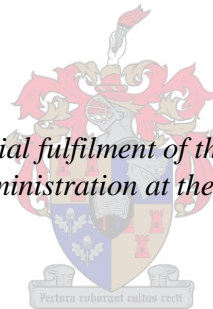


**INVESTIGATING GAPS IN THE APPLICATION OF
FINANCIAL MANAGEMENT SYSTEMS BY
SCHOOLS RECEIVING SECTION 21 FUNDING
(CASE STUDY FOR MTHATHA EDUCATION
DISTRICT SCHOOLS – EASTERN CAPE PROVINCE)**

**BY
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*Thesis presented in partial fulfilment of the requirements for the degree
Master of Public Administration at the University of Stellenbosch*



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DECLARATION

By submitting this thesis electronically, I declare that the entirety of the work contained therein is my own, original work, that I am the authorship owner thereof (unless to the extent explicitly otherwise stated) and that I have not previously in its entirety or in part submitted it for obtaining any qualification.

Signature Date

ABSTRACT

Following significant changes in legislation since the enactment of The Constitution of South Africa, 1996, and also accelerated by the ratification of the South African School Act of 1996, the array of services delegated to schools has placed an ever greater responsibility on school governing bodies and principals. Key to those responsibilities is the capacity to manage school finances. Although the South African Schools Act gives schools freedom to exercise their authority in managing school finances, along with this goes the responsibility to maintain with due regard proper accountability and control over the expenditure of public funds.

This investigative research study looked at the extent to which the financial management systems employed in schools in utilizing Section 21 funding comply with relevant legislative and policy framework. In terms of financial management, schools are divided into two categories. There are Section 20 schools whose budget is centralized and managed by the Department of Education. Then there are Section 21 schools whose budget is decentralized to schools and these schools have sovereignty in managing their financial resources in compliance with relevant legislation, policies and procedures.

A non-empirical study was undertaken which reviewed and analyzed literature on a financial management legislative framework as well as systems and procedures of financial management applicable to public institutions in general and those that relate specifically to schools.

Subsequent to that, an empirical investigation was conducted. A questionnaire was issued to 72 principals who formed the sample of the study. The sample represented 21.3% of the total number of Section 21 Schools in the district of Mthatha. The questionnaire was administered to solicit the extent to which principals understand and apply the legislation, policies and procedures that underpin financial management systems in schools.

Focus group interviews were held with school finance committees. These discussions were used to collect a wider range of information and insight on how schools manage financial resources. A qualitative financial documentary analysis was conducted in four schools. To achieve a holistic understanding of the research problem in-depth interviews were also conducted with district officials.

The study revealed that, there is indeed a noteworthy divergence between the directives of the applicable financial policies and financial management practices in the majority of schools. The most critical deviations identified include, absence of clear policy directives on procurement procedures and financial controls, poor financial recording and lack of clarity on the roles and responsibilities of different financial structures.

The key recommendation of the study is the establishment of an internal audit unit within the district which will serve as a basis of the fiscal oversight processes for schools. Since this unit will work closely with schools, this will advance significant improvements in financial accountability, systems of internal control in school and general financial administration processes. This unit will advance ongoing support in the form of training, monitoring and mentoring of the governing bodies and principals to inculcate strong financial leadership in schools.

OPSOMMING

As gevolg van betekenisvolle verandering in wetgewing sedert die promulgasie van die S.A. Grondwet in 1996, en bespoedig deur die bekragtiging van die Suid-Afrikaanse Skolewet van 1996, word 'n uiteenlopende verskeidenheid bevoegdhede tans aan skole toegewys. Dit plaas toenemende verantwoordelikheid in die hande van beheerliggame en skoolhoofde. Aan die kern hiervan lê die bevoegdheid om skoolfinansies te bestuur. Alhoewel die Suid-Afrikaanse Skolewet vryheid aan skole verleen om hulle gedelegeerde mag betreffende finansies na goeie dinge uit te oefen, gaan dit gepaard met verantwoordelikheid om omsigtigheid aan die dag te lê en aanspreeklikheid vir die aanwending van openbare fondse te aanvaar.

Hierdie ondersoekende studie het nagevors in watter mate die finansiële bestuurstelsel wat skole gebruik om Seksie 21-befondsing te benut, voldoen aan die vereistes van die relevante wetgewing en voorgeskrewe beleidsraamwerk. Skole word, volgens finansiële bestuursreëls, in twee kategorieë verdeel. Daar is Seksie 20-skole, wie se begrotings gesentraliseer en deur die Departement van Onderwys bestuur word. Daar is ook Seksie 21-skole wie se begrotings gedesentraliseer is. Laasgenoemde skole besit dus die volwaardige reg om hul finansiële hulpbronne self te bestuur; solank dit voldoen aan voorgeskrewe wetgewing, beleid en prosedure.

'n Nie-empiriese studie is onderneem om die toepaslike literatuur oor finansiële bestuur en die betrokke wetgewingsraamwerk in oënskou te neem. Verder is die sisteme en finansiële bestuursprosedures wat betrekking het op openbare instellings in die algemeen, en op skole in die besonder, ook ondersoek.

Hierna is 'n empiriese ondersoek gedoen. 'n Vraelys is aan 72 skoolhoofde, die monster vir die ondersoek, gerig. Dié monster het 21.3% van die totale aantal Seksie 21-skole in die Mthatha-distrik verteenwoordig. Die vraelys was sodanig saamgestel en geadministreer dat dit die nodige inligting sou bekom om te kan bepaal tot watter mate skoolhoofde wetgewing, beleid en prosedure, wat finansiële bestuurstelsels in skole ondersteun, verstaan en toepas.

Gefokusde groep-onderhoude is met skole se finanskomitees gevoer. Hierdie besprekings is aangewend om 'n wyer reeks inligting en insigte te bekom oor hoe skole hulle finasiele hulpbronne bestuur. 'n Kwalitatiewe dokumentêre analise van vier skole se finansiële state is uitgevoer. Om 'n meer omvattende begrip van die navorsingsproblematiek te bekom, is in diepte onderhoude, op 'n een-tot-een basis, ook met distriksamptenare gevoer. Dit het aangedui dat daar inderdaad, by 'n meerderheid skole, ten opsigte van die voorgeskrewe finansiële beleid en bestuur, noemenswaardig uiteenlopende toepassing van riglyne was. Die mees kritieke afwykings geïdentifiseer, sluit in: gebrek aan duidelike beleidsriglyne oor aanskaffingsprosedure en finansiële beheer, swak boekhouding en onduidelikheid oor die verpligtings en verantwoordelikhede van die verskillende finansiële strukture.

Die studie se sleutelaanbeveling is dat 'n interne ouditeenheid vir die distrik tot stand gebring moet word. Dit sal die ruggraat vorm vir die fiskale toesighoudingsproses vir die betrokke skole. Aangesien hierdie ouditeenheid nou saam met skole sal werk, sal dit tot betekenisvolle verbetering van interne finansiële beheerstelsels van skole lei en beter algemene finansiële beheer en administratiewe aanspreeklikheid tot gevolg hê. Hierdie eenheid sal deurlopend, deur middel van opleiding, monitering en mentorskap aan bestuursliggame en skoolhoofde, ondersteuning verleen. Sodoende sal 'n kultuur van sterk finansiële leierskap in skole gevestig word.

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CHAPTER 1 ORIENTATION TO THE STUDY

1.1 INTRODUCTION

The South African Schools Act No. 84 of 1996 gives a mandate to the school governing bodies to manage the school funds. This legislation provides the guidelines on the responsibilities and roles of the school governing bodies and the principals in managing school finances. Prior to 1994 the government funded schools through a centralized system. This means that schools have limited control on the utilization of their allocated budgets. The passing of this act has therefore brought about considerable changes in decentralizing authority and responsibility of financial management to schools. This has opened up participation for school governing bodies to be central in the determination of school priorities and allocation of resources. However, this model of decentralisation is not without problems. As it will be discussed in the study, many schools are still struggling to institutionalize effective financial management systems due to lack of financial knowledge, expertise and proper monitoring.

1.2 BACKGROUND AND RATIONALE OF THE STUDY

“Financial management in the public sector is interpreted and applied in many ways and can be studied by means of several disciplines. Economics, financial accounting, business economics and management accounting are but a few examples,” (Woods and Burger, 2010: 28). The recent developments in the education system especially the decentralisation of financial management decisions to schools, has propelled principal to be well vested in financial management. (Woods and Burger, 2010:28) continue to indicate that, financial management is “an optimum generation, allocation and utilization of the scarce resource, finance, in pursuing legal and legitimate policy goals and objectives”. In South Africa financial management of public funds is regulated by, the Public Finance Management Act No. 1 of 1999. The management of Section 21 funds that are allocated to schools is therefore subjected to the requirements of this Act. The Act promotes good financial management which is a prerequisite for effective and efficient use of the limited resource at the disposal of public institutions. This means that allocation and utilisation of public funds must be carried out in an economic manner to avoid waste and any form of corruption.

On 3 March 2011 the Minister of Basic Education, Angie Motshega, released a media statement indicating that the Department of Education in the Eastern Cape will be under administration in terms of Section 100 of the Constitution. This section indicates that, “When a province cannot or does not fulfill an executive obligation in terms of legislation or the Constitution, the national

executive may intervene by taking any appropriate steps to ensure fulfillment of the obligation” (RSA: 1996, Section 100). In her speech, the Minister cited a number of maladministration issues that characterize the management of Education in the Eastern Cape. The Minister further stated that, the conditions that prevail in the Eastern Cape amount to a serious challenge in terms of compliance with national policy and minimum norms and standards for education service delivery.

This is happening against a backdrop of a province that is largely rural and experiencing huge backlogs in providing school infrastructure and other educational resources. This is a province ravaged by illiteracy, unemployment and poverty and the Department of Education is central to the improvement of lives of the people of this province. The majority of learners in this province come from remote rural areas. Education is delivered under strenuous conditions where in some cases learners are without books and/or furniture. To improve the process of service delivery in as far as the resourcing of schools is concerned, section 21 of the South African Schools Act gives the Head Of the Department powers to award deserving schools in terms of their capacity to govern, administer and manage their affairs, a self managing status.

Section 21(1) of the South African Schools Act states that, “A governing body may apply to the Head of Department in writing to be allocated any of the following functions (RSA: 1996, Section 21(1)):

1. To maintain and improve the school's property, and buildings and grounds occupied by the school, including school hostels, if applicable;
2. to determine the extra-mural curriculum of the school and the choice of subject options in terms of provincial curriculum policy
3. to purchase textbooks, educational materials or equipment for the school.
4. to pay for services to the school; or
5. other function consistent with this Act and any applicable provincial law.”

The process of awarding of section 21 status to schools depends on the evaluation of a school's performance in respect of management and governance. The implications of this Section of the Act are that, schools will manage their funding for school operations in respect of the above areas. An allocation of funding to schools is done on the basis of the schools total enrolment which must be submitted by the school before they can access this funding. Schools are

subdivided into five quintiles (1 to 5). Quintile 1 schools are the poorest of the poor and allocation is done on a pro rata basis.

The Department of Education, Eastern Cape is one of the major beneficiaries in terms of the Provincial budget allocation. As indicated by the Member of the Executive Council for the Department of Education, Eastern Cape in his budget speech that for the financial year 2010/11 a budget of R-24.6 billion has been allocated for this Department. This is a huge budget and the expectation is that every single cent will be utilized for the purpose to which it is intended and that the ultimate goal of the existence of the Department of Education, Eastern Cape which is the provision of quality education to all learners irrespective of race, gender and the economic social condition in which they find themselves. As these are public funds accountability thereof is of crucial importance in order to realize value for money.

1.3 RESEARCH PROBLEM

As per the comments on the report of the Auditor General in respect of Education Department – Eastern Cape (2009,10: 40), “The Department of Education has remained in the worse audit outcome category in the 2009-10 financial year.” In both 2007 -08 and 2008 -09 this Department received adverse reports and, in 2009-10 it had a disclaimer. Shim and Siegel (2008: 41) explains that an adverse opinion is issued when the financial statements of an organization do not represent the company’s financial position. In most years the Mthatha District has been among the Districts audited and this also includes schools. Irregular expenditure, fruitless and wasteful expenditure, lack of appropriate evidence to support payments was amongst other issues highlighted by the Auditor General as a basis for adverse reports. Also during this same period there were schools in this district under investigation for financial mismanagement and embezzlement. What is alarming is the fact that the majority of these cases were not detected systemically but were brought forward through whistle blowing.

The purpose of this study was to investigate and assess all the financial management processes and systems involved in managing section 21 funds. The aim was to identify areas that needed intervention for the purpose of improving the system. Section 21 funds are public monies and the Department is accountable to the public for proper utilization. The results of this study therefore, although conducted using a small sample of section 21 schools in the Eastern Cape can serve as a window for this Department to have an insight into how these funds are utilized, how

efficient and compliant to policy are the systems of financial management and what possible intervention can the Department employ to improve these systems.

1.4 OBJECTIVES OF THE STUDY

The broad aims of this study are to investigate the compliance of schools financial management systems to regulations and proper financial procedures and to develop a framework for schools for the improvement of financial management systems. These objectives can be outlined as follows:-

1. To conduct an analysis of the financial management systems currently applied by schools.
2. To identify policy, process and procedural gaps in the managing of section 21 school funds.
3. To develop a proposal on how these gaps can be addressed.
4. To propose a framework that will serve as a guideline for improving financial management in schools.

1.5 RESEARCH QUESTIONS

The objectives of the study gave rise to the following five research questions which will be answered by means of a non-empirical literature study and empirical investigation methods.

1. What is the nature of the financial management systems applicable to South African schools?
2. Do schools, which have been awarded a Section 21 status, comply with such standards?
3. Are there systems of monitoring and control?
4. How can identified gaps, if any, be corrected?
5. What is the nature and extent of the possible support needed to improve financial management systems in schools?

1.6 PRELIMINARY LITERATURE REVIEW

The focus of the literature review of this study looked at various legislative and theoretical framework which form the basis of effective financial management systems in schools. The following theoretical content was the key components of the study that directed the investigation processes.

For improved service delivery and promotion of economic development any system of managing public finances must promote accountability and efficiency in the use of public resources. The focus must be on developing and implementing modern and efficient systems for financial

management and to build human resource capacity. When these issues are prioritised the institutional framework in as far as the efficient use of limited resources will be strengthened. The Public Finance Management Act (RSA, 1999), prescribes that one of the key responsibilities of accounting officers is the operation of basic financial management systems. The theoretical review of the study will focus on: - Compliance to Policies, prescribed financial procedures and other provisions and regulations like Public Finance Management Act, Treasury Regulations for Departments, South African Schools Act, Norms and Standards for School funding policies and other theoretical literature that relates to financial management in the public sector. The following are among the concepts investigated through a literature review in as far as they apply to public institutions in general as well as how they relate to school operations in managing finances.

1.6.1 FINANCIAL PLANNING SYSTEMS

Scarlett (2009: 236) indicates that financial planning process is a culmination of three stages of planning.

1. Strategic Planning: These are long-term plans that articulate the vision and objectives of the organization. The focus here is on the role of leadership in the provision of strategic direction and development of strategic plans and their impact on financial management. Continued success of any organization depends largely in its organizational strategy. If there is no clear and well articulated vision and line of match that guides an organization, it falls into a trap of being vulnerable and reacting to external forces. But the reality in the public sector is that long term planning, although it is the life blood of the organization is one of comparative failures. It is general practice that schools are to draw up a School Development Plan which details a course of action that will be followed to achieve the desired goal. All schools spending processes thereof must be influenced by the strategic objectives. The Amended National Norms and Standards for School Funding (RSA, 2006) stipulates that, schools must report on how their spending of allocated funds supports the school development plans.

