GOVERNMENT NOTICE

MINISTRY OF EDUCATION

No. 263 **21 February 2003**

HIGHER EDUCATION ACT, 1997 (ACT NO. 101 OF 1997)

CALL FOR COMMENT ON DRAFT REGULATIONS FOR ANNUAL REPORTING BY HIGHER EDUCATION INSTITUTIONS

The Minister of Education, hereby gives notice of his intention to publish Regulations in terms of section 41, read with section 69 of the Higher Education Act, 1997. The enclosed draft Regulations relates to the annual reporting of higher education institutions.

Comments from interested parties are invited, and should reach the Department not later than 31 March 2003.

Comments should be directed to the Director-General, Private Bag X895, Pretoria, 0001, for attention: Dr S Boshoff (e-mail: boshoff.s@doe.gov.za, fax: +27 12 323 7532).

The name, address, telephone number and fax number of the person, governing body or organisation responsible for submitting comments must also be provided.

PROFESSOR KADER ASMAL, MP
MINISTER OF EDUCATION

DEPARTMENT OF EDUCATION
HIGHER EDUCATION

DRAFT REGULATIONS FOR

ANNUAL REPORTING
BY
HIGHER EDUCATION INSTITUTIONS

THESE REGULATIONS COMPRISE THE SPECIFICATIONS FOR ANNUAL REPORTING BY ALL TECHNIKONS AND UNIVERSITIES

DEPARTMENT OF EDUCATION

2002
REGULATIONS FOR ANNUAL REPORTING: HIGHER EDUCATION INSTITUTIONS

Preface

Purpose

The primary purpose of these regulations is to define the standards for the content of the annual report of a higher education institution to the Minister as prescribed in terms of section 42 of the Higher Education Act, 1997 (Act No. 101 of 1997), as amended.

Acknowledgements

A number of individuals have contributed to the contents of the manual. Special appreciation is registered for the assistance received from –

- Mr Ian Lewis of the Higher Education Funding Council of England;
- Professor G Everingham of the University of Cape Town;
- Mr Suresh Kana and his staff in the technical division of PriceWaterhouseCoopers (South Africa);
- Emeritus Professor M D F Steele, a retired member of the Accounting Practices Committee and the Accounting Practices Board of the South African Institute of Chartered Accountants;
- Mr I Thomson of KPMG;
- Mr T Wixley, a retired senior partner of Ernst & Young; and
- Members of the finance committees of the South African Universities' Vice-Chancellors' Association (SAUVCA) and the Committee of Technikon Principals (CTP).

Permission to reproduce the following is acknowledged:

- sections on "financial policies" and "notes to the financial statements" from the document "Illustrative Higher Education Institution Financial Statements", prepared jointly by staff of PriceWaterhouseCoopers and the Finance Committee of the CTP, and

- a paper prepared by Professor A Watson of the University of Cape Town – "Identifying control, joint control and significant influence relationships".

MANUAL FOR ANNUAL REPORTING BY HIGHER EDUCATION INSTITUTIONS

CONTENTS

CHAPTER 1
INTRODUCTION

1.1 Defining objective

Public higher education institutions (HEIs) enjoy considerable autonomy. This autonomy makes it important that the structures of governance and management of these institutions account to both internal and external stakeholders in a consistent and prescribed manner. The developments in Annual Reporting and the emphasis on "harmonisation" both nationally and internationally, require that Annual Reporting should comply with generally accepted practice.

These regulations provide a framework for Annual Reporting by public HEIs aimed at ensuring minimum standards of reporting by governance structures and by management; and financial reporting according to South African Generally Accepted Accounting Practice. The regulations constitutes the determination of the Minister of Education in terms of section 41 of the Higher Education Act, 1997 (Act No.101 of 1997), as amended.

Conditions confronting higher education institutions have become more demanding on good management over the past two decades. Constantly dwindling opportunities for acquiring essential resources and, in recent years, increasing competition among public higher education institutions and from a growing sector of private higher education institutions, are but a few examples of factors that have contributed to a new and challenging environment.

The demands on higher education institutions to adopt the best financial and general management practices under these increasingly difficult economic conditions are largely dependent on the availability of excellent financial and other relevant information in accordance with best practice in the private sector. **(King II: 18-20)**

The Council and the Vice-Chancellor/Principal/Rector of a university or a technikon are responsible for initiating measures to: **(King II: 46-70)**

i provide resources of the right quantity and quality and at the right price (economy)
ii achieve the optimal balance between outputs of products, services and other activities and resources used to produce them (efficiency)
iii achieve policy objectives, operational goals, and other intended effects (effectiveness)
iv ensure that all activities are conducted according to accepted standards of commercial and social morality (ethically) and in accordance with relevant legislation.

The promotion of economy, efficiency, effectiveness, and ethical behaviour in accordance with relevant legislation, depends on adequate management measures for, *inter alia*, the planning, budgeting, authorisation, control and evaluation of the procurement and utilisation of resources. It is the responsibility of a Vice-Chancellor/Principal/Rector, through the executive management team, to institute these management and operational measures. It is the responsibility of Council to ensure that an institution's management and administration function accordingly.

To meet the challenges of a changing South Africa, higher education decision-makers are forced to look ahead for a decade and beyond, in an endeavour to anticipate the demands of a changing environment and the way in which they should plan to satisfy these demands. It has, therefore, become urgent to simplify the HEI information systems and to switch to a more flexible financial planning and reporting process to enable the managements of HEIs to budget, allocate and employ their financial resources with the minimum of restrictions.

The Higher Education Act requires institutions to report on their general - specifically including the financial - condition (section 41). In such reporting institutions need to comply with relevant standards of accountability for their governance and management as required in the King Report on Corporate Governance - 2002 and in their financial reporting as codified in the South African Statements of Generally Accepted Accounting Practice (GAAP).

However, the form of presentation of an Annual Report is adapted from what is in general use in the private sector in order, *inter alia,* to acknowledge the identification of separate purposes for which funds are held and used in higher education institutions.

1.2 Accountability (King II: 7-20; 135-141)

Individuals or groups of individuals that assume fiduciary and/or managerial responsibilities by means of delegated mandates incur an absolute responsibility to give a regular account of the results of exercising those delegated powers. In discharging this obligation it is essential that this form of reporting is not restricted to events, facts and achievements in abstract terms but provides the means whereby these can be assessed and measured against projected outcomes, plans and targets.

In South African higher education institutions the following delegated powers and responsibilities are provided in terms of the Higher Education Act:

The constituted Council - Governance
The constituted Senate – Academic affairs
The appointed Vice-chancellor/Principal/Rector – Management/administration.

It thus follows that each of these has the obligation to account for actions performed under his or her respective mandates. By law they are required to provide such account to the state through the Minister of Education and by accepted practice to report to other stakeholders that would normally include staff and students of the institution, its donors and alumni and members of the community in which it is located.

The requirements to report on the structures and the achievements of governance, academic affairs and general management/administration, as indicated above, and on the financial condition, have become the norm for Annual Reporting for HEIs. These regulations contain, therefore, the required standards of content and formats of such Annual Reports.

1.3 Objectives of regulations

The governance, management and financial reports must reflect the extent to which an institution's objectives have been achieved as well as showing that the structures of governance and of management/administration conform to accepted norms.

Financial statements and supporting data have been designed primarily to provide the means of assessment of financial stability and performance. Quantitative, largely financial, data are measures of this. Financial data and derived indicators must, however, inter-relate with other non-financial data required from HEIs in order to assist those who prepare and those who use those data in planning and decision making. The definition of standardised financial reporting requirements serves to facilitate communication between providers and users of that information. These regulations set out to achieve that by-

- Describing formats and the principles, practices and definitions associated with reporting formats illustrated in these regulations, as well as providing examples of the format and the content for the preparation of various reports and statements.

