for, the allocated amount from the PED and the variance between the two amounts. School fees are charged to parents only if the

expenditure is more than the amount received from the PED. The variance between the two amounts, that is the total expenditure minus the total income from the PED, is then divided by the number of learners on the admission schedule. This total is equal to the amount that the SGB would tax learners as school fees the following year.

After the SGB has agreed on it, the budget will be presented to the parents at a meeting, preferably early in the fourth term. According to Section 38(2) of SASA, a budget must be presented to a meeting of parents convened on at least 30 days notice for consideration and approval by a majority of parents present and voting, before a budget can be approved by the SGB. The budget must be approved by a majority vote at the meeting. Decisions reached at the meeting must be minuted.

During the year, the SGB needs to monitor the budget to check whether income and expenditure stay more or less in line with the budget. Regular and accurate reporting on the financial situation at the school is essential. Depending on the arrangements at the school, this procedure may happen on a monthly or quarterly basis.

2.3.2 Banking

Monies should never be left laying around in the school. The South African Schools Act and Provincial Regulations state that the Governing Body of each school should open an account at the bank. The school's money can be deposited there for safekeeping and convenience. Monies can be withdrawn by the use of cheques.

The SGB also need to decide who may sign cheques or bank forms on behalf of the school. These people are called signatories. The Gauteng Department of Education suggests that there should be three signatories two of them should be the Principal and the Treasurer. An arrangement should be reached with the bank that any two of these three signatories may sign a particular cheque.

Ideally, all monies received by the school must be deposited on a daily basis or at earliest convenience. A “deposit slip” should be used when monies are deposited into your account. Deposit slips are permanent records of all monies deposited.

Here is a section from SASA dealing with the above:

- 3(1) The SGB of a public school must establish a school fund and administer it in accordance with directions issued by the Head of Department.
- (2) Subject to subsection (3) all money received by a public 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 a banking account.

The financial year of a public school commences on the first day of January and ends on the last day of December each year.

All payments from the school Fund account must be made by cheque. The cheque is a written instruction to the bank to take money out of your account and give it to someone else, therefore cheque – books should always be kept locked away in a safe place.

Before a cheque can be written, the Financial Clerk should prepare a “Cheque Requisition”. This form records all the essential information about the cheque such as: Date, number, amount name of payee (receiver) reason for payment, signature of official and date signed, approval of principal and date signed. Then

attach the cheque and the relevant supporting documents (also called “source documents”) to the cheque requisition form so that signatories can check everything before signing their names.

Once a month, the school will receive a bank statement from the bank. The bank statement is a copy of our account in their records. The bank also returns all cheques that have been presented for payment during the month, usually with the Bank Statement.

2.3.3 Accounting Records

SASA has stipulated requirements for financial records and statements for public schools. Section 42 reads: The governing body of a public school must (a) keep records of funds received and spent by the public school and of its assets, liabilities and financial transactions.

For the purposes of a non-profit, service-providing institution such as public schools, the Cash Book and the Petty Cash Journals are the most frequently used. The Cash Book is simply a bookkeeping book in which you record all incoming monies and all outgoing monies with regard to the bank account.

The easiest way to keep a record of all money received is to use a “columnar” Receipts Cash Book. Ideally, the Financial Clerk should have one column for every “cost centre” in the budget. Since a receipt is issued each time money is received, these receipts should be recorded daily in the Receipts Cash Book.

Before using the Payments Cash Book, each school should have a Financial Policy which sets out the correct procedure for buying goods or services. The

administration of the following source documents is vital in this regard: quotation forms, order forms, delivery notes, invoices and statements.

Before writing a cheque, the Finance Officer must ensure that the following documents are on hand:

- An authorization document, usually called a “Cheque Requisition”.
- An original invoice which gives full details of the purchase.
- A signature on the Invoice or Delivery Note which indicates that the goods were actually delivered (or the service actually received).