2. Budgetary Planning: This involves short to medium term budgetary plans which are an interim step towards achieving strategic plans. Schools are also expected to draw up and present the budgets which must be approved by the School Governing Bodies and this must be done before the end of the year. Section 38(1) of the South African Schools Act states that, “a governing body of a public school must prepare a budget each year, according to guidelines

determined by the Member of the Executive Council, which shows the estimated income and expenditure of the school for the following financial year”,(RSA: 1996, Section 38(1)).

In relation to schools, all expenditure that relate to a particular year must be informed by an approved school budget which must be presented to the general parents. There should be adequate integration of financial planning and the schools operational plans. Financial management must support strategic decision making and performance management. There should be a match between existing and available resources, and the long term objectives of the organization. The schools expenditure pattern must be driven by the vision as well as the set objectives. One of the focuses of this study was to establish congruence between the school's financial plans and the operational plans.

3. Operational Planning: An organization's strategic planning provides a broad vision and goals; to realize that vision there is a need to translate those goals into everyday execution tactics. Schools therefore need to draw up a budget implementation plan which will be an instrument that directs day to day operations and also serve as a monitoring tool to avoid deviations.

1.6.2 FINANCIAL RECORDING SYSTEMS

Section 55 of the Public Finance Management Act, stipulates that “the accounting authority for a public entity must keep full and proper records of the financial affairs of the public entity, must prepare financial statements for each financial year in accordance with generally accepted accounting practice.” This provision is also highlighted in Section 42(a) of the South African Schools Act, in which schools are mandated to institute proper financial records which reflect the schools assets, liabilities and all financial transactions that the school has entered into. At the end of each academic year all Section 21 schools are mandated by law to produce audited financial statements. The audit must be completed and certified by the official school auditor, or a person appointed by the governing body.

1.6.3 FINANCIAL CONTROL SYSTEMS

Systems of controls are instituted by management for the purposes of conducting the operations of the organisation in an orderly manner which ensures strict adherence to policies, (Norton and Hughes, 2009: 387).This promotes and secures completeness and accuracy of records. Thus effective financial control systems can help schools to achieve the established financial goals and prevent loss of resources. This places the importance of establishing and monitoring internal

control systems central to effective financial management. Collier and Ampomah, (2009: 164) distinguished between four categories of financial control systems:

1. Detective: These are control systems that are applied to identify undesirable outcomes that may have occurred. These systems may include reconciliation of school's financial records which occurs at the end of an accounting period, i.e. a monthly/quarterly or annually.
2. Directive: These are control systems that give direction and prescribe procedure on how transactions are to be carried out so as to give a guarantee towards the attainment of the required outcome. Schools are required to carry their financial operations within the limitation of the relevant legislations, policies and appropriate procedures.
3. Preventative: These are controls that avert the likelihood of an undesirable incident from happening. Such systems may include, physical access controls and setting of financial authorization limits.
4. Corrective: These are systems of financial control that are instituted for the purposes of correcting an undesirable outcome after it has occurred. Schools need to put in place proper corrective measures and systems to deal with any form of financial mismanagement.

1.6.4 ROLES, RESPONSIBILITIES AND ACCOUNTABILITIES

Schools do not exist in isolation; they operate within a context that is influenced by various stakeholders. These can constitute the government, school governing bodies, parents, other structures or committees within the school and the general community and public. Public participation is viewed as an integral part of democracy, -Creighton, (2005: 7) indicates that "public participation is the process by which concerns, needs and values are incorporated into governmental and corporate decision making.' When dealing with issues of finance it is important to get all the stakeholders that are relevant to management of organisational finances involved. Stakeholder participation promotes transparency in financial management. Woods and Burger (2010: 17) argue that "transparency implies provision for access to information, but also actively strengthening the right to information through the development of means to gain access to information and even with provision of a degree of legal enforceability on the provision of information." The growing democratization of countries as well as developing of strong civil communities or societies and also open media is putting more demands on transparency and accountability in the public sector.

Schools are compelled to comply with these various legislative and theoretical procedures which guide all systems of financial management. To investigate financial management systems that guide the utilization of section 21 funds in schools requires a comprehensive research design that will cover all the essential aspects and elements of financial management practices that prevail in schools

1.7 RESEARCH DESIGN AND METHODOLOGIES

Kerlinger (1986) as cited by Kumar, (2005: 279), defines research design as “a plan, structure and strategy of investigation so conceived as to obtain answers to research question or problem.” For the research to be able to respond to the set of research questions there is a need to accumulate sufficient knowledge and a deep understanding of the research problem. The study is evaluative in nature as it seeks to investigate the current financial management practices in schools and measure compliance against relevant legislative and policy framework applicable to schools. Non-empirical literature study and empirical investigation was used to fulfill this purpose.

1.7.1 NON-EMPIRICAL RESEARCH: A LITERATURE REVIEW

The non-empirical research that is employed in the study consists of a literature study reviewed and reported in chapter 2. The purpose of the literature review was to establish the pertinent legislative framework and theoretical and conceptual framework on which a school financial system is founded.

According to McMillan and Schumacher (2006: 75), a literature study helps in establishing a conceptual and theoretical orientation to the research problem; it develops the significance of the research and it is a means to discover new information. This part of the study give answers to the first question of the study which seeks to get a deeper understanding of the nature of financial management systems that is applicable to schools. The literature review forms the basis for the recommended financial management systems framework which will be a guideline that can be used to improve financial management systems in schools.

1.7.2 EMPIRICAL RESEARCH

In order to achieve the empirical research questions the design of the study applied both quantitative and qualitative approaches. Terre Blanche and Durrheim, (1999: 30), state that an empirical research design provides a plan that outlines how the study is going to be executed so

as to provide answers to the research question. It also influences how the data will be collected, interpreted analyzed and reported. The study is both qualitative and quantitative in nature.

Mouton, (2001: 56) states that, “Research methodology focuses on the research process and the kind of tools and procedures to be used.” Since this study affects 334 schools in the Mthatha District, the researcher selected 72 schools which formed part of the sample. Principals of the selected schools as well as the members of the finance committees for the respective schools participated in the programme. Interviews with the district coordinator for the Norms and Standards of School Funding programme and the Deputy Director of Finance the Section of the Department were conducted. Documentary analysis was done by analyzing textual data in the form of school plans, school budgets, and policies.

1.7.3 QUANTITATIVE CHECKLIST SURVEY

A quantitative non-experimental survey which consisted of checklist questions was used in order to investigate the schools’ understanding of the legislative and theoretical framework which underpins school financial management systems.

1.7.4 QUALITATIVE INTERVIEW SURVEYS

One on one semi-structured interviews were conducted with district officials, as well as focus group interviews were conducted with school finance committees. These interviews were conducted in order to extend and validate the findings from the quantitative checklist survey. Qualitative research aims at understanding social life and the meaning people attach to everyday life in terms of what they experience while executing their tasks, (De Vos, Strydom, Fouche and Delport, 2002: 77).

1.8 OUTLINE OF CHAPTERS

This study is divided into the following chapters:

Chapter 1: Orientation to the Study

This chapter will outline the background and rationale of the study. It will discuss the research problem and state the objectives of the study and the research question which will be answered by the study. Research concepts will also be defined.

Chapter 2: Literature Review

This chapter will be devoted to the literature review. Analysis of non-empirical data will be done on issues and concepts that bring more understanding in terms of content and knowledge of the research topic.

Chapter 3: Research Design and Methodology

Research design and methodology: This chapter will detail the research design and methodology that the researcher will employ in investigating answers to the research problem. The study is both empirical and non-empirical in design and multiple methods of collecting data will be used.

Chapter 4: Research Results and Interpretation.

This chapter will constitute the analysis of the data collected. Meaning to the data will be developed in order to arrive at findings. These findings will be discussed and interpreted so as to arrive at concrete factors that contribute to solving the research problem. Conclusive arguments in respect of the problem researched and other related content will be outlined in this chapter

Chapter 5: Recommendations and Conclusion.

Lastly, this chapter will detail all the recommendations that are forwarded as a solution to the research problem. These recommendations will be based on the literature review study as well as other content and contextual factors discovered through investigative study. A consolidated summary that gives direction to the improvement of the research problem will be outlined.

1.9 CONCLUSION

This is an evaluative study; the data collected through the application of empirical research methods reflects the current practices in schools. This is measured against the standard practices of financial management in schools as prescribed through the legislative and theoretical framework discussed by examining the relevant literature.

CHAPTER 2 LITERATURE REVIEW

THE BASIS FOR FINANCIAL MANAGEMENT SYSTEMS IN SOUTH AFRICAN SCHOOLS

2.1 INTRODUCTION

The South African Schools Act, of 1996 makes provision for public school governing bodies to become progressively more responsible for the managing aspects of recurrent expenditure. A school governing body may forward an application to the Head of Department applying to be awarded a self managing status (usually referred to as a Section 21 status) in terms of finances. This gives schools full control of their finances but the utilization of such funds must be for the purposes that are directly connected to education. Flynn (2008: 276) indicates that, the decentralization of financial controls to schools is designed to devolve decision making to where it can be done most effectively. This can only be achieved on condition that schools have the capacity to make such decisions.

As indicated in Norms and Standards for School funding that subject to evaluative and an objective test of the governing body looking at its capacity the school may be awarded the section 21 status (RSA: 1998, Section 107). All schools that are awarded the section 21 status carry out their own procurements and generally manage their finances. Such schools receive yearly lump sum per-learner transfer for the functions for which they have responsibility. The allocation that is received by each school is in accordance with the Resource targeting Table as reflected in Section 101 of the National Norms and Standards for School Funding, which categories school on the bases of socio-economic conditions under which the schools operate. This results in having five categories of schools grouped into quintiles. The schools in the first quintile are the poorest of the poor and these schools receive a higher allocation while quintile five receives the least of the allocation.

Schools need extensive amounts of money for their operations. These funds cover developmental costs as well as recurrent costs that they incur to keep themselves operational. For public schools it is the responsibility of the state to cover such costs. Section 34(1) of the South African Schools Act, clearly states that, “the State must fund public schools from the public revenue on an equitable basis in order to ensure the proper exercise of the rights of learners to education and the redress of the past inequalities in education provision.” Despite the fact that the State is offering this service, a high percentage of schools still lag behind in

terms of resource provisioning. The state apportions the provision of the allocation of funding according to the level of deprivation of a school, but this amount is still not enough to provide resources to meet the aspirations of the parents and also the expected level of provision of quality education in the school. This has propelled some schools to charge fees to meet up these standards. The school governing bodies have the responsibility to supplement the resources supplied by the state, so as to maintain and improve the provision of quality education in their schools, (RSA, 1996, Section 36(1)).

This means therefore that there are two sources of funds for the schools; the government subsidy in the form of Section 21 transfers to school and the parents through the payment of school fees. Both of these parties need to know that the monies they have invested in these schools are being spent and can be accounted for properly. Schools are accountable to the parents and the public in general for the use of public monies. For schools to account properly and adequately for the utilization of public funds and to effectively allocate and utilize the limited resource efficiently there is a need to institutionalize proper financial management systems which will focus on outputs and responsibilities. This constitutes a schools financial management system that promotes transparency and effective management of revenue and expenditure. The general purpose of this chapter is to investigate and analyze the relevant legislation, policies and theoretical framework that inform financial management systems in schools.

2.2 LEGISLATIVE FRAMEWORK FOR SCHOOL FINANCIAL MANAGEMENT SYSTEM

The operations of all financial management systems in schools do not exist in a vacuum. All financial systems are informed, influenced and directed by a series of legislative framework upon which all procedures and process are founded. Khan and Hildreth (2004: 11) contend that, “government financial management occurs within a framework of legal rules that guide behavior.”

2.2.1 THE SOUTH AFRICAN SCHOOLS ACT

This is an Act that stipulates a uniform system for the governance, organisation and the funding of schools. It provides a uniform system which is a national arrangement for all public schools in the Republic of South Africa. The South African Schools Act imposes responsibilities on the state with respect to how the allocation of financial resources must be carried out as well as the responsibilities of the schools in the deployment and utilization of those funds. Furthermore, in the Preamble to the Act it is stated that, our “country requires a new national system for schools

which will redress past injustices in educational provision, provide an education of progressively high quality for all learners and in so doing lay a strong foundation for the development of all our people's talents and capabilities." This is the driving force behind the whole system of school funding. The systems of managing and administering school finances should aim at providing, improving and achieving quality education for learners. This section of the Act promotes causal relationships between the educational objectives and financial planning. For schools to realize their objectives they need to search for the appropriate mix of resources that will result in the most efficient deployment of the school budget, (Bush, Bell and Middlewood, 2010: 208). All financial process within the school must be geared towards maximizing student learning within given resource constraints. It is the responsibility of the school governing bodies to promote the best interest of the school and they must at all times ensure that the governance and development of the school promotes the provision of quality education for all learners in the school.

2.2.2 THE CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA, 1996

This is the supreme law of the country and all other legislation and policies must reflect the provisions in the Constitution. The school governing bodies are expected therefore to manage their school finances in accordance with public sector ethos based on a set of distinct values and which comprise impartiality, transparency and openness as enshrined in the Constitution. They must at all times seek to promote the highest ethical standard of probity and modesty which apply in the handling of public money. Section 195(b) of the Constitution promotes economic and efficient use of public resources by all organs of the state. It entrenches transparency in all budgetary processes and financial management in general. All services that are offered by a public institution must be done in an impartial, fair and unbiased manner. Managing of school finances therefore must be done in compliance with the provisions of the Constitution.

2.2.3 THE PUBLIC FINANCE MANAGEMENT ACT

One of the most noteworthy pieces of legislation which has brought considerable transformation in the management of public funds in South Africa is the Public Finance Management Act of 1999. This Act lays out the guidelines on how public finances must be managed at all spheres of government. This Act stipulates that , " the accounting officer for a department , trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control," (RSA, 1999). By implication this requires

schools to establish sound financial management systems which will promote effective application of all financial regulations and procedures. They are mandated to keep full and proper records of their financial activities which are in accordance with prescribed norms and standards.

All activities in which schools are engaged and which are normally referred to as financial management are encompassed in business organizations by the functional areas known as management accounting and management control. When analyzing these two concepts their main concern is the provision of information and systems which assist managers to plan and control the activities of the organization. These two concepts are concerned with providing the information and systems which enable managers to plan and control the organization's activities. Financial management enlarges the scope for an educational institution to establish what real resources they obtain and how they deploy and develop those resources. Block, Hirt and Danielsen, (2009: 2) state that, "financial management takes place within the context of economic activity as well as within a structure of social and ethical constraints." This means therefore that the institutionalization of financial management systems in organizations including schools, must meet the public standards of ethical and social responsibility. This requirement can be met by adopting policies that maximize value and offer optimum benefits to the community which in turn will create an invaluable reputation of the organization.

The accounting officer for a department is the Head of that department. Furthermore the Public Finance Management Act allows the Head of Department to instruct and approve in writing that a person other than himself/herself be appointed as the accounting officer of that institution. The implications of this provision for schools is that, for principals to have a full mandate and responsibility of the budgets voted for their schools they must be appointed in writing as accounting officers of their institutions. The principal as the accounting officer has the ultimate responsibility for the establishment of efficient financial management systems in schools. Although the principal because of the responsibility bestowed upon him as the accounting officer is the key role player in the management of school finances, the overall management of the school's finances is the primary function of the school governing body (RSA: 1996, Section 37 (1)). Any financial management system that is employed by the schools must meet the provisions of the Public Management Act, 1999.