- Describing financial accounting recording principles and practices associated with higher education requirements to maintain separately identifiable records for funds received for specified purposes and for the expenditure of those funds.

- Providing examples of "performance and status" indicators required as part of annual financial reporting requirements.

CHAPTER 2

STANDARDS AND STATUTORY REQUIREMENTS FOR ANNUAL REPORTING BY PUBLIC HIGHER EDUCATION INSTITUTIONS

2.1 Legal requirements

Sections 20, 40 and 41 of the Higher Education Act, 1997 (Act No. 101 of 1997), as amended, prescribe the following:

2.1.1 Alienation of immovable property

Section 20 of the Higher Education Act prescribes that any form of alienation of immovable property by any technikon or university must have the prior approval of the Minister of Education.

2.1.2 Borrowing for and acquisition of immovable property

Section 40: Funds of public higher education institutions

(1) The funds of a public higher education institution consist of-

(a) funds allocated by the Minister in terms of section 39;

(b) any donations or contributions received by the institution;

(c) money raised by the institution;

(d) money raised by means of loans and overdrafts;

(e) income derived from investments;

(f) money received for services rendered to any other institution or person;

(g) money payable by students for higher education programmes provided by the institution, but the council may discriminate in a fair manner between students who are not citizens or permanent residents of the Republic and students who are citizens or permanent residents of the Republic when the amount payable is determined;

(h) money received from students or employees of the institution for accommodation or other services provided by the institution; and

(i) other receipts from whatever source.

(2)(a) Subject to paragraph (b), a public higher education institution may only with a resolution of its council, not taking into account any vacancy that may exist, enter into a loan or an overdraft agreement.

(b) A resolution contemplated in paragraph (a) must be approved by the Minister if the sum of the borrowings it authorises plus the borrowing previously approved but not yet taken up, plus the institution's short-term and long-term debt at that date exceeds --

(i) such amount as the Minister has determined for such institution; or

(ii) in the absence of such determination, five per cent of the average income of the public higher education institution during the two years immediately preceding the date of such resolution.

(3)(a) Subject to paragraph (b), a public higher education institution may only with a resolution of its council, not taking into account any vacancy that may exist, embark on any –

(i) construction of a permanent building or other infrastructure development;

(ii) purchasing of any immovable property; or

(iii) long-term lease of immovable property.

(b) Any action contemplated in paragraph (a) must be approved by the Minister if the value of such development exceeds five per cent of the average income of that public higher education institution received during the two years immediately preceding such action.

2.1.3 Records to be kept and information to be provided

Section 41: Records to be kept and information to be furnished by council

(1) The council of a public higher education institution must, in the manner prescribed by the Minister-

(a) keep records of all its proceedings; and

(b) keep complete accounting records of all assets, liabilities, income and expenses and any other financial transactions of the public higher education institution as a whole, of its substructures and other bodies operating under its auspices.

(2) The council of a public higher education institution must, in respect of the preceding year and by a date or dates prescribed by the Minister, provide the Minister with such information, in such format as the Minister prescribes.

2.2 Annual Report (King II: 7-20; 49-50; 91-101; 147-151)

2.2.1 Annual Report must comprise:

- REPORTS AND STATEMENTS ON GOVERNANCE AND REPORTS ON OPERATIONS
- ANNUAL FINANCIAL REVIEW
- REPORT OF INDEPENDENT AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS
- CONSOLIDATED FINANCIAL STATEMENTS
- REPORT OF INDEPENDENT AUDITORS ON THE SUPPLEMENTARY FINANCIAL DATA AND FINANCIAL PERFORMANCE INDICATORS
- SUPPLEMENTARY FINANCIAL DATA AND FINANCIAL PERFORMANCE AND STATUS INDICATORS

The minimum content of each of these six sections is prescribed. Details are given in the following chapters, together with examples.

2.2.2 Compliance with recommendations of the "King Report on Corporate Governance for South Africa – 2002"

The Council, in respect of its governance, and the Executive Management, in respect of its management and administration, must ensure that the institution for which they are responsible complies, as far as is relevant to higher education institutions, with the content and recommendations of the **King Report on Corporate Governance**

for South Africa – 2002. References to certain, although not all, applicable pages of the King Report will be made in appropriate sections of these regulations.

2.2.3 Annual financial statements component of the Annual Report: Compliance with South African Statements of Generally Accepted Accounting Practice (GAAP) (King II: 42-45; 135-137)

Financial statements should fairly present the financial position, financial performance and cash flows of the institution. Compliance with South African GAAP, and in terms of the Higher Education Act, 1997 (Act 101 of 1997 as amended) will normally achieve "fair presentation".

Compliance with South African GAAP requires compliance with the provisions and requirements of each of the applicable statements of generally accepted accounting practice and with the relevant approved interpretations.

Financial statements that do so comply will disclose this fact. The extent to which the financial reporting requirements for HEIs are adapted to acknowledge the particular requirements within Higher Education should be noted.

2.2.3.1 Concepts of Generally Accepted Accounting Practice (GAAP)

"The objective of financial statements is to provide information about the financial position, performance and changes in financial position of the enterprise that is useful to a wide range of users in making economic decisions" **(See AC000.12 "Framework for..."; a framework approved for issue by the Accounting Practices Board of the SAICA)**

There are two fundamental underlying assumptions in the presentation of financial statements and governance and management reports-

(i) the effects of transactions and other events are recognised as they occur and not as cash or cash equivalent is received or paid. This is known as the "Accrual Basis"; and

(ii) financial statements and other reports are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. This is known as the "Going Concern" assumption.

There are some "qualitative" characteristics of these statements and reports. These are:

- ***Understandability***: Given the assumption of a reasonable knowledge of corporate and economic activities and accounting terminology as well as a willingness to study the information with reasonable diligence, financial statements and reports should be readily understandable by users. In this connection the fundamental concept of "matching" items of expenditure against relevant items of income must be applied. However, the application of the concept does not allow the recognition "of items in the balânce sheet that do not match the definition of assets or liabilities" (AC101.27).

- *Relevance*: The information presented has the quality of relevance when it influences the economic decisions of users by helping them evaluate the past, present or future events or confirming, or correcting their past evaluations.

- *Materiality*: Information is material if its omission or misstatement could influence economic decisions of users taken on the basis of the financial statements.

- *Reliability*: Depends on -
  (a) Faithful representation
  (b) Substance over form (substance and economic reality take precedence over "legal form")
  (c) Neutrality (free from bias)
  (d) Prudence (in dealing with inevitable uncertainties in the preparation of the statements, realistic caution should prevail)
  (e) Completeness.

- *Comparability*: The bases of preparation should enable comparative evaluations of different enterprises and of the same enterprise over time. This is reliant on the application of the concept of consistency in preparation over time.

There are constraints on the presentation of relevant and reliable information. These relate to the "timeliness" in which the information is presented; the balance between "benefit" and "cost" in respect of the cost of providing the particular information; and the situations in which it is necessary to balance the various "qualitative characteristics".

Finally, financial statements in particular have the essential requirement of presenting a "true and fair" representation of the events covered.

