Exploring the level of understanding by governing body about financial reporting: A case study of five selected public schools in uMgungundlovu District, KZN

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ABSTRACT

This study sought to explore the level of understanding by governing body about financial reporting by adopting a case study of five selected public schools in uMgungundlovu District, KZN. The main aim was to develop policy framework that can be used by governing bodies to understand the financial reporting procedure. Corruption Watch reported cases of mismanagement of funds in South African public schools. There is, however, a gap in research regarding the level of understanding by governing body about financial reporting. To collect detailed and meaningful data, a qualitative research approach based on the interpretivism paradigm was used. To collect data, semi-structured interviews in the form of a narrative inquiry were employed. The data from participants were analysed using thematic analysis in this study. Fifty participants were interviewed from five selected public schools. The study found that most of the school governing bodies lack financial knowledge and practical training regarding the procedure to follow when reporting to Department of Basic Education. The study further, revealed that principals are the one who selects the independent auditors on behalf of governing bodies. The study recommends that each district should have an audit committee. Furthermore, the financial training of governing bodies should be done on monthly basis, to circumvent mismanagement of funds and promote accountability.

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Introduction

Financial reporting focuses on annual financial statements and performance. Financial reporting can be a solution to improve accountability (Morros, 2016). Financial reporting can be defined as a framework to promote governance by stakeholders (Martinez, 2016). Additionally, a financial report should present the organization's position. This should include financial reporting and governance issues as reported by (Adams and Simnett, 2011). Post-1994 South Africa has taken a new dimension to cater for public schools, the legal framework for the funding of education in South African public schools.

The advent of South African schools Act 84 of 1996 and the Public Financial Management Acts (PFMA) (1999), provide guidance of how funds should be governed, to improve school governance by the SGBs, principals and department officials. Although the Public Finance Management Act (PFMA) has no direct bearing on schools, the Department of Basic Education applies certain sections of the PFMA to prescribe by MEC on how schools should manage allocated funds.

Furthermore, these acts emphasize the importance of school finance management as the cornerstone of school growth; these acts encourage all stakeholders to be effective and efficient. Globally, governing boards are the cornerstone in managing school money, as they are in South Africa, where school governing bodies are responsible for internal management of school funds.

The Department of Education in the United Kingdom (2015) states that public school financial reporting is managed by the SGBs and are fully accountable for the school’s funds. SGBs ensure that the control expenditure and preparation of the financial statements
is done and reported back to the department of basic education. Comparatively, in South Africa the onus of financial reporting lies with the DBE in terms of proper monitoring (SASA section 21and 34-44).

With all financial reporting guidelines, cases of irregularities and lack of proper public financial accountability in public schools continues to be a challenge. Corruption Watch (2015) reported on school governance to all the 9 provinces. This includes 37% of school financial mismanagement, 20% theft of school funds, 13% tender corruption, 9% employment corruption 3% theft of goods this includes school feeding schemes.

Furthermore, 1128 cases of school corruption were report from DBE across the country (Corruption Watch annual report; 2014; 2015; 2016)

According to reports gathered by Corruption Watch (2016), principals are the primary perpetrators of corruption in schools. Corruption Watch observed in its 2016 annual report that schools were implicated in 1,431 more than a quarter of the 4,391 instances brought to it from throughout the country. According to Corruption Watch's study, 55% of complaints indicated that the principals was the major perpetrator, while 14% of complaints indicated that principals and school governing body (SGB) members collaborated in corrupt actions. The major kinds of corruption were theft of school money and financial mismanagement, which accounted for 29% and 28% of accusations, respectively. In Gauteng accounted for 37% of all complaints of school corruption. KwaZulu Natal had the second highest number, with 12% of corruption allegations received. Between 2009 and 2014, the Gauteng Department of Education (GDE) conducted forensic audits of over 150 Johannesburg schools, although the results of those audits have yet to be made public. The schools were audited to look at suspicions of financial irregularities involving SGBs and principals.

This research aimed to examine the governing body's comprehension of financial reporting by conducting a case study on five public schools in the uMgungundlovu District of KwaZulu-Natal province. The major purpose was to build a policy framework that governing bodies can use to comprehend the process of financial reporting. Reports from Corruption Watch indicate that there were cases of mismanagement of finances in South African public schools. However, there is a lack of research on the extent to which regulating bodies understand financial reporting information. A decision was made to utilise a qualitative research methodology rooted on the interpretivism paradigm to gather comprehensive and meaningful data. To collect data, we conducted semi-structured interviews that followed a narrative inquiry approach. In this study, the data acquired from the participants underwent thematic analysis. Fifty participants from five distinct public schools were interviewed for this study.