2.2.4 THE NORMS AND STANDARDS FOR SCHOOL FUNDING OF 1998

The basis on which the resource is allocated to public schools was established through the publication of the 1998 National Norms and Standards for School Funding. The basic principle of the allocation of funds to school as indicated in Section 39 of the National Norms for School Funding (RSA, 1998) is to, “effecting redress and equity in school funding with a view to progressively improving the quality of school education, within the framework of greater efficiency in organizing and organizing and providing educational services.” The norms and standards for school funding provides standards that are set by the Department of Basic Education which provide procedures on how funding is allocated to schools as well as guidelines on how those monies will be utilized for in the schools. The budget allocation to Section 21 schools that is issued yearly to schools cannot be used to pay salaries as salaries for permanent teachers are paid through the personnel salary system; this funding can only be utilized for the purchasing of text books, stationery, electricity and other running costs and teaching aid equipment. Schools therefore must raise additional funds to pay for additional personnel employed by the school governing body. The allocation to schools as already discussed is on the basis of the total learner enrolment and quintile in which the school falls. This information needs to inform the budgetary processes and general financial planning of the school. Schools therefore need to maintain a quality data which will inform their financial planning. . Before the end of the last quarter, schools are issued with a pre-final draft of paper budgets for the upcoming year. These are indicative figures of their actual budgets that will be allocated to them for the following year. A process of verification follows whereby schools verify the information on their paper budgets, which include enrolment and their placement in terms of quintile. These are submitted back to the Department of Basic Education for issuing of the final draft. These are the indicative budgets which schools use to start drafting their budgets for the coming year.

2.3 FINANCIAL PLANNING AND BUDGETING

Financial planning and budgeting are the foundations for the achievement of organizational goals. This is a process by which schools document and communicate the vision and objectives of the school in financial terms.

2.3.1 FINANCIAL PLANNING

The Guide for Accounting Officers on Public Finance Management Act, defines financial planning as, “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 allocation and to the monitoring of results” (RSA: 2000, 7)). This means that financial planning focuses on inputs, outcomes as well as outputs. The outputs of the organization will be reflected in its objectives; these are the results that an organization wants to achieve. Section 16A(1) of the South African Schools Amendment Act indicates that schools must prepare a plan which reflects the targeted objectives of the school and how it plans to achieve those desired goals and improvement. For these plans to be achievable and impact on the improvement of school results they must be budgeted and clear performance standards must be outlined.

Financial planning therefore involves the setting of objectives, assessing the resources at your disposal, estimating what the future needs of the organization will be and developing plans to achieve those monetary goals. For schools therefore to develop effective plans and get the most out of their limited financial resources they need to set goals. Setting of goals and objectives limit the opportunities of financial mismanagement. Daft, (2008: 212) identified six benefits of setting goals.

1. Legitimacy: goals define what an organization stands for; they validate the reason for its existence. Organizations exist for a reason and goals define and state that purpose.
2. Source of motivation and commitment: Goals keep the people focused; they give a sense of direction. Without goals schools or any organization merely react to daily occurrences without any consideration of what they want to achieve in the future.
3. Resource allocation: Goals influence how resources are allocated; they give direction to which programmes must be prioritized so as to reach the targeted goal.
4. Guides to action: When goals are designed effectively they fit into a hierarchy which permits that the achievement of goals at lower levels contributes to the attainment of high level goals.
5. Rationale for decision: goals create rationale for future decisions. The basis on which decisions are made can be rationalized. Goals inform decisions on the choice of policies, programmes, and expenditure.

6. Standard performance: when goals are converted into action plans they serve as performance criteria because they define the desired outcomes. Organisations can use their set goal as a standard of assessment.

Pauw, Woods, Van der Linde, Fourie and Visser, (2009: 88 and 93) differentiate between a strategic plan and an operation plan which is a short term plan usually a year which incorporates various action plans directed toward achieving the strategic objectives. A strategic plan looks at the medium or long term goals. This is a plan that looks at what the organization will be like in the next three or five years and what type of objectives it aims to achieve in the long run. Strategic planning drives and influences financial planning. If the organisation knows what it wants to achieve it will be in a better position to structure and appropriate its resource in a manner that will promote attainment of the set goals. What is more important in planning is not the detailed figures but it is the quality of thinking from which those figures are developed, (Barnes, 1990: 1). The organisation must look at what outcomes it wants to achieve and begin to select goals in terms of their appropriateness and usefulness to the outcomes. A strategic plan must reflect how the organization's plans will improve its service delivery. Burger (2010: 51)) argues that, it is critical to develop and synchronize the strategic planning with the entire organizational plans, budgeting, monitoring and reporting framework. For goals to be evaluated against outcomes they must be measurable, well defined and time bound. For schools to be lifelong centres of learning they must draw up long term plans, referred to as school development plans. According to the Manual for School Management, (DOE: 2001, 14) the most important aim of the school development planning is to improve the quality of teaching and learning in schools.

Bush, et al (2010: 209) indicates that, "school development planning (SDP) is the main way in which schools can link their financial planning and budget management to their educational objectives." All the stakeholders within the school must be actively involved in generating the SDP.

Bush, et al (2010: 209) identifies the following elements as the main components of a school development plan. Firstly, the school development plan must reflect the objectives and aims of the school. These flow from the crafted school goals and vision. These are statements of intention which stipulate what the school wants to achieve. Secondly, the review of the achievements of the plan's objective for the previous must be indicated. This would help to evaluate whether the school is in the process of achieving set long term objectives. Thirdly, the

plan must reflect the selected priority programmes with a justification for their selection. Fourthly, a detailed action plan which illustrates how these priorities should be implemented. These plans must indicate the timescales and most importantly an illustration of how they are costed and how they will be financed. Lastly, the school development plan must indicate a set of measurable targets that can be employed to evaluate the achievements in the next year's review.

The fourth component, costing and detailing how the selected priorities will be financed leads to the next important aspect of financial management systems in the school, budgeting.

2.3.2 BUDGETING

Budgeting is a mechanism by which an organisation sets goals, measures progress, and controls and integrates diverse activities, (Lee, Johnson, Joyce, 2004: 1). Budgets are a mechanism for efficiency. Budgeting promotes control over public money and also advances accountability to public authority, (Wildavsky and Swedlow, 2001: 5). The budget must inform the spending decision and it contributes to the achievement of the educational aims of schools. One of the objectives of budgeting as stated by Sottini (2009: 11) is that, budgeting reduces the risk of over or under spending. As discussed earlier the school development plan must form the basis on which to draw a school budget. A budget therefore is a plan as well as a financial control technique. The South African Schools Acts states that, 'a governing body of a public school must prepare a budget each year according to prescriptions determined by the Member of the Executive Council in the Provincial Gazette, which shows the estimated income and expenditure of the school for the following financial year.' Budgets are a means that provides public officials as well as citizens with the assurance that state finances will be spent in accordance with the specified purposes (Dresang and Huddleston, 2009: 269)

Budgeting therefore forms a crucial part of financial planning and serves as an instrument to ensure that required standards of performance in respect of managing public money are achieved by ensuring that resources are targeted to the prioritized needs. Budgeting therefore serves as a decision control tool because it is part of a performance measurement system, (Zimmerman, 1995: 229). A school budget represents a financial dimension of a school development plan. For budgeting to be effective it must not be seen as a standalone activity but must be understood as forming part of the whole school strategic planning process. This means that the budgeting forecast should be an integral part of the wider strategic planning process. Budgeting must be seen as a planning tool that shows how an organization extracts resources and provide goods and services, (Reed and Swain, 1997: 183). It must be linked to the schools development plans and

curriculum plans. The strategic planning process and financial planning processes must correlate with one another. If this linkage is developed, the budget will be driven by the objectives of the school not the other way round. The budget must be integrated and be driven at the strategic institutional level. This means that the school governing body and school management are at the core of budgeting responsibilities.

The ultimate goal of drawing up a school budget must be to ensure that right resources are made available to meet the needs of learners and to support school improvement. This brings a shift from a management which focuses on inputs and process only but towards output and outcome (Pollitt, 2003: 27). The process and system of developing a budget thereof must be linked to the vision and mission of the school. The Department of Basic Education puts the responsibility of drawing up a school budget on school governing bodies and not on principal alone.

Woods and Burger, (2010: 77) differentiate between various systems of budgeting. These systems present a historical perspective which reflects how the public sector budgetary reforms have evolved over the past decades.

The Bid System: The focus here is on inputs, while objectives and outcomes are ignored. Each government organisation prepares its budget in isolation of what other department are planning after which they will be combined and the total will be measured up to what taxes can be raised. Because of limited resources this leads to departments having to compete or new projects will be dumped. This system can be very dangerous to the organisation and can lead to duplication of services, because if departments plan in isolation many unnecessary overlaps can be created which lead to difficulty in coordination and control and virtually collapse the whole system. This can retard the development of the organisation as there is no evaluation of projects against expected outcomes and this can cause wasteful expenditure. There should be a proper way therefore of managing and coordinating all the inputs to the school budget that are coming from all sub-committees and curriculum departments so as to avoid duplication.

The Programme Budget Approach: The allocation of resource using this system is against the functions of an organisation. Budget is allocated on the basis of what function must be performed. Because this system does not look at the quality of service to be provided it can lead to underperformance. There must be a link therefore between the school budget and the school plans. The school plans must indicate the outcomes that the school desire to achieve.

The Financial Planning Approach: This approach involves multi-year budgeting which forecasts on long term planning. Before the budget is developed, expenditure guidelines are issued so as to reduce adjustments at the end of the process. The process of budgeting is guided by specification and classification documents not by specific goals and objectives. The drawing up of a budget is influenced by changes between the previous years and the estimated year, which means that it is based on incremental approach. Much emphasis is on inputs.

The Planning Programming Budgeting System: This is an improved version of Programme Budgeting with more focus on the identified goals and objectives against which the budget is drawn. Costs for individual projects are worked out over a multi-year term. Programmes are evaluated against the desired outcomes that address the community needs.

Zero – Based Budgeting: For this type of budgeting system all programmes must be re-evaluated against the current objectives and cost afresh for each new year. There are no guarantees of continuity of programmes; all programmes must be justified and approved annually. This can lead to a waste of time due to a reappraisal system and can hamper long term planning.

Management by Objectives (MBO) Approach: The focus of this approach is on objectives. The system requires the setting of measurable objectives that flow from the mission of the organisation. Resources are seen as merely a vehicle to achieve the set goals. This system provides a basis to measure and evaluate performance. It can create the assumption that the organization has sufficient resources to employ to meet set objectives.

Performance Budgeting: Performance budgets are built around the activities in which an institution is engaged rather than the commodities it purchases. Performance budgets reflect the type of activities that the organization sets to carry out as well as the required quality standards those activities must meet. The budget is allocated against the identified activities and the work output planned to be realized is costed. Performance budgeting promotes a shift from administration to management because it provides a basis for performance to be assessed and corrected for improved performance. Performance budgeting makes it possible to, “ascertain the relative efficiency of the organization,” (Burger, 2009: 51)

The Medium Term Expenditure Framework (MTEF): This is a three year rolling expenditure and revenue plan. This form of budgeting creates a link between government’s policy choices on the budget and the delivery of services. The benefits of this system are that, it promotes

greater certainty as policy priorities are set out in advance which result into departments having to plan and budget for delivery of services that are in line with policy priorities. This creates accountability and strengthening of political decision making. Section 2 on proposal for amendments for National Norms and Standards for School Funding (RSA, 2004) indicates that, “a medium term framework for school allocation, with three-year amounts being made explicit to schools will improve predictability and the ability of schools to plan.” The Medium Term Expenditure Framework can be linked up with the drafting of a school development plan which is a strategic plan outlining the long term priorities in which the school stakeholders have prioritize for the school. These priorities will therefore influence the allocation of the budget for the current year.

2.3.3 THE PURPOSES OF A BUDGET

A budget serves different purposes as outlined by Pauw et al (2009: 58), who argue that a budget is a management process because it serves as a plan of action. It is a policy formulating instrument because it outlines which services the organization will render given the available funds. It serves as a source of financial information, as it is a public document. Scarlett (2009: 235) further indicates that “budgets act as authorities to spend as well as comparators to current performance because they serve as a yardstick against which current activities can be monitored.”

The budget must address the needs of the schools which contribute to the accomplishment of the set goals. After drafting the school developmental plan which in some schools is a five year plan in others a period of three years, the current year’s budget must target the prioritized activities that the school has targeted to achieve for the current year in the school development plan. This means that school governing bodies must develop a system of identifying the most crucial activities that the school needs to take as its first priority so as to achieve its objectives within the set period by employing the limited resources at their disposal.

School budget must be available to the relevant stakeholders and it must be presented to the general parents for approval. Budgets promote and serve as an instrument to ensure that there is proper financial coordination and control because they are drawn up based on measurable objectives and outputs. Coordination of financial activities requires stakeholder participation so as to promote transparency and ownership of all processes and procedures within financial management systems.

The SGB must understand the main purpose of schools and the noble rationale behind the funding of the education system so as to ensure that school resources are employed effectively. A school budget promotes determination of priorities within the limits of available funds and planning of the most efficient and economical means of rendering services. The main objective for the existence of schools is the provision of quality education so as to produce learners who are competent in various fields. When drafting the school budget the process must aim at realizing value for money. The drafting of the budget and its implementation must translate into achieving quality services that will contribute to the realization of a school's goals. People expect public institutions to be effective in their service delivery. Pauw et al, (2009:23) further contend that "an activity is effective only if it reaches a defined goal."

Although it is the responsibility of the school governing body to draw up the school budget, this structure does not have the powers to adopt the drafted school budget before it is presented and approved by a majority of the parents at general meeting. Section 38(2) indicates that the school governing body must convene a general meeting of parents giving 30 day notice and present the budget which must be approved by the majority of parents and the SGB.

2.4 FINANCIAL ORGANIZATION

The process of organisation involves determining what functions must be performed, who is to do those tasks, the nature in which they are grouped, and the reporting trail and the level at which decisions are made (Robbins, Bergman, Stagg and Coulter, 2009: 12). Financial organization involves arranging and structuring all financial related tasks in a manner that influences the achievement of organizational goals. This includes institutionalization of financial management structures, clarifying lines of authority and outlining the financial reporting trail.

Financial organization therefore involves the establishment of school structures, giving clearly defined delegations and coordinating the school's financial activities. In schools, financial organization must precede financial planning. This implies that financial planning can only take place once there is deployment of various structures and individuals with proper delegations. The function of organizing function provides a system that structures tasks and outlines authority relationships which serve the purpose of improving quality (Ivauncevich, Lorenzi, Skinner, Crosby, 1994: 254).

2.4.1 SCHOOL GOVERNING BODY

The Department of Education, KwaZulu Natal in their manual for financial management, states that, “the governing body should see itself as being in partnership with the Department of Education and Culture in the extremely responsible task of managing the school finances,” (DOE, 2000) . This implies that the systems of managing school finances must reflect the open participation of the school governing bodies as having powers to govern on school finances. A board that has good corporate governance will always promote transparency and will always respond to what will benefit the company first (Block, Hirt, Danielsen, 2009: 25).