2.2.3.2 Accounting standards compliance

Balance Sheet	AC 101
Income Statement	AC 103, AC 101
Statement of Changes in Equity	AC 101
Cash Flow Statement	AC 118

Inclusion of details of Accounting Policies

Basis of Preparation	AC 101, AC 103
Consolidation – Basis of Incorporation	AC 131, AC 132, AC 409
Income Recognition	AC 111
Investments in Associates	AC 110
Foreign Currencies	AC 112
Financial Instruments: Disclosure and Presentation	AC 125
Recognition and Measurement	AC 133
Goodwill	AC 129
Research and Development	AC 129
Computer Software Costs	AC 129, AC 406
Other Intangible Assets	AC 129
Investments	AC 110, AC 119, AC 132, AC 133, AC 413
Property Plant and Equipment & Impairment of Assets	AC 123, AC 128, AC 135
Accounting for Leases	AC105
Govt. Subsidies and Grants	AC 134, AC 410
Inventories	AC 108
Accounts Receivable, Financial Instruments	AC 101, AC 133
Cash and Cash Equivalents	AC 101, AC 118
Provisions, Contingent Assets, Contingent Liabilities	AC 130
Employee Benefits	AC 116
Other Post-Retirement Obligations	AC 116
Events after Balance Sheet Date	AC 107
Borrowing Costs	AC 114
Joint Ventures	AC 119
Related Party Disclosures	AC 126

2.3 Responsibility for Annual Reports

The Council of a HEI is responsible for the preparation and presentation of the institution's Annual Report and any interim reports including any interim financial statements.

CHAPTER 3

CONTENT AND FORM OF ANNUAL REPORTS

The following is a representation of the content and the form of the Annual Report that each higher education institution is required to present to the Department of Education within six months of the end of an institution's financial year; i.e. a date not later than 30 June each year.

References in bold are to page numbers in the "King Report on Corporate Governance for South Africa - 2002". As indicated on page 5, all HEIs are expected to comply with its applicable recommendations. The various references are for the reader's convenience and are not intended to convey the only content of the Report applicable to HEIs.

3.1 Reports and statements on governance and reports on operations

These statements comprise: (King II: 7-20; 32-41; 91-142)

Report of the Chairperson of the Council
Statement on corporate governance
- Council committees
- Conflict management
- Worker and student participation – co-operative governance
- Code of ethics

Report of the Senate to the Council on teaching, research and extension
Report of the Institutional Forum
Report of the Vice-Chancellor/Principal/Rector on management/administration
Report on internal administrative/operational structures and controls
Report on assessment of exposure to risk and the management thereof.
Annual financial review

3.1.1 Report of Chairperson of Council

This report is the means whereby the Council through its Chairperson discharges part of its statutory duty to account for its actions and achievements in the governance of the institution during the period under review.

This example and those that follow are for guidance only. The respective reports must reflect not only the effect of decisions and actions taken and the influence, both past and present, of these on the institution, but also the effect that these, and possibly other decisions and actions, will have on the institution in the future. In this latter regard the relationship between decisions and actions and the articulated mission, strategies, objectives and plans for the institution should be incorporated in these reports. In the example below and in the examples of the other reports that follow, there are items that are duplicated. How these are to be included in the reports of actual institutions depends on individual style, but this report must reflect only matters relating to governance.

Report of Chairperson of Council would include:

(King II: 24-26; 35-37; 46-67; 176-212)
Developments, academic and other, that influence progress towards the attainment of the mission and objectives of the institution.

- Statement of self-assessment of the achievement of the Council in attaining objectives set for the period under review with summary detail of realised achievements (self-evaluation). A summary of attendance by members at meetings of the Council should be included
- Matters of significance considered by the Council during the period
- Operational information (e.g. *changes in the operational structure – academic and administrative, new senior appointments - academic and managerial, academic/research achievements, Operational sustainability, prestigious awards to staff or students, changes in the permanent infrastructure e.g. new plant and buildings)*
- Achievements in meeting social responsibility commitments, including composition of staff and student bodies
- Financial health/viability, including funding sources and material changes
- In respect of all Council sub-committees, a statement that those with a mandate of strategic or financial significance are chaired by individuals with appropriate skills and experience. In addition, reference should be made to significant matters on the agendas of these committees affecting the institution that are unresolved at the year end or have not come before the Council. Summaries of attendance by members at meetings should be included
- Significant student data and relevant statistics including realisation of transformation targets
- Campus development
- Facilities and major capital works
- Events
- Student services
- Distance learning
- Working with industry
- Significant changes that have taken place

The report is signed by the Chairperson of the Council.

3.1.2 Council's statement on corporate governance

The Council is required to provide an account of its governance by means of a separate corporate governance statement, an example of which appears below, and in which detail of governance structures, responsibilities and procedures, are provided.

Although this statement is not normally signed by the Chairperson of the Council, it must be approved by the Council.

3.1.2.1 Council Committees

(King II: 11-12; 46-72)
The following statement is given to assist readers of the Annual Report to obtain an understanding of the governance structures and procedures applied by the HEIs Council.

The HEI is committed to the principles of discipline, transparency, independence, accountability, responsibility, fairness and social responsibility as advocated in the King Report on Corporate Governance. Accordingly, the Council endorses, and during the period under review, has applied the Code of Corporate Practices and Conduct and the Code of Ethical Behaviour and Practice as set out in the King II Report (**King II: 21-22; 37; 101-106; 221-227**). In supporting these Codes the Council recognises the need to conduct the business of the HEI with integrity and in accordance with generally accepted practices. Monitoring the HEIs compliance with the Code forms part of the mandate of the HEIs Audit Committee.

The External Auditors, *[XYZ & Company]*, reviewed the HEIs compliance with the specific matters in the Code, in accordance with recommendations made in the King Report. They reported that it is appropriate for the Council to make the above statement.

Council

(King II: 22-26; 46-72)
The HEIs Council comprises academic and non-academic persons appointed in terms of the Statutes of the HEI, the majority (at least 60 per cent) of whom are neither employees nor students. The role of Chairperson of the Council is separated from the role of the HEIs chief executive, the Vice-Chancellor. Matters reserved to the Council for decision-making are set out in the Statutes of the HEI, by custom and in terms of the Higher Education Act, 1997. The Council is responsible for the ongoing strategic direction of the HEI, approval of major developments and the receipt of regular reports from management on the day to day operations of its business. The Council meets six times a year and has several committees, including a Remuneration Committee, a Finance Committee, a Council Membership Committee and an Audit Committee (**King II: 28-29; 67-69; 182-212**). All of these committees are formally constituted with terms of reference and comprise mainly members of the Council who are neither employees nor students of the HEI.

Remuneration Committee

(King II: 26-28; 194-200)
The Remuneration Committee's specific terms of reference include direct authority for, or consideration and recommendation to the Council of, matters relating to *inter alia* general staff policies, remuneration and perquisites, bonuses, executive remuneration, members of Council remuneration and fees, service contracts and retirement funds.

Finance Committee

The Finance Committee, *inter alia*, recommends the HEIs annual revenue and capital budgets and monitors performance in relation to approved operating and capital budgets. It is responsible for assuring the financial health of the institution as a "going concern". It is also responsible for ensuring that the accounting information systems and the personnel complement are maintaining the accounting records of the institution in good order.

Planning and Resources Committee

The Planning and Resources Committee is concerned with medium and long term strategic plans, together with providing input for the preparation of the annual budget by the Finance Committee. It is responsible, *inter alia*, for ensuring that all financial implications of both capital development programmes and the annual operating budget, including the implications of resource allocation to strategic activities, are referred to the Finance Committee.

Council Membership Committee

The Council Membership Committee considers nominations for vacancies in the Council membership in terms of the relevant Statute.