**Literature Review**

Studies were conducted on financial management and accountability of SGBs in South African public schools and revealed that they lack internal control as reported by (Maile, 2002; Mbatsane 2006; Mestry 2006; Mestry & Naidoo 2009). Corruption Watch (2016) reported the mismanagement of funds in schools across the country. The following information was highlighted in the 2014 and 2015 Corruption Watch reports that over 1 000 cases of corruption in schools had been reported since 2012 and Schools’ corruption constituted 20% in 2014 and 16% in both 2015 and 2016, which was the highest number of all corruption cases reported. The following information was taken from the 2014, 2015 and 2016 Corruption Watch annual reports. According to the annual report released by Corruption Watch (2016), Gauteng had the highest number of corruption cases reported, where about 22% of corruption cases were reported in 2014 and 2015, and the percentage increased to 37% in 2016 and KZN had 28% and increased to 32%. The Northern Cape and Northwest had fewer cases reported.

Moreover, circular M3 of 2017 from the DBE affirm that 37% were related to financial mismanagement in South African public schools as reported by (DBE, 2017). In addition, Rangongo (2016), DBE (2017), Mestry (2018), Koppeschaar (2018), Hlongaane (2019) and Odile (2021) theorise that the root causes for mismanagement in South African public schools includes insufficient documentation, inaccurate financial statements prepared and examined by accounting officers, theft of assets, collusion between principals, SGBs and auditors, poor internal control for compliance with SASA, no accounting manuals in place, lack of segregation of duties between bookkeepers and auditors and changing of the audit opinions. They further indicate that SGBs are changing the audit opinions, and the DBE cannot detect anything wrong in the financial statements this was supported by (DBE, 2017). The study calls for integrated financial reporting framework.

The researcher agrees with Koppeschaar et al. (2018:12) that alternative financial reporting is needed in South African public schools. This study addresses integrated reporting by SGBs. Surprisingly, despite all the guidelines formulated by the Department of basic Education, malpractice is still a challenge as reported by (DBE, 2017 & Corruption Watch, 2021). In addition, the policies developed by the MECs are unproductive base above cases of mismanagement of funds in South African public schools and does not address financial reporting framework by SGBs as reported by (Colditz et al. 2017:76). Furthermore, the Department of Basic Education rely on the independent auditor report, if schools are utilising school funds correctly as reported by (DBE, 2017). Given this gap in existing literature with regards financial reporting framework, the problem statement of this study is that little is known about how integrated financial reporting can improve accountability in South African public schools.

**Theoretical Framework**

The theoretical framework is a cornerstone for the whole thesis theory test. This study adopts a model and a theory as a framework to guide the study. The Financial Decision-Making Model by Newcombe, McCormick and Sharpre (1997) and accountability theory...
by Tetlock (1999), Carrington, DeBuse and Lee (2008). EBSCOhost database revealed that 459 papers from 2009 to 2022 adopted The Financial Decision-Making Model and accountability theory. The researcher analysed these 459 papers and research focus was on financial management in public schools. The model and theory were chosen for this study based on the literature and observations of the researcher. A study done by Aina and Bipath (2020) on School financial management: Insights for decision making in public primary schools used these model and theory.

In addition, Financial Decision-Making Model, and accountability theory it most relevant to financial reporting and promote accountability from one party to another party as supported by (Ntsele, 2014:9). The Financial Decision-Making Model which focuses on the stakeholders in schools with are SGBs, finance committee and principal as supported by (James, Brammer, Connolly, Spicer, James & Jones, 2013:84). It is the above reasons that the theoretical framework and model are well suited to the study because the theory and model address and answer the research questions about financial reporting and accountability as supported by (Spaull, 2013:59 & Landeka 2015:5). The researcher finds this model and theory relevant to the study as it helps the researcher understand the duties and functions of finance committee, governing bodies, and principal cause there are accountable for school funds.

Figure 1: Financial Decision-Making Model Adapted by Newcombe; Source: McCormick and Sharpre (1997).