The school governing body is made up of elected representative of parents, teachers, non-teachers and learner representatives and the principal as the ex-officio member (Section 23(2) of SASA). The number of the parents serving in the governing body must always be larger by one than the total number of all other parties (educators, teachers, non-teaching staff and the learners). This means that if the total number of other components is eight then the total number of parents elected must be nine. The size or the total number of members of the SGB depends on the size of the school. The governing body can co-opt other non-elected members to serve as governor due to a special need, Gann (1998: 81) argue that co-opted members are a “source of skills and expertise and experience which would not otherwise be represented on the governing body.” The co-opted members do not have voting rights. This means that in matters of finance for example, the co-opted members cannot have a deciding vote they only give advice.

Section 37(1) of the South African Schools Act, 1996, stipulates that, it is the responsibility of the governing body to establish and administer school funds. For this structure to operate effectively it must have a clear conception of their mandate, (Davies: 1999:106). Section 37 (1) of SASA (RSA, 1996) indicates that the governing body must open and maintain one banking account. All monies belonging to the school must be deposited into this account. In the event that the school governing body because of a planned objective as reflected by their strategic plans, decide to invest some of the school funds for a future project, Section 37(3) indicates that the school governing body must seek the approval of the Member of the Executive Council to invest funds in another account as stipulated in Section 37(3) of SASA (RSA, 1996). The procurement procedures that relates to all school as provided the Department of Education Eastern Cape states that there must be a minimum of three signatories to the school account with a possible instruction that any two of the approved signatories are allowed to sign the school cheques. All three signatories must be members of the school governing body. One of the

signatories must be the chairperson of the SGB and one to come from the management of the school which is the principal as prescribed in the Department of Education, Eastern Cape, Procurement Procedure for Section 20 and 21, (2005).

As this structure plays an oversight role it must establish systems that must be employed to monitor the governance and management of finances in the school. Such systems include policy formulation and establishment of committees that handle school finances.

One policy that the SGB must develop is the finance policy. This policy must set out the rules and procedures for managing finances at school. The finance policy must set the fixed monthly amount which will be use for petty cash. It must also detail procurement measures that must be applied when procuring for goods and services. According to the Public Finance Management Act of 1999, when an organ of state is contracting for goods and services, that process must be done in a fair, equitable, transparent, competitive and cost effective manner. It is also the responsibility of the SGB to develop a school fees recovery policy which will be used as a guide to recover unpaid school fees from parents. Such a policy must not disadvantage a learner or interfere with the learner's basic right to education as enshrined in the Bill of Rights.

2.4.2 FINANCE COMMITTEE

The whole governing body takes responsibility for the financial management of the school. But it would be impractical for the whole governing body to do all the management work. The SGB should set up a finance committee to manage the school's finances and report back to the governing body. This committee serves as an advisory body to the governing body on issues of finance.

The finance committee must administer school finances in accordance with the responsibilities of the SGB (DOE, 2006). This is the committee that must ensure that proper financial records of all income and expenditure are kept in accordance with governmental instructions and regulations. This body is charged with the responsibility of drafting a proposed school budget by collating different submissions of needs from all committees and different structures within the schools. This committee must draw prioritization of needs and submit to the governing body. The principal alone does not have the power to make these decisions.

Although the governing body can delegate some functions to the finance committee, this structure can only function within limited delegations from the SGB.

The following members must form part of the finance committee:

1. The Principal: As accounting officer of the school as well as an ex officio governing body member, the principal is an essential person in the finance committee. The principal must ensure that the finance policy is implemented and that the whole governing body conducts its financial functions by observing all statutory provisions regulations and departmental instructions.
2. The treasurer of the governing body. The treasurer chairs the finance committee; his/her responsibilities include ensuring that the budget is controlled. This is the person who must be the chair the finance committee.
3. The chairperson of the governing body, as an ordinary member of the SGB.
4. Additional members: These may include people who are not members of the governing body but who may be elected because of their expertise in the finance field. It must be understood that these members are co-opted and as such they have no voting rights. This means that they cannot make a final decision on any financial decision taken by the committee.

2.4.3 PROCUREMENT COMMITTEE

For the purposes of segregating duties the Department of Education Eastern Cape has made it a policy that schools in addition to electing members of a finance committee, the school governing bodies must establish a procurement committee. The Procurement Procedures for Section 20 and Section 21 schools, stipulates that all purchases from and above R1000 per item must be referred to this committee for approval (DOE, 2005). This committee is responsible for adjudicating and approving requisition of goods and services. Although the procurement committee is not responsible for asking for quotations from suppliers, they must validate their authenticity. They have the responsibility to monitor that different suppliers are used and that no one supplier is favoured. They must then develop a rotation plan of the respective suppliers. This committee must have a minimum of three members with at least one member coming from the SGB and the majority of members must form a quorum. All purchases must be based on properly compiled specifications which must detail the nature of the product or service required, its technical aspects, quality requirement and safety requirements where needed (DOE, 2005). This means that for each requisition, especially for orders that fall outside routine purchases there must be a detailed specification.

2.5 MANAGING INCOME AND EXPENDITURE

After the allocation of funds as informed by the drafted budget, then it is important to implement proper accounting systems. Schools need to develop and institute financial regulations and procedures according to expected standards. The Schools Act, stipulates that schools must keep proper records of income and expenditure as well as recording of assets and liabilities. The school accounting system exists in order that the school may spend the school fund purposefully, efficiently and in accordance with the school budget. There is a need for proper planning of public expenditure so as to control the levels of public sector spending, (Coombs and Jenkins, 2002: 3). The school cannot spend more than it can afford. Furthermore, a governing body cannot apply for an overdraft or enter into a loan agreement without the approval of the Member of the Executive Council entrusted with education in the province, as prescribed in Section 36 (3) of SASA, (RSA, 1996). It is crucial for the principal to keep a close record of the expenditure and must ensure that it is consistent with the school budget. Ubben, Hughes and Norris (1994: 283) argue that the principal and the school governing body are responsible for ensuring that proper financial practices are followed and such practices must provide for efficient delivery of services to the school.

Circular 11 of 2005, on Procurement Procedures for Section 20 and Section 21 Schools (DOE, 2005) prescribes general procedures that must be followed when managing the records of school finances. These procedures include the following:-

1. Books of accounts must show all details of receipts and payments. Bean and Hussey, (1997: 3) identified two crucial purposes of maintaining proper financial records. Firstly, they “provide the basis for the management accounts which are produced on regular basis.” Secondly, they “promote accountability because they provide a record of audit trail for all transactions that have been incurred.”
2. Withdrawals from the school fund account must be made only with the approval of the SGB. Before any expenditure can be incurred or committed the delegated or authorized person must ensure that all processes comply with the procedures as detailed in the school finance policy. The principal has a responsibility to monitor and control all day to day financial administration activities.
3. Cheques must effect all payments and supporting documents authorizing payments must be kept safe. This means that schools must avoid making cash payments except for petty cash

transactions. Also cash cheques must be avoided, if possible all cheques must be made out in the name of the supplier and it is advisable not to issue cash cheques except when withdrawing petty cash. Cheques must be signed by two persons authorized to do so.

4. Income received and expenditure incurred must be recorded in the cash book. The cash book must at the end of each month, be ruled off, balanced and reconciled with the bank statement. This helps the school to identify interest received or paid by the school and also to discover outstanding cheques or those cheques that have not yet been cashed by the receiver. All monies received and paid must be recorded in the cash book. Receipts must be issued for all monies received and receipts must be obtained for all monies paid out.

Stewart, (1994: 323) make a differentiation between two accounting systems, which are: Cash Accounting: This system recognizes cash inflows and cash outflows only. When a transaction takes place costs are only recognized when cash is paid and the income is recognized when money is received by the institution.

Accrual Accounting: Using this system income is recognized when the actual sale occurs irrespective of when the money is paid. Then an expense will be recorded when a service or goods are received even though the payment has not yet been effected. This system provides public sector managers with reflective reports that enable them to assess the state of their institution's finances, its performance and economic impact (Woods, Burger, 2010: 209).

The general advise for the Department of Education, Eastern Cape it to apply accrual accounting system.

2.6 FINANCIAL REPORTING AND ACCOUNTABILITY

The school as a public institution is accountable to its community, to the parents and to the department. The White Paper on Transforming Public Service Delivery stipulates that Public Administration must adhere to principles of accountability and transparency, (RSA, 1997). The responsibility to compile the annual financial report of the school rests with the SGB. According to Levacic (1994: 109), the report is an account of the previous session school performance against the planned budget, a reflection of the current situation and an indication of future goals coupled with financial implications. Pauw et al (2009: 148), contends that financial reporting provides an illustration of how the government has managed its revenues and how it handles expenditure, assets and its liabilities. The school has an obligation to report to its stakeholders on

school finances. Piotrowski (2007: 12) contends that “freedom of information and democratic accountability are two interrelated tenets of governance.” There should be full disclosure of all financial processes that take place in schools.

The Norms and Standards for School Funding policy, (DOE, 2006) indicates it as a matter of policy that all section 21 school must submit to the Department of Education quarterly reports which reflect their expenditure. These reports are monitored throughout the year against the submitted school budgets. The objectives of public sector financial reporting provide assurance that there has been compliance with legal and other mandatory requirement in the organization’s use of resources, (Henley, Holtham, Likierman and Perrin, 1989: 8).

According to Woods and Burger (2010: 334) financial statements are quantitative reports that describe the financial health of the organisation. The Public Finance Management Act of 1999 stipulates that the annual reporting must reflect any cases where the institution suffered losses which may be due to criminal conduct or any unauthorized expenditure. Schools are mandated to draw up their annual financial statement within a period of three months after the end of their financial year (RSA: 1996, Section 42(b)). These must be audited by a qualified auditor employed at the expense of the school. It is the school governing body who must appoint the auditor not the principal. After auditing, the auditor must present the findings to the school governing body and the proceedings of such interaction must be recorded after which the chairperson of the SGB must sign the audited financial statements.

2.7 INTERNAL CONTROLS

Appropriate planning of the allocation of resources and a detailed articulation of roles and responsibilities coupled with competent appointed and elected people who implement the financial policies and carry the procedures accordingly, can be a guarantee that the set goals and objectives of the school will be reached. The fact is when reality comes in, due to various reasons this ideal situation in some instances is not achieved, because people and systems fail to perform according to required and prescribed standards. Once that happens the attainment of the organization’s goals will be under threat. Greenwood (2002: 22) suggests that, without systems of controls, implementation of plans will be ineffective.

This brings in a system of control which circumvents the flaws caused by people or the system. Internal control measures which according to Woods and Burger (2010 289), as stated by The International Organization of Supreme Audit Institutions is, “any action taken by the

management , the board and other parties to enhance risk management and increase the likelihood that established objectives and goals will be achieved.”

Schools are required to establish systems of controls to protect public monies from misuse or theft. It is the responsibility of the accounting officer of the public institution to ensure that there are effective, efficient systems employed for the purposes of internal control and financial and risk management (RSA: 1999, section 38(a)(i)). The Guide for Accounting Officers states that, “internal controls are the systems, procedures and processes that are implemented to minimize the risk and any financial consequences to which the department might otherwise be exposed as a result of fraud, negligence, error, incapacity or other causes,” (RSA, 2000). When internal controls are employed there is reasonable assurance that the targets that the organization has set will be achieved effectively and efficiently and this must be realized through compliance to relevant regulations and applicable laws. Internal control involves integration of activities, policies, plans, and attitudes within an organization to work toward the achievement of a set goal and to eliminate challenges that can hinder the achievement of set targets. Nieman and Bennett (2002: 118), indicate that school governing bodies must participate in the development of the school financial control systems; this would promote ownership of the process and strengthen compliance and application.

2.7.1 OBJECTIVES OF APPLYING INTERNAL CONTROL TECHNIQUES

Internal control systems must provide assurance that the financial and operation information is useful and reliable (RSA, 2000). Reliability of financial data is crucial since it influences various processes of decision making. Internal controls must ensure that operations are carried out in an orderly, economical and efficient manner which results in safeguarding of the organizations assets (Woods and Burger 2010: 291).

2.7.2 COMPONENT OF INTERNAL CONTROL SYSTEMS

Components of internal control systems, as outlined in the Guide for Accounting Officers, (RSA, 2000) include:

Control environment: This is the foundation of all other components of internal control. If there is a positive control environment then the overall system of internal control can be more effective. The control environment is a product of how the organization is managed. It involves the culture created through the operating style, values developed within the organization, how

people generally are committed to competency and the philosophy of management that is applied. When this culture is created it serves as a component of internal controls. The commitment to maintaining standards becomes a natural phenomenon within the organization. This then puts the responsibility on principals first as leaders of the institution. Principals therefore need to possess leadership skills so as to influence others' actions to achieve the planned goal and to develop a positive working environment where all work towards a common goal. They must have the ability to shape goals, to initiate change and to motivate others (Bush et al, 2010: 5). Compliance to established internal control systems will depend on schools to having a well documented and broadly communicated financial organizational structure which shows lines of reporting responsibility and authority which promotes effective communication throughout the school.

Control Activities: These include instruments that are applied to identify, prevent or reduce any risks than can encumber the achievement of the organizations objectives. These may include policies, procedures, techniques or any other mechanism that can be employed for the purposes of increasing the probability of achieving the targeted objectives. Control activities must be an integral part of the daily operations when dealing with school finances.

Risk assessment: The employment of risk assessment systems must result in proper identification and evaluation of the internal and external factors that could affect schools operational compliance objectives. Risk assessment processes helps school to identify those risk that are controllable which they can either accept or mitigate through control procedures. For those risks that are uncontrollable, schools need to decide to withdraw or reduce their level of activity in that specific area.

Information and Communication: Financial information should be reliable, timely, and accessible and it must be provided in a consistent format in order for schools to make relevant decisions. Information and communication systems surround all other component of internal controls. The schools must maintain effective financial management information systems which will produce quality data. Communication systems allow stakeholders within the school to capture and share the information required to conduct, manage and control financial operations. Without communication the information becomes useless; establishment of effective paths of communication ensure that the necessary information reaches the appropriate people.

Monitoring: Effective management monitoring leads to the generation of complete accurate and timely reports and also has implications for the overall tone of the organization's control environment. The whole process needs constant monitoring and the required adjustments must be made when necessary. This would make the internal control systems react dynamically to any changes and this will promote prompt action on reports of any kind of problem identified.

2.7.3 THE KEY CONTROLS TECHNIQUES

Woods and Burger, (2010: 289), identified key controls that can be put in place by an organization in order to enhance risk management.

Segregation of Duties: Financial duties must be allocated to individuals in a manner that ensures that the control of authorizations and executing and recording of transactions are delegated to different individuals. Division of financial duties enables the detection and prevention of errors, fraud and theft.

Limited delegation: Only officials who have the respective delegated powers to perform the certain functions must perform that task (Pauw et al, 2009: 158). Appropriate delegation leads to limited access. The principal as the accounting officer must know and understand which tasks and responsibilities fall under his delegation and any delegation by the SGB to other stakeholders or sub committees must be done with caution. Limited delegation must be practiced in areas that are identified as risk factors or prone to fraudulence.

Authorization: The Department of Education in the Western Cape, in their manual on school financial systems indicates that, some financial functions need authorization before they can be carried out. Such functions may include drawing of a cheque, and before a cheque is drawn a cheque a requisition form is filled out by the accounting officer who authorizes the payment of a service or a commodity. The school needs therefore to identify those tasks which need authorization each time they are to be performed. Authorization forms must be filled and signed by the principal before a cheque can be drawn and signed by any two of the three signatories.

Counter signing: Pauw et al (2009: 158), suggest that there should be a responsible person who has the necessary authority and experience who must countersign payment vouchers in order to verify the correctness of the document.

Completeness: The objective of verifying completeness is to ensure that there are no omissions either from the accounting of transactions or any related system. The following techniques can be applied.