Audit Committee

(King II: 34-35; 68; 86-90; 186-194)
The Audit Committee whose chairperson and members are members of Council or are not members of Council but specialists in the field, was established six years ago. Both the internal and external auditors have unrestricted access to the Audit Committee, which ensures that their independence is in no way impaired. Meetings are held at least twice a year and are attended by the external and internal auditors and appropriate members of the executive management. The Audit Committee operates in accordance with written terms of reference, confirmed by the Council, which provide assistance to the Council with regard to:

- ensuring compliance with applicable legislation and the requirements of regulatory authorities
- matters relating to financial and internal control, accounting policies, reporting and disclosure
- internal and external audit policies
- activities, scope, adequacy and effectiveness of the internal audit function and audit plans
- assessment of all areas of financial risk and the management thereof
- review/approval of external audit plans, findings, problems, reports and fees
- compliance with the Code of Corporate Practices and Conduct
- compliance with the HEIs Code of Ethics

NB: Relevant detail of all other Council sub-committees concerned with strategic, policy or financial matters must be included.

3.1.2.2 Conflict Management

A group of individuals has been identified who are professionally qualified and experienced in mediation, arbitration and dispute resolution and are available to the Council to assist in the resolution of any disputes between parties within the institution with the objective of avoiding conflict. During the current year it has not been necessary to call upon their services.

3.1.2.3 Statement on worker and student participation (co-operative governance)

(King II: 8-9; 114-120)
The HEI utilises a variety of participating structures on issues which affect employees and students directly and materially, and which are designed to

achieve good employer/employee and student relations through effective sharing of relevant information, consultation and the identification and resolution of conflicts. These structures embrace goals relating to productivity, career security, legitimacy and identification with the HEI.

An affirmative action programme forms part of the HEIs training programme and business plan.

3.1.2.4 Statement on Code of Ethics

(King II: 221-227)
The HEIs Code of Ethics commits the HEI to the highest standards of integrity, behaviour and ethics in dealing with all its stakeholders, including its Council members, managers, employees, students, customers, suppliers, competitors, donors and society at large. Council members and staff are expected to observe the institution's ethical obligations in order to conduct business through the use of fair commercial competitive practices.

The wording used in the above examples must be adapted to the circumstances applicable to individual institutions.

The above statement must be approved by the Council, but it is not normally signed by the Chairperson.

3.1.3 Senate report to the Council

The report of the Senate will normally contain the following:

- Changes in academic structures
- Composition of the Senate
- Significant developments and achievements in:
  - Instruction e.g. modes of delivery
  - Research
- Composition and size of student body
- Instruction:
  - Limitations on access to certain courses
  - Levels of academic progress in different disciplines and levels of study
  - Awards and achievements
- Research
  - Summaries of various programmes
  - Awards
  - Funding
- Access to financial aid and provision thereof
- Changes in tuition fees charged and financial aid for students

The report is signed by the Chairperson of the Senate

3.1.4 Report of Institutional Forum to the Council

The content of the report will depend on the activities of the Institutional Forum

The report of the Institutional Forum must include all instances of advice sought by and the advice given to the Council by the Institutional Forum. The composition of the Forum should be listed.

The report is signed by the Chairperson of the Institutional Forum.

3.1.5 Report of Vice-Chancellor/Principal/Rector on management/administration
(King II: 53-54)

The report of the Vice-Chancellor/Rector/Principal must address the following:

- The principal managerial/administrative achievements must be measured in terms of the plans, goals and objectives set for the period under review
- Managerial/administrative aspects of the operations of the institution including new senior executive/administrative appointments
- The achievements of the administrative structures and resources, both personnel and systems, should be assessed in terms of realistic expectations
- The adequacy of staffing levels, particularly in critical areas
- The extent to which equity targets in the workplace have been realised
- The quality of information available to management and the administrative processes
- Student services and extra-curricular activities
- Relationships with the community, both academic and service
- Changing patterns in providing academic courses

In addition, there should be included a statement of self-assessment of the achievement of the Vice-Chancellor/Rector/Principal in attaining objectives set for the period under review with summary detail of realised achievements (self-evaluation).

This report should address only matters relating to the management/administration of the institution.

The report is signed by the Vice-Chancellor/Rector/Principal

3.1.6 Report on internal administrative/operational structures and controls

An example of wording that should be adapted by individual institutions relating to "Systems of Internal Control".

(King II: 73-90; 216-220)
The HEI maintains systems of internal control over financial reporting and the safeguarding of assets against unauthorised acquisition, use or disposition of such assets. Such systems are designed to provide reasonable assurance to the HEI and the Council regarding an operational environment that promotes the safeguarding of the HEIs assets and the preparation and communication of reliable financial and other information.

It includes documented organisational structures and division of responsibilities, established policies and procedures, including a Code of Ethics, which are communicated throughout the organisation, to foster a strong ethical climate and the careful selection, training and development of its people.

Information systems utilising modern information technology are in use throughout the organisation. All have been developed and implemented according to defined and documented standards to achieve efficiency, effectiveness, reliability and security. Accepted standards are applied to protect the privacy and ensure control over all data including disaster recovery and "back-up" procedures. Systems are designed to promote ease of use for all users. The development, mainenance and operation of al systems are under the control of competently trained staff.

In utilising electronic technology to conduct transactions with staff and with third parties, control aspects are given close scrutiny and procedures designed and implemented to minimise the risk of fraud or error.

Internal auditors monitor the operation of internal control systems and report findings and recommendations to management and the Council. Corrective actions are taken to address control deficiencies and other opportunities for improving the systems when identified. The Council, operating through its Audit Committee, provides oversight of the financial reporting process.

There are inherent limitations to the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation and the safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances.

The HEI assessed its internal control systems as at *dd/mm/yyyy* in relation to the criteria for effective internal control over financial reporting described in its Internal Control Manual. Based on its assessment, the HEI believes that, as at *dd/mm/yyyy*, its systems of internal control over its operational environment, information reporting and safeguarding of assets against unauthorised acquisitions, use or disposition, met those criteria.

In other matters on the agendas of the Audit Committee there were no outstanding items that exposed the HEI to loss arising from undue material risk.

This section must be prepared for and signed by the Chairperson of the Audit Committee and the head of internal audit.

3.1.7 Report on risk exposure assessment and the management thereof

(King II: 30-34; 73-85; 216-220) **The following note provides the basis from which the statement on risk can be prepared. It identifies the two primary categories of "financial" and "non-financial" risk and the managerial procedures that must be in place in order that a report on risk can be prepared**

3.1.7.1 Identification and assessment of risk

Risk can be defined as "a potential threat or possibility that an action or event will adversely or beneficially affect an organisation's ability to achieve its objectives". Events and actions that are potential risks must be identified and the likelihood of them occurring and their anticipated impact assessed. In every organisation there is the responsibility of balancing opportunities and risks if its economic progress is to be maintained. Risk profiles must initially be controlled within the normal organisational internal control structures and procedures.

Despite these structures and procedures the potential exists that adverse events will occur and will affect the results of normal operations throughout the institution at all levels of activity. It is, therefore, essential that, firstly, the exposure to such specific "risk events" be identified, and secondly, the likelihood of any one of these events occurring as well as its potential impact, needs to be assessed. Finally, and most importantly, an HEI must have identified, through defined responsibility and accountability of management, each risk event, condition or area. There must, therefore, be an established line-function individual/committee with the remit of determining the identification, interpretation/assessment, intervention measures and all aspects of the management of risk affecting the HEI. A resultant "risk register" should be maintained.