In the school context, the power and authority of the SGB is to elect the finance committee (Ndou & de Heer Menlah, 2015; Van Rooyen, 2013). The finance committee they are the one that handle the school funds to see the inflow and outflow cash also prepare the budget of school, do all the required financial statements (South African Schools Act, 1996). The school governing body consists of parents, educators, learners and non-teaching staff and they must be nominated in a formal meeting (Beyers & Mohlana, 2015). The SGB are the one who drive the goal of the school and reporting financial position of the school to the relevant (Cebekhulu, 2016). In conclusion, the framework underpinning this study is accountability framework and Financial Decision-Making Model.

Methodology

This study adopted a qualitative research case study methodology. It follows the traditions of the interpretivism paradigm.

Sampling method and sample size

Sampling strategies refers to the methods used to obtain a sample (Creswell and Plano, 2018). Hence, for this study, non-probability sampling methods namely convenience and purposive sampling was adopted. The schools, the population and the sample of the study was selected using both convenience and purposive means. The rationale for using convenience and purposive sampling to select the schools, population and the sample is because the researcher want to gather information from the participants who are affected by the issue under research. The sample size will consist of five section 21 schools and selected convenience and purposeful in uMgungundlovu district.

This study was based in KwaZulu Natal province. The rationale for this, during 2016 to 2022 over 64 cases of mismanagement of school funds were reported by Department of Education in KwaZulu Natal (DOE, 2022). In addition, two schools in uMgungundlovu district, KZN were undertaken for a forensic audit and 1.5 million were misused and 7 million due to the municipality (The Witness, 2022). The research was conducted on selected section 21 schools. In addition, study focus on public schools and cater for all quintile 1 to 5. Schools are divided into quintiles 1 to 5. Quintile 1 and 2 schools are those generally situated in rural and township areas; Quintile 3 schools serve middle class communities, and these schools are declared no fee-paying schools; and Quintiles 4 and 5 are fee-paying schools. Furthermore, reasons for selecting section 21 schools they are funded by DBE and required to submit financial statements to the DBE. Selected schools were located within 20 to 250km from uMgungundlovu district.
Case study

Scholars such as Cresswell (2017) and Schumacher (2006:366) define a case study as an in-depth analysis of the phenomenal. Hence, this study employed a multiple case study design. A multiple case study is about understanding the context of the phenomena (Cresswell, 2015). The rationale of using multiple case study design it’s facilitate a greater scope of analysis as many cases of mismanagement of funds will be analyzed to establish different findings. The benefit of using multiple case studies is it suits any kind of research nature, and each school is case (Yin, 2016). A multiple case study design assists the researcher to develop a better and deeper awareness of the problem as supported by (Yin, 2016).

Data collection

A data collection method refers to the instruments and procedures to be used in a research study. In this study the researcher used interviews to gather data from participants.

Data analysis

Thematic analysis refers to a method of analysing qualitative data through identifying themes or patterns within the data (Clarke & Braun, 2019). In this study the researcher analyses the data by familiarising with the data, creating of codes, searching for themes, reviewing themes, defining, and naming the themes and finally producing a report (Braun & Clarke, 2019). The rationale of using thematic analysis is that it is easy to use.

Findings

This section presents the findings on the Level of understanding by Governing Body about financial reporting by adopting a case study of five selected public schools in uMgungundlovu District, KZN. Pseudonyms were used to protect the anonymity of the participants.

The level of understanding by Governing Body about financial reporting

The findings highlighted that there is lack of basic education, knowledge and understanding in the management of finances by governing bodies in public schools. SGBs lack relevant experience and information of how to manage their school funds. There is a lack of financial policies in public schools, lack of action against culprits, dishonesty and lack of transparency and trustworthiness among the governing bodies.

The SASA provides the discretion of the governing bodies and MECs of education for each province to make its own guidelines. In practice these guidelines are not consistent, and most schools’ financials are prepared according to either ordinary General Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS) for SMEs and specific framework. (Mr. White)

In addition, the financial reporting guidelines were developed as a joint project of the Department of Basic Education (DBE) and the South African Institute of Chartered Accountants (SAICA). In developing these guidelines, consideration was given, and reference made to pronouncements issued by:

1. the Accounting Standards Board (ASB).
2. the National Treasury of South Africa (NT)
3. the International Public Sector Accounting Standards Board (IPSASB);
4. the International Accounting Standards Board (IASB);
5. Provincial Departments of Educations (PDEs); and
6. other organisations that develop financial reporting, accounting and auditing requirements for the public sector. (Mr. Black & Miss. Grey)

The root cause of mismanagement of funds

Findings revealed that root causes for mismanagement in South African public schools includes insufficient documentation, inaccurate financial statements prepared and examined by accounting officers, theft of assets, collusion between principals, SGBs and auditors, poor internal control for compliance with SASA, no accounting manuals in place, lack of segregation of duties between bookkeepers and auditors and changing of the audit opinions by school governing bodies.