(i) **Pre-numbered forms:** It is advised for schools to use one receipt book which is pre-numbered with the letter head of the school; the numbering must be continuous and link up with the next receipt book. This makes tracing the payments of school fees easy. The schools who use a direct deposit system can issue a receipt to the learner after verifying the payment from the bank.

(ii) **Reconciliation:** This is a method used to identify the difference between two or more figures or entries which are expected to agree. The bank balance as reflected in the school accounts is expected to agree with the statement issued by the bank in respect of the school account. At the end of each month schools are mandated to collect their bank statements so as to reconcile it with their own entries. This helps the schools to start each month with a correct bank balance as reflected in their accounts.

2.8 CONCLUSION

Schools are public entities and as such their management is based on legislative provisions applicable to public institutions. As discussed in this chapter establishing sound financial management systems is the basis for growth and development. The management of school finances is carried in consideration of relevant legislation and policies. Institutionalizing proper financial management systems in schools is crucial in promoting accountability and good governance. From a range of financial management theoretical framework analyzed in this chapter it has become evident that proper financial planning is clearly an important mechanism in controlling and monitoring utilization of funds in schools. The principal as the accounting officer plays a vital role in organizing and establishing financial management structures that will be a driving force towards sustaining efficiency and transparency in spending. For schools therefore to meet their mandate, that of providing education for the benefit of learners, there is a need for a fully coordinated and systematic approach to managing school funds.

The Constitution guarantees the independence of the Auditor General. This has brought about significant efforts to establish transparency and accountability in the management of public funds. Although it is the responsibility of the SGB to appoint an auditor to audit the financial records of the school as prescribed in Section 43(1) of SASA, when a district is audited by the

Auditor General there are schools that are normally selected to be part of the audit, as discussed in Chapter 1. This notion promotes efficiency and effectiveness in government spending. All public institutions are obliged not only to account for how funds are used but also to report on efficiency and effectiveness of such spending in meeting set goals as well as to report adherence to prescribed rules and procedures. This forms the basis of the study as outlined in the following chapters.

CHAPTER 3 RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

As briefly discussed in Chapter 1 resourcing of schools is the basis for the provision of quality education. Without adequate resources effective teaching and learning is a challenge. The institutionalization of proper financial management systems in schools is fundamental to the acquisition of appropriate resources which will result in the improvement of the environmental context within which learning takes place as well as enriching the curriculum content. The background to the research problem highlighted in the introductory chapter (Chapter 1) which describes the situational status under which the administration and management of education in the Eastern Cape takes place demands that, for effective intervention to take place a correct diagnosis of the situation must be done. Within the wide range of various components that constitute the structure of the educational system, financial management in schools is fundamental to the provision of quality education. As the primary focus of this study is on assessing gaps within the financial management systems in schools, it is imperative that an appropriate research design, which will produce findings that are applicable beyond the

immediate boundaries of the study and provide the best answers to the research question, be applied.

A non-empirical literature study was undertaken in Chapter 2 to gain an understanding that would provide answers to the first research question. It subsequently became necessary to undertake an empirical study to investigate answers to the second and third research questions. On the basis of all the theory and information from the literature study as well as the findings from the empirical investigation a financial management systems framework which will serve as a guideline for schools, was recommended.

3.2 AIMS AND OBJECTIVES

The advent of awarding a school a Section 21 status comes with the noble intention of improving conditions within which schools operate through provisioning of resources and utilization of allocated funds. Departmental officials must ensure that resources within the area of their responsibility are used efficiently and economically. As discussed in Chapter 2, Section 21 schools are allocated delegated financial management tasks which place the responsibility of establishing systems of financial management as well as internal controls within the schools. This places school managers and SGBs at the forefront in safeguarding the school's financial resources through appropriate financial management.

With this in mind and taking into account the background to the research problem which highlights the contextual factors within which a high percentage of the schools in the Eastern Cape operate, the aim of this study is to investigate by means of non-empirical literature study and also by employing various methods of empirical investigation, focusing on compliance issues that relate to financial management systems in schools. Four objectives were developed which support the purpose of the study:

These objectives can be outlined as follows:-

1. To conduct an analysis of current financial management systems in schools.
2. To identify policy, process and procedural gaps in the managing of Section 21 school funds.
3. To develop a proposal on how these gaps can be addressed.
4. To propose a framework which will serve as a guide for improving financial management in schools.

When deciding on the research design of this study it was important to look at the research questions so as to decide how best to collect evidence needed to answer the research questions in a convincing way. The following are the questions that the research study seeks to answers.

Research Questions

1. What is the nature of the financial management systems applicable to South African Schools?
2. Do schools which have been awarded a Section 21 status comply with such standards?
3. Are there systems of monitoring and control?
4. How can the identified gaps if any be corrected?
5. What is the nature and extent of the possible support needed to improve financial management systems in schools?

3.3 RESEARCH DESIGN AND METHODOLOGY

This is a structure of the research which ensures that the evidence obtained will give answers to the research questions in an apparent and explicit way. The type of evidence that must be collected must be specific and relevant to answer the research questions. The research design stage therefore must precede decisions on the data collection methodology. In order to reach convincing and unambiguous conclusions much detail must be included at the research design stage. Mouton (2001: 55), defines research design as “a blueprint of how one intends conducting the research.” Huysamen, (1994: 10) claims that the research design is a blueprint of how data will be collected in order to investigate the research question or hypothesis in the most efficient manner. Research design therefore systematizes and gives direction to the research.

The structure of this research study is both non-empirical and empirical, applying quantitative and qualitative approaches. This helps to triangulate or to support findings that are collected through the use of one particular method of data collection with other different methods.

3.3.1 NON- EMPIRICAL RESEARCH: LITERATURE REVIEW

The first research question of the study is non-empirical in nature; as such a comprehensive and critical analysis of the literature that illustrates the different theoretical perspective, trends and debates with regard to the research problem was conducted in Chapter 2. This involved examination of literature which covered the legislative, theoretical and conceptual framework

that relates to the management of public finances with special reference to schools. Conceptual analysis was done for clarification and elaboration of the meaning of concepts and/or processes involved in financial management systems. The literature reviewed provided a map of factors and concepts that had a direct bearing on the research questions. This information was used to provide a baseline with which the primary data collected through the application of questionnaires, interviews and focus group discussions was compared.

3.3.2 EMPIRICAL RESEARCH

An empirical investigation was also applied to collect data on the research problem. This involved the collection of primary data using embedded mixed methods. According to Welman, Kruger and Mitchell (2005: 148), primary data refers to original data that is collected by the researcher to fulfill the purposes of the research study. This is first hand information that is original in character which has not undergone any form of statistical treatment. The study involved on-site visits to selected schools where focus group discussions were conducted with finance committees of the four sampled schools for this purpose. Also, primary data was collected through the use of semi – structured interviews with departmental officials.

3.3.3 QUANTITATIVE RESEARCH

Quantitative data was collected through conducting a survey. Mouton (2009: 152) refers to surveys as “studies that are usually quantitative in nature and which aim to provide a broad overview of a representative sample of a large population.” A quantitative research is an objective and systematic process that is applied to obtain information, to describe variables and their relationships (Burns and Grove, 1993: 26). A quantitative approach was applied in this study by collecting quantitative data through the administration of questionnaires to which the principals of the sampled schools responded.

3.3.4 QUALITATIVE RESEARCH

In qualitative research a holistic approach is applied to collect a wide array of data using various sources, like documents, records, observations, interviews and case studies Welman, et al (2005: 9) In-depth interviews were conducted in the study for collecting and eliciting data on individual perspectives and experiences of the research problem. Focus group discussions were also employed in order to generate broad overviews of the research issues. Both these methods involved the use of open-ended questions that evoked responses are meaningful and explanatory

in nature. A documentary analysis was also carried out and this provided an opportunity to investigate the background and context of the situation as well as analyzing the extent to which appropriate financial legislation and policy is put into practice. The application of a qualitative approach in this study provided a rich and elaborative insight into the research problem.

Research methodology affects the conclusions that are made about a phenomenon. The selected research methodology affects the reliability and the validity of the results. Mouton (2001: 56), argues that research methodology focuses on the research process and the kind of tools and procedures to be used.

3.4. SAMPLE

This study was conducted in the Education District of Mthatha in the Eastern Cape. This district is constituted of 343 schools of which 337 are Section 21 schools. These schools are clustered into fourteen circuits and each circuit is headed by the circuit manager.

From the total population of Section 21 schools in the district of Mthatha, 72 schools were randomly selected to be part of the survey study and four schools were selected to participate in the focus group interviews. Simple random sampling was used applying a systematic sampling technique. From fourteen circuits that make up the district, six circuits were selected, starting from circuit number one and thereafter every third circuit was selected (Table 3.1). The same approach was used to select schools within the circuits. The sample represented 21.3% of the total number of Section 21 schools in the district. After consolidating the remaining schools of the six circuits into one list, four schools were randomly selected to participate in focus group discussions. Permission was solicited from the District Director to carry out the study in the schools as well as to conduct the interviews in the schools. Further meetings were held with the affected circuit managers where the researcher outlined the intention to conduct the study. The objectives and the design of the study were fully discussed to solicit a buy in. This was critical because the design of the study involved analysis of critical documents in the schools. An understanding was reached to carry out the study. Subsequent to that another meeting was held with the affected schools at the instance of the affected circuit managers where the researcher tabulated the intention of the study as well as the design and methodology. The nature of the study as being voluntary and confidential was discussed.

Table 1: Number of circuits and schools selected.

CIRCUIT	NO OF SCHOOLS PER CIRCUIT	NUMBER OF SCHOOLS SELECTED		CIRCUIT	NO OF SCHOOLS PER CIRCUIT	NUMBER OF SCHOOLS SELECTED
1	25	12		7	26	12
2	25	12		10	26	12
4	25	12		13.	26	12

For the purpose of conducting interviews, separate meetings were held with departmental officials. Two separate meetings were held with officials in the district of Mthatha, one meeting with the coordinator for Norms and Standard for Funding of schools and the other meeting with the Deputy Director for Finance Section.

3.5 RESEARCH INSTRUMENTS

A data triangulation technique was adopted through the use of a combination of data sources so that strengths and weaknesses in each source are compensated when they are applied together. The basic motive was to improve the validity of the findings and to secure an in-depth understanding of the research problem. Diverse methods which included the survey questionnaires and a series of semi-structured interviews which allow for triangulation were applied. In addition to the interviews and questionnaires which were the main instruments, documentary analysis was conducted as a supplementary method. This created a wide range on which data was collected as evidence. The use of various sources is important because it results in corroboration and augmentation of evidence.

3.5.1 ADMINISTRATION OF QUESTIONNAIRE

Polit and Hungler (1991: 193) describe a questionnaire as a tool that is used to gather self-report information from respondents which consists of their attitudes, knowledge, feeling and beliefs. Although the respondents were informed about the study and a buy in for their commitment to participation was consolidated, the actual response to the questionnaire remains voluntary; therefore the design of the questionnaire was done in a manner that maintains interest from the respondents.

A questionnaire which consisted of twenty five questions was administered to the principals of the sampled schools. To avoid ambiguity, questions were formulated in the shortest and simplest

terms possible. All questions were formulated in a positive format and were closed ended in nature. This helped in pre-coding the responses into a standardized set of answers when analyzing data. The questionnaire contained precise and clear instructions on how to respond to questions. The twenty five questions were categorized taking into account the research questions as well as the simplification of the data analysis process. The questionnaire had two sections, namely Section A and Section B.

Section A of the questionnaire consisted of demographic information of the respondents which included their personal profiles as well as the school profile. Information required in this Section included, age of respondents, number of years as principals, their qualifications, the size of the school, the level of the school, number of learners and teachers, geographical location of the school.

Section B of the questionnaire was divided into three categories. The first category of questions focused on principals' understanding of the legislative framework and policies underpinning financial management systems in schools. This category consisted of eight closed ended questions. The questions in this category were structured; respondents had to choose between alternate answers given.

Category 2 focused on the application of appropriate procedures, practices and systems in managing school finances.

Category 3: Respondents in this category were asked to indicate areas in financial management in which they needed more support and development. Respondents had to indicate one or more choices between alternative answers and/or give their own responses.

3.5.2 FOCUS GROUP INTERVIEWS

Group interviews are a qualitative technique used to collect information that perhaps would not be collected appropriately through the application of individual interviews (Welman, et al (2005: 201)). This form of data collection allows participants in the group to discuss their views and experiences in a manner such that a consensus in regard to their opinions of the research problem can be reached.

Group interviews were conducted with the Finance Committees from the four selected schools. These were conducted separately for each individual school. The finance committee is the key structure in the management and administration of school finances. Its composition allowed the

researcher to interact with key stakeholders (chairperson of the SGB, principal, Treasurer of the SGB, school finance officer/administrator and one additional member adopted in the finance committee) who represent key components of the school community. The total number of respondents in each of these committees was five. A set of questions was used to direct the discussions which were consolidated under four themes, school strategic planning and budgeting processes, participating structures in school finances, procurement procedures and financial monitoring and control measures

3.5.3 SEMI-STRUCTURED IN-DEPTH INTERVIEWS

Semi-structured interviews were conducted to interview the district officials. The use of this technique provides a more relaxed setting than structured interviews. This was a face to face conversation structured around a set of questions which provided an opportunity to get more in-depth and detailed responses from each of the two district officials selected. This afforded the research to collect data which was richer and more full of contextual information and qualitative in nature.

3.5.4 DOCUMENTARY ANALYSIS

In the four schools visited to interview the finance committees, the researcher was afforded an opportunity for documentary analysis as initially arranged with the schools. Documents that were analyzed included the school budget, school development plan, finance policies, income and expenditure recoding (cash book/Cash Receipt and Cash Payment Registers) and 2010 financial statements.

3.6 ETHICAL CONSIDERATIONS

When conducting this study it was important to ensure that considerations of the needs and concerns of the participants and other obligations that relate to the maintenance of standards and of appropriate professional behaviour be espoused throughout the investigation. Specifically for this investigation, the following outlined issues were considered:

Respect for persons: A commitment was made to encourage the autonomy of the research participants; this was advocated in meetings arranged with the participants prior to the initiation of the study. It was important that participants felt protected from any form of exploitation and vulnerability. This was done to ensure that participants did not feel as simply used as a means to achieve research objectives.

Informed Consent: Informed consent was solicited from all departmental levels and parties affected by the research study. This was a mechanism to ensure that all the affected parties understood what it meant to participate in the study so that they could decide consciously on free participation.

Protection of Confidentiality and Anonymity: The study promoted confidentiality of participants; this included the avoidance of the use of school names. All information acquired was handled with strict confidentiality and was used solely for the purpose of the study.

3.7 CONCLUSION

This chapter entailed all the processes followed in conducting the study; it reflects a logical sequence that connects the non-empirical and empirical data to the identified research questions. Looking at the wide range of processes and structural arrangements which constitute financial management systems in schools as discussed in the literature review, the use of embedded mixed methods will maximize the collection of data and improve the validation of the information collected. The chapter represents a full description of the design and methodology applied in the study.

CHAPTER 4

RESEARCH RESULTS AND INTERPRETATION

4.1 INTRODUCTION

In this Chapter the findings of the empirical research study are presented and discussed. Interpretation will be done to give more meaning to the research data. Interpretation data collected was influenced by the findings of the literature review. The first part of this chapter is dedicated to the presentation and discussions of the quantitative data collected through the administration of questionnaires to principals. The focus in this part is to develop an understanding of how principals as accounting officers for their institutions, understand and effectively apply legislation and policy to develop effective and efficient financial management systems. Subsequent to the quantitative study, findings of the qualitative investigations will be tabled; these were collected through the review and analyses of documentation and interviews conducted with key role players in managing school finances.