The scope of the duties of risk management within the organisation must, therefore be clearly defined. The individual/committee responsible will report to both the Audit and Finance Committees and through it to the Council and the individual or the Chairperson will have unrestricted access to the Chairpersons of the Audit Committee and of the Council and to the Vice-Chancellor/Principal/Rector. It will also be essential to report to other appropriate committees, e.g. "buildings and safety". At least annually the Council should review a comprehensive report on significant risks facing the institution.

There are risks that will have direct financial implications and there are those that will not have immediate direct financial implications. These are differentiated as "financial risks" and "non-financial risks". Eventually, "non-financial risks" may have serious financial implications that will need to be identified.

3.1.7.2 Examples of categories of risk

Financial

Financial instruments:	Liquidity – inability to raise funds
Interest rate fluctuations	Intake – declining student numbers
Unanticipated loss of capital	Fraudulent activities– staff/students/others
Currency and foreign exchange	Credit – non payment of amounts due
Fees increase effects	Inadequate or lapsed insurance cover
Physical disaster – fire, flood	Change – structural
Uncompleted contracts	Change – operational

Non-financial

Competitive attractiveness	Personnel – incompetent staff
Campus unrest	Compliance – laws, procedures
Reputation – damage to image	Country local – political/economic/social
Threats to health and safety	Country foreign – political/economic/social
Operational – process inadequacies	HIV/AIDS

Operational – security inadequacies	Operational – process failures, e.g. information technology

The above lists of categories are nor intended to be all-inclusive and within each category there will be individual circumstances indicative of risk conditions. Owing to individual specificity it will be essential to appoint individuals or groups with the requisite expertise to assess a risk condition and decide on the best intervention, e.g., through insurance or preventive or other measures.

3.1.7.3 Management and control of consequences of risk (intervention and physical/financial control)

All potential risk consequences must be both identified and evaluated and, by management thereof, conditions within which such risks arise must constantly be controlled and monitored. Methods of minimising the adverse consequences must be employed based on cost effectiveness analysis. The risk register must, therefore, be constantly up-dated.

The proper management of such conditions is, therefore, a matter that the governance of an institution must be assured about and on which it must receive reports. A pre-condition for this is that responsibility and accountability for the identification and management of risk events and risk areas have been assigned and managed within the institution.

A report on "risk and risk management" prepared by the risk committee or the responsible officer is included in the Annual Report and signed by the individual or the Chairperson of the Risk Committee or by the Chairperson of the Audit Committee.

This report should describe in general terms any structures in place to assess and to minimise the risk of loss, both financial and non-financial, to the institution. The most significant risks should be identified together with measures adopted to control these within the context of the strategic attitude to risk adopted by the Council and the administration.

3.1.7.4 Example of a section of the report dealing with financial instruments follows: -

(Appropriate wording should be used by individual institutions.)

Financial risks – financial instruments

The financial risks faced by the HEI include interest rate risk, exchange rate risk and credit risk. The HEI borrows at both fixed and floating rates of interest to finance its operations. Some purchase contracts of study materials are entered into in foreign currencies. Credit risk arises when derivative instruments are used or purchases are made on deferred credit terms. Credit risk also arises when amounts are owed to the institution.

The objectives in using financial instruments are to reduce uncertainty over future cash flows arising from movements in interest and exchange rates, and to manage the liquidity of cash resources. The following strategies are employed to achieve these objectives. Interest rate exposures are managed through interest rate swaps taken out with lending banks and foreign exchange forwards are taken out to manage currency risks in future purchases. Decisions on the level of risk undertaken are confined to the management committee that has established limits by transaction type and by counter party.

Trading for speculative purposes is prohibited. Forward foreign exchange and interest rate derivative counter parties are confined to the HEIs principal lending bank, XYZ Bank. Purchases of certain significant capital assets are made using finance lease arrangements. All interest rate derivative transactions are subject to approval by the Director: Finance before execution.

Current policies established by the management committee and which are unchanged from the prior year are:

- To sell forward no more than 75% net foreign currency receipts for the next two years
- To hold more than 50% of total borrowings at fixed rates.

Management of credit, currency and interest rate exposures is the responsibility of the financial controller. Monthly management reports contain details of cost and market value of all financial instruments, including open forward contracts and interest rate swaps. An analysis of exposures against limits established by the management committee is also provided. These limits principally cover the maximum permitted exposure in respect of:

- Foreign exchange transactions
- Finance lease debts
- Floating rate borrowings
- Credit concentrations

The report is signed by the officer/committee with the designated "risk" responsibility and/or by the Chairperson of the Audit Committee

---

3.1.8 Annual financial review - Report of the Chairperson of the Finance Committee and the Chief Executive – Finance (King II: 91-124)

The review should provide an overview of the institution's budget process and indicate the means whereby the process, specifically as regards resource allocation, promotes the attainment of the strategic goals and objectives of the institution and promotes operational sustainability in the foreseeable future. The effect of the budgetary control mechanism in maintaining financial discipline throughout the institution should also be addressed. The review will also address salient features in the financial statements in relation to the financial condition of the institution and the extent to which the achievement of primary strategic objectives are reflected in these statements. There should be a statement to distinguish the financial consequences between the use of assets representing restricted and those representing unrestricted (Council-controlled) funds.

The report is signed by the Chairperson of the Finance Committee and the Chief Financial Officer.

CHAPTER 4

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

4.1 Content of Annual Financial Report component of Annual Report

The report comprises: (King II: 135-137)

- Council's statement of responsibility for the financial statements
- Report of the auditors

The following statements and reports comprise the sections of the Annual Report on which the auditors present an opinion: (Report of the auditors on the annual financial statements):

- Statement of accounting policies relevant to the financial statements
- Consolidated balance sheet
- A consolidated statement showing all changes in funds,
- Consolidated income statement
- Consolidated cash flow statement
- Notes of explanation and elaboration to the financial statements

00389658—C

4.2 An example of a typical Council's statement of its responsibility for the Financial Statements (King II: 38-39; 125-133)

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Council is responsible for the preparation, integrity and fair presentation of the financial statements of the *ABC* Technikon/University.

The financial statements presented on pages *nn* to *nn* of this Annual Report for *yyyy*, have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice as required by the regulations prescribed by the Minister of Education in terms of the Higher Education Act, 1997 (Act No. 101 of 1997), as amended, and include amounts based on judgements and estimates made by the management. The Council has also prepared other information as required to be included in this Annual Report and is responsible for both its accuracy and consistency with the financial statements.

The "going concern" basis has been adopted in the preparation of the financial statements. The Council has no reason to believe that the *ABC* Technikon/University is not a "going concern" in the foreseeable future based on forecasts and available cash resources. The viability of the institution is supported by the content of the financial statements.

The financial statements have been audited by *XYZ & Co.* who have been given unrestricted access to all financial records and related data, including minutes of meetings of the Council and all its committees. The Council believes that all representations made by the independent auditors during their audit were valid and appropriate.

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements on pages *nn* to *nn* of this Annual Report were approved by Council on *dd mm yyyy* and signed on its behalf by:

A. ACADEMIC
Vice-Chancellor

B MONEY
Director Finance

A SHARP
Chairman of Council

The *ABC* Technikon/University
City/Town

4.3 Duties/Responsibilities of the independent auditors

(King II: 38-41; 42-45)
In the Higher Education Act (Act 101 of 1997), as amended, the requirements for Annual Reporting are specified, as is the requirement for the financial statements to be audited by an independent professionally registered auditor. The South African statements of generally accepted accounting practice (GAAP) and the South African statements of accepted auditing standards (SAAS) will be applicable.