All the relevant documents should be stapled to the Cheque Requisition. The Treasurer or Principal needs to approve payment. This is done by signing the Cheque Requisition and checking the source documents which are there to prove that these services or goods have actually been received by the school. After that the cheque can be prepared.

At the end of the month, a Bank Statement is usually sent to the school. This statement is an update of all financial transactions that took place during the month which affected the schools bank account. It will also reveal an opening balance before transactions and a closing balance after transactions have been completed. Ideally, the balance of the Bank Statement should be the same as the balance of the school’s Cash Book. Where they do not agree, these balances need to be reconciled.

2.3.4 Petty Cash

When making payments schools usually follow this guideline:

- Write a cheque to make almost all payments
- Use Petty cash for very small amounts

For each payment from petty cash, there should be at least two items: a petty cash voucher and a receipt to prove that the money was paid. Each voucher should have stapled to it a receipt or document which proves that the money was paid.

The Imprest System is the most popular way of controlling petty cash. In this system, the petty cash balance always starts the new month with the same amount. This balance is referred to as the “imprest amount”.

At the end of the month, the Treasurer (or whoever writes the cheques) will write the cheque to replace the money which has been spent. Once the money has been replaced, the imprest has then been restored to its original amount.

Each time the Petty Cash amount is restored you should show the Petty Cash Book, together with all vouchers and receipts to the Finance Committee and the Principal for checking. IF any money is missing, it should be replaced personally by the person in charge of the petty cash.

2.3.5 Annual Financial Statements

Section 42(b) of SASA states:

The Governing Body of a public school must:

- (a) as soon as practicable, but not later than three months after the end of each financial year, draw up annual financial statements in accordance with the guidelines determined by the Member of the Executive Council.

At the end of each year, the Finance Committee needs to prepare a set of annual financial statements. The purpose of these statements is to provide financial information to the governing body, parents and other interested parties. These statements form the basis of the governing body’s external responsibility to the community.

It is an official requirement that the following statements must be sent to the Secretary of the Department of Education:

- (i) Receipts and Payments Statement (or Income and Expenditure Statement)
- (ii) Annual Bank Reconciliation Statement
- (iii) Statement of Investments
- (iv) Statement of Debts Outstanding

- A Receipt and Payment Statement lists all amounts actually received and all amounts actually paid (total for the year) by the school. The total amount of the Receipts is then compared with the total amount of the Payments. If the Receipts total is greater, then the institution has a surplus balance. If Payments are greater then there is a deficit.
- At the end of each year, the Finance Officer should send the twelfth Bank Reconciliation Statement to the Secretary of the Department of Education. If this Bank Reconciliation Statement is correct (that is, if the bank balance is reconciled with the Cash Book Balance) then all the previous eleven Bank Reconciliation Statements must have been correct. This twelfth Bank Reconciliation Statement is especially important because it is one of the official Annual Statements.
- Surplus funds in a school's current account may be transferred into a savings or fixed deposit account in the name of the school. Deposits of surplus funds in the bank are known as investments. The bank will pay interest on investment on a monthly, quarterly or yearly basis. At the end of the year, the Finance Officer should prepare a detailed Statement of Investment to the Secretary of the Education Department

- At the end of the year, there are often amounts owing to the school. “Debts Outstanding” the Governing Body should know about these amounts outstanding; make every effort to get the money; or write the outstanding amount off as “bad debts”.

2.4 CONCLUSION

This chapter focussed mainly on:

- Government Policy as it relates to the funding of public schools, and
- Administrative Procedures as it relates to the control of funds in public schools

From the discussions presented, emphases was placed on:

- the requirements of Government Legislation in the control of school funds
- the alignment of administrative procedures, related to financial control systems at public schools, with the requirements of government financial policy

Knowing the requirements of government financial policy for public schools from a theoretical perspective will not suffice in the establishment of desired financial control systems at public schools. A need therefore arises to acquire knowledge of what happens in natural settings of public schools. This will be elucidated in chapter three wherein data will be gathered and analysed.

Chapter three will give a full description of the method used in data gathering on the perceptions of five principals of public schools.