4.2 THE QUESTIONNAIRE

The questionnaire contained twenty five questions that were divided into two parts. The first part contained demographic information covering the profile of the respondents as well as their schools. The second part was divided into three sections. The question in section 2 focused on the application of relevant financial legislation and policies; Section 2 focused on assessing institutionalization of appropriate financial procedures and process in managing school finances; and the last Section focused on identifying the developmental needs of principals.

4.2.1 NUMBER OF RESPONDENTS PER CURCUIT

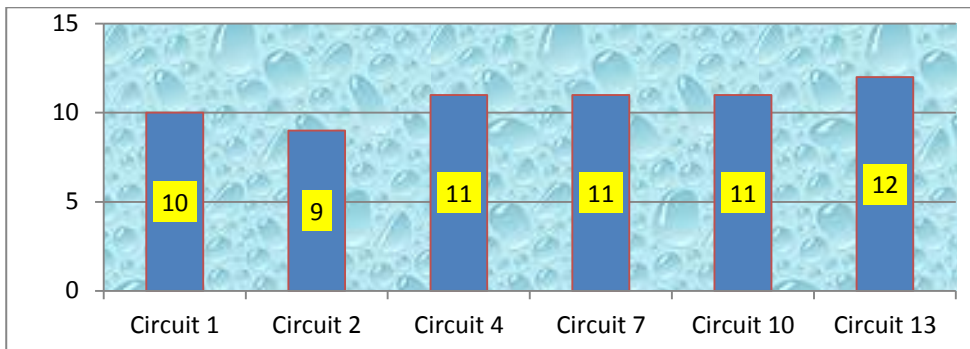


Figure 1: Number of respondents per Circuit

The above data represents the number of principals who were able to respond to the issued questionnaire. As discussed in Chapter 3, twelve principals were selected from the six sampled circuits which brought the number of the sample to 72. Not all principals of the selected schools responded to the questionnaires. Of the seventy two questionnaires issued only sixty three questionnaires were returned.

4.2.2 QUALIFICATIONS

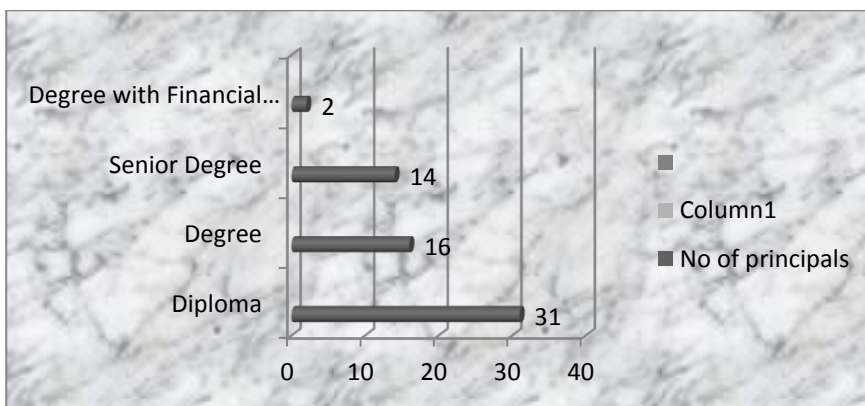


Figure 2: Principals' Qualifications

Of the 63 principals who participated in the study only 3, 17% had a qualification in financial management. This implies that over 96% of the principals depend on informal training for any development in financial management. This put more emphasis thereof on the importance of skill development programmes.

4.2.3 SCHOOLS' PROFILES

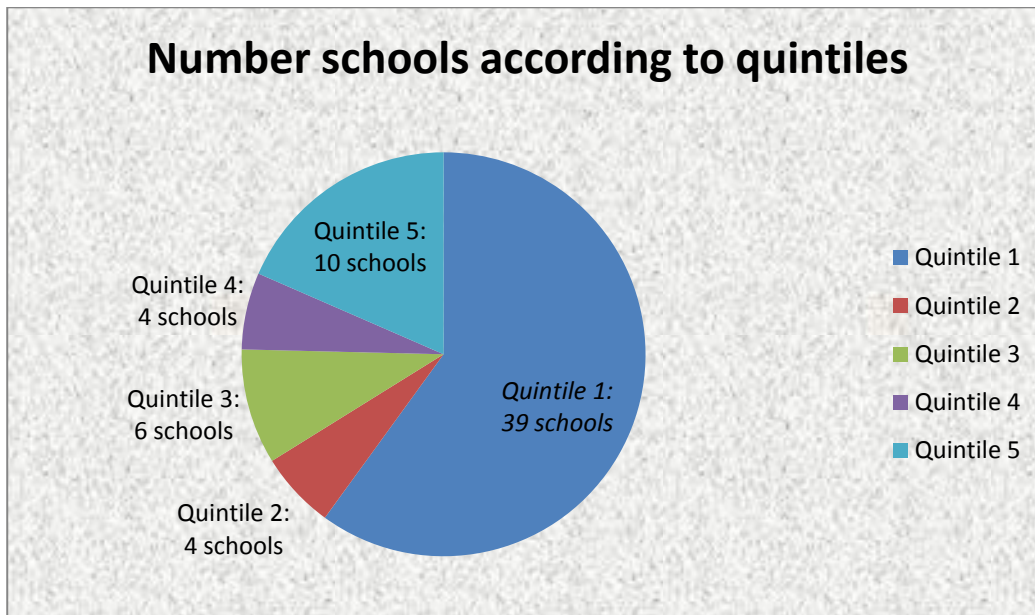


Figure 3: Quintiles of Schools

The quintile of a school determines the total resources allocation to schools. As the quintile of a school is determined by the locality of the school, schools in rural areas fall into quintile 1 and quintile 2; those that are on the outskirts of town are in quintile 3 and schools that are in an urban area are in quintile 4 or in quintile 5. Figure 4.3 illustrates that the bulk of the respondents came from deep rural schools given that 39 schools are in quintile 1; for quintile 2 schools there were 4 respondents; six of the participants came from quintile 3 schools. All these (quintile 1, 2 and 3) are no-fee schools and apart from donations the only source of income is the government subsidy. For quintile 4 and 5 schools which are fee paying schools, there were four and ten participants respectively. These are schools which charge school fees from parents and as such they are accountable for the finances that they receive from the Government as well as the fees that they charge from the parents.

4.2.4 SCHOOL ENROLMENT

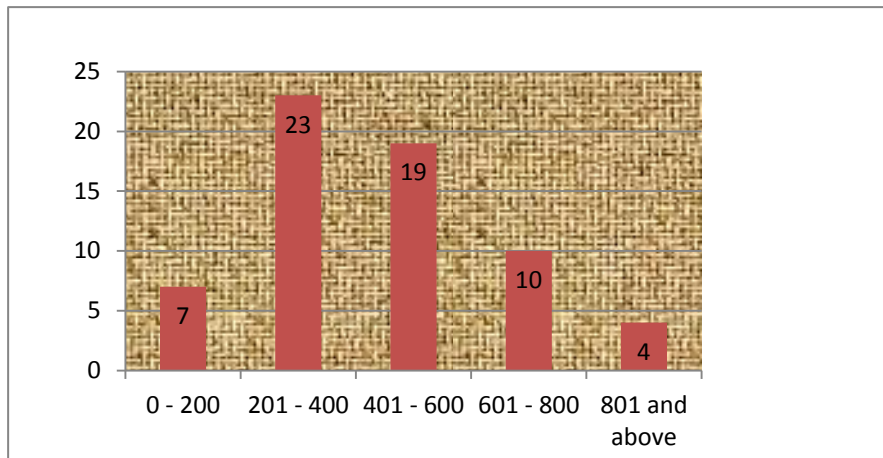


Figure 4: Number of learners per school

The above graphs indicate that 52% of the schools who participated in the study had an enrolment of above 400. Given the fact that schools are funded according to the number of learners as well as the quintile system, then it stands to reason that a high percentage of schools are dealing with large sums of money.

4.2.5 APPLICATION OF FINANCIAL LEGISLATION AND POLICIES

Table 2: Number of schools who comply with relevant financial legislation and policies

	YES	NO	NOT SURE
Understanding of their mandate as laid down in the Public Finance Management Act., as accounting officers	100%		
Development of effective financial management policies by schools.	65%		35%
Compliance to appropriate procurement procedures as outlined in Circular 17 of 2005.of the Eastern Cape Department of Education.	60.3%		39.6%
Capacity of School Governing Bodies to perform an oversight function on the management and administration of school finances	100%		
Institutionalisation of appropriate financial control systems	100%		
Budget process as prescribed by South African Schools Act	100%		

The principals' evaluation of their understanding of their functions as the accounting officers seem to be very positive. This is reflected by their responses which indicate that all the principals perceive themselves as being fully aware of their expected mandate in the management of school

funds. Although that is the case, when analyzing the data further there is an indication that there is a big difference between theory and practice.

Thirty five percent have indicated that they were not sure whether they had instituted effective management policies in their schools. Also twenty five of the respondents were uncertain whether their procurement procedures are compliant to prescribed policies. When analyzing this information it is quite clear that some principals do not have the capacity, knowledge and skills for managing their school finances. As such they are not confident in their capacity to institutionalize appropriate financial management systems in their schools. The results reveal that schools need more support in understanding and in developing confidence in the application of appropriate procurement processes. Surprisingly though, all the respondents registered a 100% confidence in their school governing bodies' ability and capacity to perform the financial oversight.

4.2.6 ACCESS TO RELEVANT LEGISLATION AND POLICIES

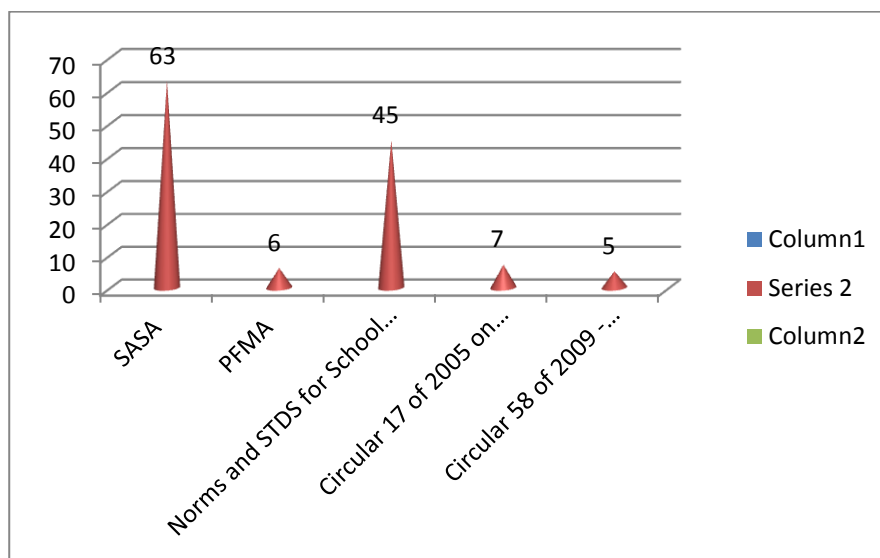


Figure 5: Number of schools with legislation and policy documents

The above figure illustrates that although principals responded positively regarding their understanding of their mandatory obligations, a high number of these schools operate without do not have some of financial legislations and policies. Since these are guiding documents in the management of school finances and also these documents are a critical source of reference in institutionalizing financial management systems if these documents are not provided to schools that could result in financial management inefficiencies. That condition could open school finances vulnerable to mismanagement.

4.2.7 MAINTENANCE OF FINANCIAL RECORDS

Table 3: Number of schools that maintain proper financial records

	Yes	No
DO YOU KEEP AND MAINTAIN THE FOLLOWING FINANCIAL RECORDS OR ACCOUNTS:		
1. Cash Book/Cash Journal	63	
2. Petty Cash Book	63	
3. Deposit Register	08	55
4. Commitment Register	03	60

The above table indicates that all schools operate a cash book and a petty cash book. Very few schools maintain a deposit register and a commitment register. A commitment register helps to control and in maintaining the budget while a Deposit Register is very useful in controlling and managing income paid as cash into the schools and also reflects all deposits made into the school account either through direct transfers by the Department of Basic Education or deposits by parents or any other person. The absence of a commitment register is an indication that schools do not control and monitor their budgets.

4.2.8 ESTABLISHMENT OF FINANCIAL STRUCTURES AND GENERAL FINANCIAL OPERATIONS

Table 4: Functionality of Structures and General Financial Operations

	YES	NO
Does your school have more than one bank account?	47	16
Do you hold annual general meeting for financial reporting to parents	63	
Does your school have a finance committee?	63	
Does your school have a procurement committee?	63	
Do you have a data base of the service providers that you use when acquiring goods and or services?	18	45
Is there a drafted rotation plan that is used for awarding tender?	17	46
Audited Financial Statements	63	

Do you elect the executive committee (Chairperson, Treasurer, and Secretary) of the SGB at the end of each year?		63
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Analyzing the information in the above table, it seems that there are a large number of schools who operate more than one account. The percentage of schools that operates two accounts stands at 25.3%, although this does not indicate any mismanagement it does indicate that schools are not spending their budgets within a specific current year. Schools are not a profit making organizations and their budget allocation is done on a year by year basis, surplus funds therefore need to be monitored and investigated to ascertain the purpose for such investments. Income that schools receive through section 21 allocation is suppose to be utilized for priorities identified in the paper budget that is issued to schools on an annual basis. Any savings therefore from the section 21 allocation other than other school income must not be done at the expense of addressing the identified priorities as per paper budget.

There is also an indication that schools have established the necessary financial structures although their functionality could not be guaranteed. Managing of finances needs open participation of all the relevant structures so as to promote transparency. Schools though do not adhere to the provisions of the South African Schools Act, that of electing a new structure of the executive of the school governing bodies for each year. Rotation of people who handle school finances is beneficial so as to neutralize power over resources; to have a person serving as a chairperson of a school for longer periods can create tyranny and dictatorship. Section 31(3) of SASA indicates that the term of office for office bearers is one year, meaning that each year the school governing body must convene a meeting to elect the new office bearers; nothing though prevents them to reelect the same or some of the already serving members.

Also some schools have not put in place proper systems for procurement processes. This is evident in the high number of schools who have not developed a data base for service providers. This can be very dangerous and lead to a situation where schools develop improper relations with service providers; in the absence of a data base for service providers, schools tend to use the same service provider.

4.2.9 ALLOCATION OF FINANCIAL RESPONSIBILITIES

Table 5: Understanding of Roles and Responsibilities

Responsibility for:	SGB Chairperson	Finance Committee	Principal	Procurement Committee
Drawing up the school budget	100%			
Drawing a finance policy	100%			
Approving of service providers		71,4%		28,57
Authorisation of a payment			100%	

All the 63 respondents understood that it is the responsibility of the school governing body as prescribed in the South African Schools Act to draw up a school budget as well as the finance policy. There is uncertainty though on to whose responsibility it is to approve the service providers. This reflects a lack of understanding between the functions of the finance committee and that of the procurement committee. All principals unilaterally agree that it is the responsibility of the principal as the accounting officer to authorize all payments in the school.