4.4 Report of the independent auditors to the Council of a higher education institution

Example of an unqualified report

To the Members of the Council of the HEI

We have audited the accompanying consolidated annual financial statements set out on pages *nn* to *nn* for the financial year ended 31 December 20nn. These financial statements are the responsibility of the HEIs executive management. Our responsibility is to express an opinion on these financial statements based on our audit.

SCOPE

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

AUDIT OPINION

In our opinion, the consolidated financial statements fairly present, in all material respects, the financial position of the HEI at 31 December 20nn and of the results of its operations and its cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Minister of Education in terms of section 41 of the Higher Education Act, 1997 (Act No. 101 of 1997), (as amended).

XYZ & Co.,
Registered Accountants and Auditors
Chartered Accountants (SA)

Date

Address

4.5 The annual consolidated financial statements - Introduction

A set of consolidated financial statements for each individual university/technikon and the entities in respect of which consolidation is required, must be prepared and submitted to the Department of Education within six months of the end of the respective financial period.

A separate set of financial statements for the institution as an entity will be prepared for institutions that require these.

In respect of every set of annual consolidated financial statements the adopted financial policies that were applicable to these statements must be disclosed in order that readers of the statements will be able to understand both the basis and the means of measurement of their content. Whenever a particular accounting policy is changed, the fact that there has been a change must be referenced.

4.6 Statement of accounting policies relevant to the financial statements

Extract of the financial and other relevant policies being applied at a higher education institution and forming part of the Annual Report of that institution. The adoption of these policies is part of the governance responsibilities of its Council

The following are adapted from extracts of relevant financial and other policies from a document prepared and published by PriceWaterhouseCoopers and the Committee of Technikon Principals. [Additions and replacements are included in conformity with the most recent accounting standards' statements and exposure drafts. These were prepared by Prof. A Watson of UCT. *Certain additional information and comments are also included for purposes of clarification*]

These policies are included as examples and guidelines only, both in respect of items that are mandatory, e.g. statements on accounting policies (which are an integral part of the financial statements), reporting on institutional governance and also in respect of items of voluntary disclosure. Therefore, those who prepare financial statements will make use of the terminology and set out of these extracts to suit their particular needs.

The references in the left margin of the statement of financial policies represent the paragraph of the South African Statements of Generally Accepted Accounting Practice (standards) in which the disclosure requirements appear, for example, "AC103.40" indicates AC103, paragraph 40.

The accounting policies and notes to the accounts form an integral part of these consolidated financial statements.

The opportunity has been taken to provide a reasonably full description and a complete set of accounting policies, and certain subjects may not necessarily be applicable to a particular reporting institution; this has been done to assist in the objective of ensuring that this publication is a useful resource. The disclosure of accounting policies for items that may not be appropriate to certain institutions provides a useful resource for other institutions to which these items could well be applicable.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

AC 131, 132 **1 Basis of preparation**

Consolidated financial statements

The consolidated financial statements are prepared in accordance with and comply, to the extent that these are practical for the purposes required, with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Minister of Education in terms of section 41 of the Higher Education Act, 1997 (Act No. 101 of 1997), as amended. The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment, marketable securities and investment properties.

AC 111 **Income recognition**

State appropriations and grants for general purposes are recognised as income in the financial year to which the subsidy relates. Appropriations for specific purposes, i.e., capital expenditure, are brought into the appropriate fund at the time they are available for expenditure for the purpose provided. However, if the funding is provided in advance of the specified requirement, (i.e., the institution does not have immediate entitlement to it) the relevant amount is retained as a non-current liability.

Income received for designated specific purposes will arise from contracts, grants, donations and income on specifically purposed endowments. In all instances any such income is brought to the income statement in the financial period when entitled to and capable to use of those funds. Thus funds that will not be used until some specified future period or occurrence are held in an appropriate fund until the financial period in which the funds can be used, at which time the amount is recognised as income. Prior to that time the amount is appropriately grouped in one of the restricted funds comprising aggregate funds (held in trust).

Tuition fees are brought into income in the period to which they relate and at the time these are formally billed. The income must be recognised as realisable and, to the extent that it is not, provision is realistically be made for the estimated unrealisable amount. Deposits provided by prospective students are treated as current liabilities until the amount is billed as due.

Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the university.

Dividends are recognised when the right to receive payment is established.

Interest, dividends and other income on assets representing endowment and trust funds are credited directly to the respective funds and are transferred to income only in terms of the legal or other appropriate conditions relating to the respective funds.

Income statement: separate activities

The format of the Income Statement is designed to disclose separately:

(i) the utilisation of resources that are under the absolute control of Council
(ii) those for which the utilisation is prescribed in terms of the legal requirements of the providers of such resources
(iii) the provision of accommodation for students and/or staff

AC 131, 132, 409, 412 **2 Consolidation**

Subsidiary entities are those entities over which the HEI has the power, directly or indirectly, to exercise control. All subsidiaries are consolidated, except where control is expected to be temporary or where there are long-term restrictions on the transferability of funds. An entity, not a subsidiary as defined above, the income of which, other than investment income, is intended for the ultimate use of the institution, is also consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the HEI and until they are disposed of or control ceases.

All inter-company transactions, balances and unrealised surpluses and deficits are eliminated. Where necessary, accounting policies for subsidiary companies have been changed to ensure consistency with the policies adopted by the HEI. Separate disclosure is made of the minority interest that is measured at the fair value of the net assets acquired.

(See Appendix B for detailed consideration of the factors in assessing whether an entity is to be included in the consolidation.)

AC 110, 403 **3 Investments in associates**

Investments in associated undertakings are accounted for by the equity method of accounting. These are undertakings in which the HEI has a long-term financial interest and exercises significant interest (but not control) over the financial and operational policies of that company. The HEIs share of post acquisition reserves is recognised in the consolidated financial statements.

The equity accounted profit/loss in the income statement is adjusted for the effect on any fair value adjustments at acquisition, unrealised profits, differences in accounting policies and goodwill amortisation.

AC 119 **Joint ventures**

A joint venture is an entity over which the HEI has contractual joint control. The HEIs interest in a joint venture is accounted for on a proportionate consolidation basis. Under this method, the HEI includes its share of the joint venture's revenue and expenses, assets and liabilities and cash flows in the relevant components of the financial statements on a line-by-line basis

AC 112, 411, 124

4 Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions: gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement in the year in which they arise. Such balances are translated at year-end exchange rates.

AC 133, 125

Forward exchange contracts are entered into in order to protect the HEI from movements in exchange rates. Exchange gains and losses from a forward exchange contract taken out in anticipation of a transaction, are initially recognised in aggregate funds and subsequently capitalised as part of the transaction cost, as they are a cash flow hedge.

All other exchange gains and losses relating to forward exchange contracts or any other hedge transactions are recognised in the income statement in the same period as the exchange differences on items covered by the hedge transactions. Costs on such contracts are amortised over the life of the hedge contract. Gains and losses on contracts that are no longer designated as cash flow hedges are included in the income statement.

AC 125, 133 416, 417

5 Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, trade creditors, leases and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Interest rate swap agreements protect the HEI from adverse movements in interest rates. Any differential to be paid or received on an interest rate swap agreement is recognised as a component of interest revenue or expense over the period of the agreement. Gains and losses on early termination of interest rate swaps or on repayment of the borrowing are taken to the income statement as a component of interest revenue or expense.

Disclosures about financial instruments to which the HEI is a party are provided in the Notes to the financial statements (see page 39).