The school governing bodies are demotivated to serve as governing body members precisely because there are no remuneration like company’s body members. (Miss Blue)

Mr. Yellow stated that without remuneration in place SGB members will continue to be misled by principal and auditor, most of us we don’t have keen interest regarding school funds ".

Mr. Pick and Mr. Yellow shared the similar view they is a lack of internal control and policies with regard to financial reporting.
Miss Blue believes that legislative reforms were intended to place governing bodies and principals under public scrutiny. She emphasizes that the governing body is put in a position of trust towards a school, and that it is required to operate in good faith, to carry out all obligations and functions on behalf of the school, and to be accountable for the school’s performance and reporting the financial position to DBE.

**Understanding of financial reporting guidelines**

The findings revealed that the SASA provides the discretion of the governing bodies and MECs of education for each province to make its own guidelines. In practice these guidelines are not consistent, and most schools’ financials are prepared according to either ordinary General Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS) for SMEs or in a few cases, an entity specific framework.

The governing body has choice in this regard, but it is important that a framework be chosen prior to engagement with a school financial statement auditor. Framework for preparing annual financial statements is IFRS or IFRS for SMEs Based on the historical cost and accrual concepts were appropriate.

*Most of the financial statements are in English and we can not articulate or comprehend well during our financial meeting.* (Mr. Green)

Miss Brown stated that the financial training is not adequate and do not support us in understanding the financial reporting guidelines, financial training focuses on responsibilities of school governing bodies.

Their point of emphasis was on the School Governing Body the responsibility ensuring the effectiveness of financial control to promote school governance. (Mr. Green and Miss. Brown)

**Discussion**

The findings of this study highlighted that England and South Africa the responsibility of financial reporting is carried out by SGBs (Beckham & Wills, 2016:5). In addition, the SGBs follows financial reporting policies when reporting to the Department of Education and they are a lack of financial training (Beckham & Wills, 2016:5). The researcher analysis the financial reporting policies from Australia, New Zealand and England. Furthermore, schools in Australia, New Zealand and England apply uniform financial reporting policies. Contrast to the SASA, with provision that public schools may use different policies in various provinces. The researcher further argues that there is need of an integrated financial reporting framework that can uniform the reporting to the stakeholders in South African public schools. The SASA and PFMA policies might assist the researcher in developing the recommended integrated financial reporting framework for South African public schools. In addition, the researcher used this policy as a benchmark to develop an integrated financial reporting framework to improve accountability by governing bodies in South Africa. To the best knowledge of the researcher these policies did not cover integrated reporting to improve accountability. Hence, the researcher argues that there is a need of developing an integrated financial reporting framework to assist the governing bodies in promoting accountability. The researcher analysis the financial reporting from other countries to make meaning contribution in literature.

**Conclusion**

In conclusion, the significance of this study is to contribute to financial reporting and public financial accountability by developing theoretical framework on financial reporting structure and auditing procedures of financial statements in public schools. The study seeks to introduce stringent financial mechanism that will give guidelines to the Department of Basic Education and SGBs on how financial reporting should be done from the Department level to schools’ level, to apply the transparency principle. Furthermore, the need monitoring and evaluation committee to monitor public schools’ financial statements quarterly and monitor between independent auditor and school governing bodies.

The research will assist the Department of basic Education to curb the mismanagement and improve accountability in section 21. It is recommended that further research is carried out to explore the issues of financial management, auditing procedures, and reporting rules, as evidenced by the literature. Furthermore, the researcher noticed a vacuum in the literature in which diverse financial reporting regulations in South African public schools exist. To the best of the researcher knowledge, no study has presented an integrated financial reporting structure capable of standard reporting by South African governing bodies.

As a researcher knows information extracted from documents is not sacrosanct and should delve deeper to avert misinformation happening. Data received from documents have their limitations and need to be recognized and documentary material requires careful handling. Documents do not reflect straightforward objective description of social reality. In addition, other limitation of the research is that this research focuses on public schools and excluded private schools.

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