4.2.10 FINANCIAL ADMINISTRATION AND RECORDING

Table 6: Financial Administration and Recording

	Never	Sometimes	Always
Do you ever have to issue cash cheques when effecting payment		100%	
Do you reconcile your books at the end of each month	92%	8%	
Do you bank all cash received before it is used.		100%	

All the respondents reported that in some cases they do issue cash cheques. The source of such transactions are not disclosed, issuing of cash cheques can open the management of finances to mismanagement because it is difficult to trace such transactions. If this becomes the norm for payments, this practice would crush the whole financial system. This also is the case in the use of money before it is banked. As it is indicated in the above table, although this affects a small percentage of schools, some schools do use money paid in cash to the school before it is banked. This can lead to unaccounted expenditure and unrecorded transactions. One other critical issue is failure by schools to reconcile their books at the end of each month. All these issues border on poor control systems and lack effective management.

4.2.11 EXPOSURE TO FINANCIAL MANAGEMENT TRAINING

Table 7: Number of Principals exposed to Financial Training

DID YOU RECEIVE AN EXPOSURE TO ANY OF THE FOLLOWING FIELDS?	YES	NO	IDENTIFIED TRAINING NEEDS	
BUDGETING PROCESS	63	0	PROCUREMENT PROCEDURES	
COMPILING FINANCIAL RECORDS	47	16	FINANCIAL CONTROL	
PETTY CASH MANAGEMENT	63	0	FINANCIAL RECORDS	
FINANCIAL CONTROL	34	29		
DEVELOPING FINANCE POLICY	63	0		

The above Table indicates that principals have been exposed to financial management training although the quality and duration of such training could not be ascertained. Financial management is a skill and its practice is influenced by legislation, policy and specialised procedures. This means that for principals to gain efficiency in this field, they need to be exposed to more formal training or courses as well as mentoring. Looking at the areas of need identified by the respondents themselves, it means that much more is required to develop and support principals in financial management.

4.3 FOCUS GROUP INTERVIEWS WITH FINANCE COMMITTEE

The focus of the questions for the finance committees were consolidated under the following themes:

(a) School Strategic Planning:

1. Availability of the School Development Plans
2. Process followed in drafting School Development Plans.
3. Relationship between the School Development Plans and the School Budget.

(b) Budgeting Process:

1. Parties or stakeholders involved in drawing school budget.
2. Steps involved in drafting and finalizing the school budget.

(c) Functionality of Financial Management Structures.

1. Different structures involved in managing school finances.
2. Roles and responsibilities.

(d) Procurement Procedures:

(e) Policies and procedures that guide procurement processes.

FINDINGS: Interaction with this structure from various schools revealed that:-

4.3.1 SCHOOL DEVELOPMENT PLANNING

Only two of the four schools indicated that they had school development plans. It was discovered also that schools are not quite clear on how these strategic documents should be developed. The two schools that had those plans indicated that when drafting their school budgets these plans were rarely taken into account.

4.3.2 BUDGETING PROCESSES

In all four schools this committee indicated that it had a responsibility of drafting the school budget taking the mandate from the school governing body. When discussing these issues further it became clear that the actual people who are hands on with drafting the school budget are the principals and the educators who are in the finance committee because in all the steps taken to finalize the draft of the budget only those members of the finance committee who are within the schools are involved; the parent component of the finance committee did not feature in the process.

Although schools understand the concept of the finance committee as inclusive of the parents, in practice parents are excluded. All schools indicated that after budgets are finalized they are presented to the school governing body. Only one school indicated that the process was taken further to the parents for their approval.

4.3.3 FINANCE STRUCTURES

Although all schools indicated that they had established the finance committee and the procurement committees, the functional responsibilities of the two committees could not be ascertained. There were no clear roles of each structure and as such in terms of function, they were used interchangeably. This could lead to a total collapse of monitoring and control systems.

4.3.4 PROCUREMENT PROCESSES

All four schools apply a process of requesting quotations but two of the schools indicated that in some instances this policy was not consistently applied. The minimum amount that each of the schools had set to seek for quotations differed, and it ranged between R500.00 to R2000.00. It was also evident that this principle was not consistently applied because when schools procure textbooks and stationery, they establish links with certain service providers which they use to provide all supplies in respect of these expenditure items.

In all the schools interviewed they could not come up with clear procedures on how quotations are invited and what process is used to the award or approve service providers. The members of the finance committee contradicted themselves on this issue. The engagement with the finance committees also disclosed that schools made no differentiation between the tender process and the process of asking for quotations. All transactions were treated the same. Tender processes were not followed and were not even documented in the finance policy. One of the schools erected a school hall at a cost of R800 000.00 using the general system of asking for quotations instead of an open tender system. This confirms that the schools do not understand the procurement process and applicable legislation.

4.4 DOCUMENTARY ANALYSIS

An analysis of the following documents was done:

- a) School Development plans
- b) School Budgets
- c) Finance Policies
- d) Financial Recording

4.4.1 LINK BETWEEN PLAN AND IMPLEMENTATION

From the analysis of the above documents it was evident that there is lack of synergy between the three processes, budgeting, and procurement plan and expenditure patterns. In practice the budget must inform the procurement plan, and the expenditure is influenced by the procurement plan. What is prevailing in schools is that these three processes differ substantially. It is understood that in the actual execution of plans there can be minimal deviations but when there are substantial differences it is evident that schools spending has no reference to the budget.

This can be due to two factors:

- a) Failure to budget properly.
- b) Failure to monitor implementation of budget, which can lead to spending on things that are not a priority.

4.4.2 SCHOOL DEVELOPMENT PLANS

Only two of the four schools had school development plans. When analyzing the correlation between the school development plans and the school budgets it was discovered that, there was very little link between the two documents. Most of the developmental programmes that both schools had prioritized in their school developmental plans were not budgeted for.

4.4.3 SCHOOL BUDGET

All four schools visited had school budgets although in two schools the budgets were not signed by either the principal or the chairperson of the school governing body. Looking at the paper budget that the schools receive from the department which stipulates the allocation that each schools receives per year and also prescribes an indicative percentage of the budget that must be allocated for each cost centre item, these differences were identified. According to the paper budget, the allocation of budget for learner stationery and learner teacher support materials is as follows:-

1. Learner Stationery - 12% of the total budget.
2. Learner Teacher Support Materials (text books) - 45% of the total budget

None of the four schools comply with this instruction. All the schools spend less on these items. Teaching and learning is the core business in education and any steps which seek to strengthen this area contribute to the improvement in the provision of quality education to learners. This indicates that schools are not complying with the provisions of policies.

4.4.4 FINANCE POLICIES

All four schools had finance policies. The key content however which informs financial management functions and systems was very scanty. The following aspects lacked detail.

1. Functions of the finance committee and the procurement committee.
2. Monitoring and control procedures.
3. Role of the principal as the accounting officer.
4. The role of the school governing body as an oversight structure.

4.4.5 FINANCIAL RECORDING

Generally, in all schools financial recording is very poor. Recording systems are very haphazard and there are no corresponding source documents for many of the transactions. One area that has been identified is a lack of proper recording of cash paid into the school. In many instances money paid in the form of cash to the school is not banked at all or part of it is used to pay for minor school expenses. Also what was picked up was that deposit slips do not tally with the receipt book. Deposits are therefore not monitored properly. Generally all four schools do not balance and do not reconcile their books at the end of the month.

4.5 INTERVIEW WITH THE COORDINATOR FOR NORMS AND STANDARDS OF SCHOOL FUNDING.

An interview was held with the district coordinator for the school funding programme. Interaction with this office revealed the following findings.

4.5.1 BUDGETING PROCESSES IN SCHOOLS

The coordinator for Norms and Standard for school funding confirmed that though schools are required to submit their budgets to the office of the Norms and Standards for school funding; only 123 schools had submitted their budgets to the District for the 2010 financial year. For 2009, 198 schools submitted their budgets. The practical involvement of the governing bodies in developing school budgets could not be ascertained although all the chairpersons of the school governing bodies and the school treasurers were exposed to basic financial management training in 2009.

4.5.2 MONITORING

Schools are expected to submit quarterly returns which indicate the amount of budget they have spent as well as the relevant expenditure items. These quarterly returns are not analyzed by the district; upon receipts from schools they are sent to the Provincial Office and there is no feedback on any of the issues. Circuit managers lack the expertise to give support and conduct monitoring in some issues of financial management.

4.5.3 CAPACITY OF SCHOOLS

There is no process of evaluating the capacity of schools to manage their own finances before the Section 21 status is awarded. Forms are distributed to schools and upon return there is no adjudication process to evaluate capacity. The awarding of the Section 21 status by the department is used as a way of escaping the district's own inefficiency in procuring goods and services for Section 20 schools. For 2009 the district had 139 Section 20 schools and this office was able to procure services for only 48 schools. This resulted in large amounts of money which were not utilized and had to be returned by the district to the provincial office. Of the 139 schools that were in Section 20, one hundred and thirty three of those have been pushed to Section 21 status. For 2011, there are only 6 schools who are still Section 20.

4.6 INTERVIEW WITH DEPUTY DIRECTOR FINANCE

An interview was held with the Deputy Director for Finance Section, with the focus on the following:

1. Report by the Auditor General (What challenges were highlighted in the report that relate to financial management in schools?)
2. Identified causes of the challenges highlighted in the report (To what does the district attribute these challenges?)
3. Intervention by the District (What is the District doing in trying to address these challenges? Is there evidence that their intervention is yielding results?)
4. Reported cases of financial mismanagement. (Processes that the district is implementing in identifying and in dealing with cases of financial mismanagement in schools).

4.6.1 COMMENT ON THE REPORT OF THE AUDITOR GENERAL

Most of the challenges identified by the Auditor General were due to poor record keeping and absence of supporting documents leading to unaccounted and fruitless expenditure. Discussions revealed that these issues are still a challenge in schools. A high percentage of schools are failing to submit financial utilization reports.

4.6.2 CONTRIBUTING FACTORS IDENTIFIED

One of the key challenges that were revealed during the discussions was that there was lack of capacity on the part of the school governing bodies to monitor how the school resources were

used. This is in direct contrast to the views of the principals in terms of the capacity of school governing bodies to perform an oversight function. The incapacity of SGB opens an opportunity for some principals to abuse the ignorance of this structure by monopolizing and exerting authority and power for personal gain. Another challenge identified was that some schools operate without a financial administration officer and all the administration of finances is delegated to educators; in such cases financial management systems are not properly institutionalized. Also the lack of proper monitoring by the district was highlighted.

4.6.3 INTERVENTIONS BY THE DISTRICT OFFICE

Training programmes are organized by the department where the school governing bodies are taken through basic knowledge of financial management. Because of lack of funding these development programmes are offered only to the executive members of the SGB during their first year in office as an induction programme. The findings in this regard are that there is little that is being done by the district office to offer support and development to schools in the Eastern Cape.

4.6.4 PROCEDURES FOR DEALING WITH FINANCIAL MISCONDUCT

The District does not have a section dealing with the internal auditing of schools. All cases where misappropriation of funds is suspected are sent to the provincial office. In 2009 the district office referred four cases but none of those have been attended to. In 2010 they referred three cases in the first quarter which also have not yet been responded to. Two of these three cases were reported by the educators of those respective schools, reporting mismanagement of funds by the principal; one case was reported by the parent component of the SGB to the district officer. This means that, unless the Department of Education addresses these gross shortcomings schools will continue to misappropriate and mismanagement public funds.

4.7 CONCLUSION

The application of diverse data collecting methods has enriched and widened the scope of the data collected. This has improved the validity of findings and meaningful interpretations were possible to arrive at. It is evident that effective and efficient management of all school financial systems depends entirely on full compliance to prescribed legislation and policies. This chapter illustrates that there is almost an absolute collapse of proper financial management and

administration systems in the majority of schools. Various challenges have been identified from all the financial management stages which include:

1. Planning stage
2. Implementation stage
3. Monitoring
4. Control.

Both at the schools and at district level there is a need to close the gaps which make the whole system of funding schools vulnerable to mismanagement.

CHAPTER 5

RECOMMENDATIONS AND CONCLUSION

5.1 INTRODUCTION

The findings outlined in Chapter 4 are a testimony to the collapse of financial management systems in the majority of schools in the Mthatha District. As stated in the previous chapter, the majority of these challenges are an indication that many of the Section 21 schools were awarded this status without proper evaluation of the capacity of the school to handle such responsibility. There is an urgent need to remedy this situation so as to improve conditions in which education takes place in this district. In this chapter recommendations are proposed which target critical areas that must be prioritized for intervention. Through this study a consolidated Financial Management System Framework has been developed and recommended for use by schools to evaluate their performance in terms of compliance to apposite financial legislation, policy and financial management procedures and systems.

5.2 RECOMMENDATIONS

Looking at the conclusive findings identified in this study through literature review as well as a field study, the following interventions are recommended as a strategy to improve financial management systems in schools.

5.2.1 ESTABLISHMENT OF INTERNAL AUDIT SECTION WITHIN DISTRICTS

All the principals who participated in the study indicated that their schools do have audited financial statements, but in spite of that the study revealed that some schools are not adhering to appropriate financial management practices. The establishment therefore of an internal support base within districts could be beneficial schools. This would be a section whose responsibility would be to provide governance, guidance and oversight to schools on all issues of financial management. Their role would include periodic evaluation through sampling a certain number of schools in the district on an annual basis. This section would also be responsible for the examination of all information, financial reporting processes and audited statements submitted by schools to check for compliance and variations. Their role should also involve setting broad financial strategies and major policies for schools to promote uniform application of financial regulations and financial management. This section will also be involved in doing preliminary investigations into any identified suspicions or reported cases of financial mismanagement as well as assessing the readiness of schools to be awarded a Section 21 status. This section must be

given powers to recommend disqualification of schools from Section 21 back to Section 20, due to poor performance. This would allow time for schools to be developed and be ready for self managing.

5.2.2 STRENGTHENING OF SUBMISSION OF MONTHLY FINANCIAL REPORTS BY SCHOOL

Submission of monthly financial reports by schools must be strengthened. There is a need to develop a simple user friendly template that would be easily understood by schools. This would also make it easy for the district to analyze these reports and give feedback to schools. This will promote actual interaction and examination of submitted financial information by schools and the then general practice of a mere check on the number of schools that have submitted would be eliminated.

5.2.3 CIRCUIT FINANCE COMMITTEE MEETINGS

The practice of holding finance committee meetings for all sections within the district office must be applied to schools. These meetings can be coordinated by the Internal Audit Section, but for these meetings to be effective Circuit Managers must be fully involved as this would provide them with an opportunity for self development in issues of finance. This would give the Circuit Managers confidence in giving support and in conducting monitoring of schools on financial management issues. These meetings provide an opportunity for schools to present their financial reports as well as reporting on financial management systems they employ in their schools; the creation of such a platform would encourage schools to share best practices for cooperative learning. These meetings can be held once a quarter for each circuit and a report for each school can be compiled. Those quarterly reports would form a basis for a buildup of the analysis of schools' audited financial statements.

5.2.4 CLARITY ON ROLES AND RESPONSIBILITY OF FINANCIAL STRUCTURES

The Department of Education must provide schools with detailed functions of all the various structures involved in school finances. This would limit confusion and strengthen their functionality. As indicated in the findings, schools do not understand the distinct functions of the finance committee as the arm that assists the school governing body to provide financial oversight in as far as financial planning, financial reporting, creation of monitoring of internal controls as well as accountability policies, to those of the procurement committee which deals

with processes of obtaining goods and services. The district must assist schools in drafting job descriptions of each committee.

5.2.5 COMPULSORY SIGNATURE OF A PARENT MEMBER OF SGB ON ALL

CHEQUES

The standard policy set by the Department of Education is that there must be three signatories to a cheque of which any two of those members can sign. As the parents are a bigger stakeholder in terms of their representation in the school governing body, it stands to reason that it would be proper if, on all cheques that are signed the parents are to be involved. The policy on this issue must come up clear to state that from the three signatories required, two must be from the parents' component.