AC 129

6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the HEIs share of the net assets of an acquired associated undertaking at the date of acquisition. Goodwill on acquisitions occurring on or after 1 January 1995 is reported in the balance sheet as an intangible asset and is amortised using the straight-line method over its estimated useful life. Goodwill on acquisitions that occurred prior to 1 January 1995 was charged in full to an appropriate fund; such goodwill has not been retroactively capitalised and amortised.

Goodwill is generally amortised over its useful life. *[Where goodwill is amortised over a period exceeding 20 years, the HEI should disclose the reasons including describing the factor(s) that played a significant role in determining the useful life of the goodwill.]*

The carrying amount of goodwill is reviewed annually and written down for impairment losses that should be recognised if identified, as the recoverable amount is based on the projected future cash flows and therefore must take into account the longer-term projections. The carrying value used to determine the gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for acquisitions prior to 1 January 1995, any such goodwill previously charged to retained earnings.

AC 129

7 Research and development

Research and development expenditure is recognised as an expense except that costs incurred on development projects are recognised as development assets (intangible assets) to the extent that such expenditure is expected to have future benefits. However, development costs initially recognised as an expense are not recognised as an asset in a subsequent period.

Development costs that have been capitalised are amortised from the commencement of the commercial production of the product to which they relate on a straight-line basis over the period of their expected benefit, but not exceeding five years.

This does not relate to research that is performed on behalf of a third party, but to research that is for the benefit of the HEI and from which it plans to develop some sort of product or patent.

AC 129
AC 406

8 Computer software development costs

Generally, costs associated with developing computer software programs are recognised as an expense as incurred. However, costs that are clearly associated with an identifiable and unique product that will be controlled by the HEI and have a probable benefit exceeding the cost beyond one year, are recognised as an intangible asset. Associated costs include staff costs of the development team and an appropriate portion of relevant overheads.

Expenditure that enhances and extends the benefits of computer software programs beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 3 years.

AC 129 **9 Other intangible assets**

Expenditure on acquired patents, trademarks and licences is capitalised and amortised using the straight-line method over their useful lives, generally over 20 years. Intangible assets are not revalued.
The carrying amount of each intangible asset is reviewed annually and adjusted for permanent impairment where it is considered necessary.

[Where an intangible asset is amortised over more than 20 years, the HEI *should disclose the reasons including describing the factor(s) that played a significant role in determining the useful life of that asset]*

AC 133 **10 Investments**

Investments are divided into three categories:
(i) trading investments
(ii) held-to-maturity investments and
(iii) available-for-sale investments.
Investments exclude entities of which the operating results are included in the consolidated financial, statements, i.e., subsidiary, joint venture and associated entities.

AC 133: 09 Held-to-maturity investments are investments with fixed or determinable payments and fixed maturity. Other than loans and receivables originated by the enterprise, the positive intent and ability of the enterprise is to hold the investment to maturity. These investments are recognised at amortised cost using the effective interest rate method.

AC 133: 70 All investments, other than held-to-maturity investments are measured at fair value without any deductions for transaction costs that may be incurred on purchase or sale or other means of disposal. The fair value of marketable securities is market value. Market value is calculated by reference to Stock Exchange quoted selling prices at the close of business on the balance sheet date. If the fair value of an investment cannot be determined, the investment should be measured at cost if there is no fixed maturity, or at amortised cost if there is a fixed maturity.

AC 133: 20 Trading investments are investments that are part of a portfolio of similar assets for which there is a pattern of trading for the purposes of generating a profit from short-term fluctuations in price.

AC 133: 104(a) Adjustments to the fair value of investments classified as trading investments are recognised in the income statement in the year in which they arise. Trading investments are classified as current assets.

An investment is classified as "available for sale investment" if it is not a trading investment or a held to maturity investment.

AC133: 104(b) Adjustments to the fair value of "available for sale investments" are recognised in the revaluation reserve until such time as the investment is sold, in which case it will be recognised in the income statement.

"Available for sale" investments are classified as non-current assets. Where necessary impairment losses on "available for sale investments" are recognised as a debit to the revaluation reserve to the extent that there is a credit balance relating to investments. Any excess is recognised in the income statement.

Alternatively, if directly related to specific restricted endowment or trust funds, credited/adjusted to the appropriate fund.

AC135 **Investment properties**

Investment properties are held to earn income and appreciate capital value. Excluded are properties used by the HEI, as well as those being constructed or developed for future use.

Investment properties are treated as non-current investments and carried at market value determined annually by external independent professional valuers. Investment properties are not subject to depreciation. Increases in their carrying amount are recognised in the income statement.

AC 123 **11 Property, plant and equipment**

All property (including optionally investment properties), plant and equipment is recorded at cost, except for donations that are valued by external independent valuers, less depreciation.

Depreciation is calculated on the straight-line method to write off the cost of each asset, or the revalued amounts, to their residual values over their estimated useful life as follows:

Buildings	50 years
Vehicles	5 - 10 years
Furniture and equipment	5 - 15 years
Computer equipment:	
Mainframe and networks	4 - 6 years
PC's, notebooks and other	3 - 5 years

Library items, museum and art collections are written off in the year of acquisition.
Land is not depreciated as it is deemed to have an indefinite life.

AC123, AC130 Routine maintenance costs are charged to income as incurred. Costs of major maintenance or overhaul of an item of property, plant or equipment are recognised as an expense, except if the cost had been recognised as a separate part of the cost of the asset, and that amount has already been depreciated to reflect the benefits that have been replaced or restored.

To the extent that the use of an asset is impaired for reason of deferred maintenance, an additional depreciation provision is created by a charge against income, the accumulated amount of which is included in the depreciation deduction to arrive at the carrying value of the asset.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

Interest costs on borrowings to finance the construction of property, plant and equipment that qualify (AC 114), are capitalised during the period of time that is required to complete and prepare the property for its intended use, as part of the cost of the asset.

AC 105

12 Accounting for leases

Leases of property, plant and equipment where the HEI assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated fair value of the leased assets, or, if lower, the present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance charge is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leasing contracts are depreciated over the useful life of the asset.

Leases of assets, under which all risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

AC 108

13 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined by the first-in, first-out (FIFO) method. The carrying amounts of different classifications of inventory are disclosed.

14 Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made and is provided for any receivables that are likely to be irrecoverable, based on a review of all outstanding amounts at the year-end. Actual bad debts are written off during the year in which they are identified.

AC 101

15 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and investments in money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

AC 130

16 Provisions

Provisions are recognised when the HEI has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The HEI recognises the estimated liability on all products still under warranty at the balance sheet date. This provision is calculated on the basis of service histories. Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for accumulated annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date. This latter provision distinguishes between the non-current and the current liability portions.

AC 116

17 Pension obligations

The HEI operates a defined benefit plan, the assets of which are held in a separate trustee-administered fund. The pension plan is funded by payments from employees and by the HEI, taking account of the recommendations of independent qualified actuaries.

The pension accounting costs of the defined benefit plan is assessed using the projected unit credit method. Under this method the cost of providing pensions is charged to the income statement to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries.

The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related liability. The net difference between the expected return on plan assets and the interest factor arising from discounting the obligation is recognised under other operating expenditure. The return on the plan assets and the interest on the interest cost arising from the increase in the obligation as the anticipated payment date is one year closer, will largely offset each other if the amount is funded.

If the benefit is unfunded, like medical aids, this will give rise to an interest cost that will be significant, as it will equal the obligation times the interest rate. There is no specific requirement as to how those amounts are to be treated, but disclosure is required of the line item in which the amount is included. For other types of provisions, this has to be in interest, so consistency implies that the same treatment should apply to the medical aid provision. The other option is that the amount will be included in staff costs. The "current" and "non-current" components of such provisions are separated.