5.2.6 COMPILE POLICY PACKS ON FINANCE FOR PRINCIPALS

There is a need to consolidate all the policies, legislation and procedures of financial management in schools into one policy pack. This would promote application and develop a common understanding of appropriate legislation and policy applicable to schools. This would also serve as a reference document for principals on all issues that pertain to governance, management and administration of finances in schools. This must be updated and amended as new developments or changes in policy occur.

5.2.7 ANNUAL ELECTION OF SGB OFFICE BEARERS

There is a need to advocate to schools to follow proper regulatory measures in as far as the duration of the term of office of an office bearer of a school governing body. At the end of each year the district should conduct advocacy campaigns to all circuits for the election of new executive members to the school governing body. The practice of electing new office bearers of the school governing body must be nurtured in schools so that it becomes a culture and a norm. For this practice to be successful as well as to achieve smooth transition and maintain continuity, capacitation or any form of development in financial management must target the whole component of the school governing body. This would also promote inclusivity and improve the capacity of the SGB members to provide the oversight function.

5.2.8 RECOMMENDED LIST OF AUDITORS FROM THE DEPARTMENT

There is a need for the Department of Education preferably at the level of the Provincial Office to register in its data base a list of all credible auditors who can be recommended to schools to conduct the auditing service. This would help schools to choose credible companies or individuals to carry out the auditing of their financial books. Schools would be in a position to receive realistic and reliable evaluation of their financial performance.

5.2.9 DEVELOPMENT OF A COMMON RECORDING SYSTEM

To provide proper monitoring and support on how schools record their transactions, there is a need to draft a set of specimen of all subsidiary books that are fundamental to the recording of transactions that generally occur in schools. This would improve the maintenance of proper records and make it easy to conduct monitoring because all school would then follow a common system of recording. The use of one common system of recording transactions will increase efficiency for internal control systems. This would also facilitate efficient and effective auditing.

5.2.10 CUSTOMISED TRAINING OF PRINCIPALS AND THE WHOLE COMPONENT OF THE SCHOOL GOVERNING BODY

There is a need to develop a training module which will be used to develop Principals, the school governing body at large and finance committees targeting the under mentioned critical areas. This must be a monitored intervention programme and a comprehensive evaluation must be done during and at the end of implementation.

- Development of financial policies.
- Procurement processes.
- Managing budget.
- Functionality, roles and responsibilities of different financial structures.

5.2.11 PROPER EVALUATION SYSTEMS FOR AWARDING SECTION 21 STATUS TO SCHOOLS

Section 104 of the South African Schools Act, (RSA, 1996) indicates clearly that the Department of Education must establish an objective test which will be used to evaluate the capacity of the governing bodies to handle and account for public funds. There is a need for the Provincial

Department of the Eastern Cape to adhere with this provision, so that only deserving schools should be awarded this status.

5.3 PROPOSED FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

It is quite evident that schools struggle with employing proper financial management systems. The following framework is designed to be a simple and accessible reference for schools in reinforcing their knowledge and understanding of the institutionalization of proper financial management systems. It provides a brief overview of appropriate procedures to be followed when dealing with school finances.

Table 8: Financial Management Systems Framework

FOCUS AREA	FUNCTIONS/ACTIVITIES	REFERENCE
FINANCIAL PLANNING	<ol style="list-style-type: none"> 1. Drafting of the School Development Plan and approval by the SGB. 2. Drafting of the school budget and presentation to parents for approval. 3. Determination of school fees by the school governing body. 4. Allocation of budget per cost item according to indicative percentages prescribed by the Department. 5. Drafting of Procurement Plan. 6. Drafting of budget implementation plan. 	SOUTH AFRICAN SCHOOL ACT, 1996: SECTION 38, SECTION 37(1)
FINANCIAL RECORDING.	Proper maintenance of Financial Records and development of: <ul style="list-style-type: none"> • Daily recording system. • Monthly recording, analysis and a reconciliation system. Proper maintenance of financial	SASA, SECTION 37 (1) CIRCULAR 17 OF 2005 (DOE, EASTERN CAPE)

	<p>recording systems in respect of :</p> <ol style="list-style-type: none"> 1. Cash Book/Cash Journals 2. Petty Cash Book 3. Procurement Plan 4. Deposit Register 5. Commitment Register 6. Audited Financial Statements 	
MANAGEMENT OF RECEIPTS	<p>a) All money received through these various sources must be recorded as income and must be deposited into one school account unless permission is granted by the Head Of Department to transfer funds into another account for a specific purpose or future project.</p> <ul style="list-style-type: none"> • School Fees • Government Subsidy • Proceeds from Tuck shop • Donations received • Asset Disposals • Fundraising projects • Interests from investments • Rentals (Received) <p>b) A receipt to be issued for ALL money received.</p> <p>c) When completing a receipt adherence to the following issues is</p>	SASA, SECTION 42

	<p>important:</p> <ul style="list-style-type: none"> • The date on which money is received • The name of the payee • Differentiation between cheque, cash and direct deposit. • The nature of the income <p>d) Prompt recording in the Receipt Cash Book is made for all money received.</p> <p>e) The total of cash received is deposited into the school account.</p> <p>f) After deposits an entry is made into the deposit Register and a corresponding deposit slip is filled.</p>	
<ul style="list-style-type: none"> • MANAGEMENT OF REQUISITIONS AND PAYMENTS. 	<ul style="list-style-type: none"> • Verification of all requisitions against the budget • Drafting of specification. • Invitation of quotations (three quotations to be solicited for all purchases in excess of R1 000.00) • Placing of orders. • Recording of the transaction in the Commitment Register. • Verification of invoice against the delivery. 	<ul style="list-style-type: none"> • CIRCULAR 17 OF 2005(DOE EASTERN CAPE) • SASA, SECTION 42

	<ul style="list-style-type: none"> • Authorization of payment by principal (signing cheque requisition form). • Verification and filing of all supporting documentation and drawing of a cheque by finance officer. (Cash cheques to be avoided) • Signing of a cheque by two signatories, one of which should be a parent. • Recording of the transactions in the Cash Payment Book/Journal 	
FINANCIAL CONTROLS AND MONITORING.	<p><u>Objectives of financial control</u></p> <ol style="list-style-type: none"> 1. Segregation of duties: The control over school finances must be divided so that no one person is solely responsible for all functions. <ul style="list-style-type: none"> • Approval to spend must be done by the school governing body. • Authorization to pay must be done by the principal. • Verification of documentation must be done by the finance committee. • Recording must be done by the finance officer. 2. Reconcile and balance accounts at the end of each month. 	

	<ol style="list-style-type: none"> 3. At least two people (strictly members of the school governing body) must sign the cheque and one of those to be a parent. 4. Clarity of roles. Ensure clear roles and responsibilities for different stakeholders and committees. Any mismanagement or abuse of funds can easily be traced to a particular person or structure. Avoid any overlaps. 5. Consistency in the application of policy. 6. Election of the new executive of the school governing body for each year must be applied in consistence with the policy. 	
FINANCIAL REPORTING	<ol style="list-style-type: none"> 1. Preparation of monthly utilization Report and submission to the Department. 2. Preparation of quarterly financial Report by the Finance Committee. 3. Presentation of Quarterly Report to the School Governing Body and submission of a copy to the Department. 4. Appointment of 	

	<p>Auditors</p> <p>5. Holding of Annual General Meeting – (reporting on school performance including financial report and presentation of proposed budget for the following year for approval to parents.)</p>	
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5.4 SUMMARY

As indicated in Chapter 1 (Orientation to the Study), the purpose of the study was investigating the extent to which the current management systems employed in schools are in compliance with the relevant legislation and financial policies. The study was evaluative in nature and to develop multiple perspectives and a complete understanding about the research problem, mixed research methods were used which included both quantitative and qualitative research methods. The focus was on Section 21 schools; a sample which represented 21, 3 % of the total population of Section 21 schools in the district of Mthatha was selected.

A literature review study which looked at the legislative frameworks that underpins management of finances in schools was conducted. Subsequent to that, general financial management theory was analyzed in relation to its application to school financial management systems. Raw data which was collected through questionnaires, interviews and document analysis was analyzed and interpreted to formulate findings.

Concrete findings reveal that schools are struggling to institutionalize proper financial management systems. Challenges that schools experience vary from systemic problems to the managerial capacity of the principals. As outlined in the above recommendations, there is an urgent need to employ strategic interventions that are customized to address specific challenges that schools experience. Through this research study, various programmes and intervention strategies which focused on improving financial management systems in schools have been recommended. Implementation of such programmes would lead to a complete overhaul of

school financial systems which would result in improving and strengthening the security of schools' financial resources for optimal provisioning of quality education.

5.5 CONCLUSION

National Norms and Standards for School funding is one of the key mechanisms in education reform introduced by the South African government after 1994. The introduction of this policy has brought about major shifts in the restructuring of the education system through decentralization of authority to school level. This has created a broad based participation in the management of school finances and this new school governance model has brought about greater autonomy to schools in managing resources and democratizing the control of decision making. The success of these school funding reforms depends on the capacity of principals and the school governing bodies in understanding the relevant legislation, policies and procedures of financial management systems that are applicable to schools.

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ANNEXURE: 1

PRINCIPAL QUESTIONNAIRE

INSTRUCTIONS:

- 1. Participation to the study is voluntary.**
- 2. All information supplied will be kept confidential.**

3. Please answer all questions.

PART 1: DEMOGRAPHIC INFORMANTION

PLACE A TICK (X) NEXT TO YOUR APPROPRIATE QUALIFICATION

DIPLOMA	
DEGREE	
SENIOR DEGREE	
DEGREE WITH FINANCIAL MANAGEMENT	

STATE YOUR GENDER

<i>FEMALE</i>	<i>MALE</i>

SCHOOL PROFILE:

STATE YOUR SCHOOL'S CIRCUIT.....

STATE WHICH QUINTILE YOUR SCHOOL FALLS UNDER.

QUINTILE 1	QUINTILE 2	QUINTILE 3	QUINTILE 4	QUINTILE 5

STATE YOUR SCHOOLS TOTAL ENROLMENT:

PART 2

PUT A TICK (X) IN THE APPROPRIATE BOX.

2.1 APPLICATION OF FINANCIAL LEGISLATION AND POLICIES

	YES	NO	NOT SURE
1. Do you understand your mandate as the accounting office in your schools and as laid down in the Public Finance Management Act?			
2. Have you developed effective financial management policies by schools?			
3. Are your systems of procurement compliant to procedures as outlined in Circular 17 of 2005 of the Eastern Cape Department of Education?			
4. Does your School Governing Body have the capacity to perform an oversight function on the management and administration of school finances?			
5. Has your school institutionalized appropriate financial control systems?			
6. Do you follow the budgeting processes as prescribed by South African Schools Act when drawing the school budget?			

7. Do you have access in any of the following documents?		
DOCUMENT	YES	NO
SOUTH AFRICAN SCHOOLS ACT, 1996		
Public Finance Management Act of 1999		
Circular 17 of 2005 on Procurement		
Circular 58 of 2009 on Guidelines on allocation of subsidies.		

2.2 PROCEDURES AND SYSTEMS FOR FINANCIAL MANAGEMENT**(MAKE A TICK IN THE APPROPRIATE COLUMN)**

	Yes	No
8. Do you keep and maintain the following financial records?		
• Cash Book/Cash Journal		
• Petty Cash Book		
• Deposit Register		
• Commitment Register		
9. Does your school have more than one bank account?		
10. Do you hold annual general meeting for financial reporting to parents?		
11. Does your school have a finance committee?		
12. Does your school have a procurement committee?		
13. Do you have a data base of the service providers that you use when acquiring goods and or services?		
14. Is there a drafted rotation plan that is used for awarding tender		
	YES	NO
15. Did you schools produce Audited Financial Statements for 2010 financial year?		
16. Do you elect the executive committee (Chairperson, Treasurer, and Secretary) of the SGB at the end of each year?		

MAKE A TICK IN THE APPROPRIATE COLUMN

Who in your institution is responsibility for:	SGB Chairperson	Finance Committee	Principal	Procurement Committee
17. Drawing up the school				

budget				
18. Drawing a finance policy				
19. Approving of service providers				
20. Authorization of a payment				

MAKE A TICK IN THE APPROPRIATE COLUMN

	Never	Sometimes	Always
21. Do you ever have to issue cash cheques when effecting payment?			
22. Do you reconcile your books at the end of each month?			
23. Do you bank all cash received before it is used?			

2.3 EXPOSURE TO FINANCIAL MANAGEMENT TRAINING**(MAKE A TICK IN THE APPROPRIATE COLUMN)**

24. HAVE YOU EVER RECEIVED TRAINING IN ANY OF THE FOLLOWING FINANCIAL FIELDS?	YES	NO
BUDGETING PROCESS		
COMPILING FINANCIAL RECORDS		
PETTY CASH MANAGEMENT		
FINANCIAL CONTROL		
DEVELOPING FINANCE POLICY		

25. State any area or field of financial management in which you require training on.....
.....
.....

ANNEXURE: 2

FOCUS GROUP DISCUSSIONS WITH SCHOOL FINANCE COMMITTEES

GUIDING THEMES:

The focus of the questions for the finance committees were consolidated under the following themes:

(a) School Strategic Planning:

- Availability of the School Development Plans
- Process followed in drafting School Development Plans.
- Relationship between the School Development Plans and the School Budget.

(b) Budgeting Process:

- Parties or stakeholders involved in drawing school budget.
- Steps involved in drafting and finalizing the school budget.

(c) Functionality of Financial Management Structures.

- Different structures involved in managing school finances.
- Roles and responsibilities.

(d) Procurement Procedures:

- Policies, and procedures that guide procurement processes

ANNEXURE: 3

INTERVIEW WITH DEPUTY DIRECTOR FOR FINANCE

1. Report by the Auditor General (What challenges were highlighted in the report that relate to financial management in schools?)
2. Identified causes of the challenges highlighted in the report (To what does the district attribute these challenges?)
3. Intervention by the District (What is the District doing in trying to address these challenges? Is there evidence that their intervention is yielding results?)
4. Reported cases of financial mismanagement. (Processes that the district is implementing in identifying and in dealing with cases of financial mismanagement in schools).

ANNEXURE 4

The focus of the interview with the coordinator for Norms and Standards for School Funding was on the following areas:

1. Budgeting Processes in Schools.
2. District monitoring systems.
3. Processes followed when awarding Section 21 status to schools.
4. Capacity of the Principals as financial accounting officers
5. Capacity of school governing bodies to perform the oversight function.

ANNEXURE 5

Enquiries: MAKRWEDE F.
Tel : 047 – 5024327
Cell : 073 353 3474

P.O. BOX 52951
MTHATHA
5099

19 April 2011

The District Director
Department of Education
Mthatha District
5099

RE: REQUEST TO CONDUCT A RESEARCH STUDY IN THE MTHATHA SECTION 21
SCHOOLS

Sir,

I, FUNDISWA MAKRWEDE forward this request to your office asking permission to conduct a research study in your district. This is in fulfillment of the requirements for the degree in Masters of Public Administration at the University of Stellenbosch.

The study will target Section 21 schools. Participants to the study will include principals and school finance committees. The focus of the study is to obtain information on whether schools have institutionalized proper financial management systems in the utilization of Section 21 funds. The aim is to identify gaps; to investigate causes and to suggest possible interventions. The findings of this study will benefit the Department in profiling challenges that are faced by these schools so as to enhance planning for monitoring and support programmes.

Thank you.

Yours faithfully
MAKRWEDE F.