All actuarial gains and losses are spread forward over the average remaining service lives of employees (*An option is not to recognise amounts that fall within a corridor of 10% of plan assets or the obligation, and to recognise only a portion of the balance).*

The HEIs contributions to the defined contribution plans are charged to the income statement in the year to which they relate.

AC 116

18 Other post-retirement obligations

The HEI provides post-retirement health care benefits to their retirees. The entitlement to these benefits is usually based on the employee's remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. Valuations of these obligations are carried out by independent qualified actuaries. The "current" and "non-current" components of such provisions are separated.

CHAPTER 5

EXAMPLES OF ANNUAL FINANCIAL STATEMENTS

5.1 Introduction

The following are the required formats and content of the Balance Sheet, Statement of Changes in Funds, Income Statement and Cash Flow Statement required to be submitted to the Department of Education as determined by the Minister of Education in terms of the Higher Education Act, 1997 (Act No. 101 of 1997), as amended.

ALL AMOUNTS MUST APPEAR AS R'000s (shown to the nearest thousand rands)

5.2 The following must apply in the preparation of the Financial Statements: -

Application of South African Statements of Generally Accepted Accounting Practice:

The financial statements are to be prepared in conformity with the published South African Statements of Generally Accepted Accounting Practice, except where the Minister expressly provides otherwise.

The financial policies included above are illustrative only. HE institutions must comply with the current statements and, as GAAP evolves, must adapt their accounting policies accordingly. It is the responsibility of the designated finance division staff in institutions to read and keep up-to-date with GAAP.

5.3 Income Statement

The statement is prepared on a reporting basis that groups three distinct activity types.

Income and expenditure shown as "Council Controlled" relate to income over which the Council of the institution has absolute legal control and discretion of use. Any funds of "designated income" relate to unrestricted income that the Council has designated for purposes that it defines. Decisions in this regard can always be changed at the discretion of the Council. Such income and expenditure should, therefore, be grouped under the heading: "Council Controlled - Unrestricted Use".

"Specifically purposed income" relates to funds that have been provided in terms of legally enforceable requirements of the purpose for which they may be expended. The Council thus has no discretion/control in this regard. This restriction may result from a contract (e.g. contract research), a condition of a grant (e.g. NRF grant), a bequest (i.e. a testamentary provision in a will), or a condition stipulated in a notarial deed of donation. If the funds received are stipulated as being for an "endowment fund", the income from the respective investment will thus be for a "specifically funded activity".

The special purpose state subsidy for "rates & taxes" is a particular case and will not fall into this category but within the "unrestricted" grouping.

It will be necessary to include in the Notes to the Financial Statements details of the sources of government/state subsidies and grants by source as follows:

National Government	Extra-budgetary Institutions	Social Security Funds
Provincial Governments	Local Governments	
Non-financial public corporations	Financial public corporations	

"Education and General" comprises everything that is not included in "Student and staff accommodation".

"Student and staff accommodation" comprises income and costs relating to specifically funded accommodation for staff and students; plus income and costs relating to catering associated with the respective accommodation. The apportionment of income and/or expenditure may be essential to arrive at the relevant amounts.

"Sales of goods and services" the definition used for the SAPSE system will apply.

"Private gifts and grants" the definition used for the SAPSE system will apply.

(The "SAPSE" (South African Post Secondary Education Information System) is being replaced by the Higher Education Management Information System (HEMIS) but the above original SAPSE definitions will still be applicable for the time being.)

All "Personnel expenditure" must comprise the total cost of "packages" [cost to the institution] plus taxes and statutory levies (such as UIF, Skills Development Levy, Regional Services levies) .

NOTE: It is required to disclose by way of a note to the financial statements the separation of the "Personnel Expenditure" amount as follows:

Remuneration including all bonuses, allowances, leave and medical benefits, including provisions made;
Taxes and statutory levies, separating UIF, skills development levy and regional services levies.

Introduction to consolidated financial statements

The following have been drafted for the sole purpose of **indicating the required content and format** of a set of financial statements for a university or technikon in South Africa for submission to the Department of Education in terms of the Higher Education Act.

They are, however, not illustrations of an exact set of finalised financial statements for every institution. If, for example, an institution does not have an amount for a line item appearing in any of the following statements, that line will not appear on the statement for that institution, and if it has a line item that is considered necessary for separate disclosure, the line item must be included.

THE FORMAT, HOWEVER, IS TO BE FOLLOWED EXACTLY.

5.4

The *XYZ* Higher Education Institution
Consolidated Balance Sheet as at 31 December 20nn (all amounts in R'000s)

	Notes	20nn	20nn	20nn-1	20nn-1
ASSETS			1 312 291		1 192 534
NON-CURRENT ASSETS			1 076 909		1 020 419
Property, Plant and Equipment	1	279 571		286 464	
Intangible Assets	XX	0		0	
Non-Current Investments	2	784 810		724 324	
Non-Current Receivables	3	12 528		9 631	
Student Loans		12 528		9 631	
Other Non-Current Receivables		0		0	
CURRENT ASSETS			235 382		172 115
Inventories	4	6 393		5 324	
Accounts Receivable, Prepaid Amounts, etc.	5	173 196		133 589	
Students for Fees		5 430		6 684	
Other Amounts		167 766		126 905	
Marketable Securities	XX	0		0	
Cash, Bank and Cash Equivalents	6	55 793		33 202	
FUNDS AND LIABILITIES			1 312 291		1 192 534
FUNDS UTILISED/AVAILABLE			1 071 760		989 060
Property, Plant and Equipment (PPE)		194 761		211 730	
Restricted Use Funds		487 819		448 574	
Student Loan Funds		12 528		9 631	
Student Residences Funds		4 257		14 949	
Other – Education and General		504 434		423 994	
Unrestricted Use Funds – Education and General		355 780		328 756	
NON CURRENT LIABILITIES			88 174		81 965
Borrowings – Interest Bearing	7	88 174		81 965	
Post-Employment Benefits/Obligations	XX	0		0	
CURRENT LIABILITIES			152 357		121 509
Accounts Payable & Accrued Liabilities	8	149 836		117 807	
Provisions for Post-Employment Obligations	XX	0		0	
Provisions for Liabilities – Other	XX	0		0	
Student Deposits	8	1 867		1 760	
Current portion of Borrowings	7	654		0	
Short Term Borrowing – Bank Overdraft	XX	0		1 942	

5.5

The *XYZ* Higher Education Institution
Consolidated Statement of Changes in Funds for the year ended 31 December 20nn (R'000s)

DESCRIPTION	Notes	Accumulated Fund Unrestricted Use	Contingency Fund Unrestricted Use	Endowment Fund Unrestricted/ Designated Use	SUB-TOTAL A	Donor Fund Restricted Use	Contract Fund Restricted Use	Trust Fund Restricted Use	SUB-TOTAL B	Student Loan Fund	Residence Fund Restricted Use	Fixed Asset Fund PPE	TOTAL C
Balance at 1-1-20nn		4 703	133 311	190 742	328 756	148 904	176 728	98 362	423 994	9 631	14 949	211 730	989 060
Capital Gains – Sale of Investments	XX		8 331		8 331								8 331
Investments – Fair Value Adjustment	XX		18 321	31 146	49 467			3 321	3 321				52 788
Contract Income							235 641						235 641
Private Gifts & Grants						34 216	10 835	20 500	65 551				65 551
Transfers – Credit	XX		14 276	13 072	27 348	4 803		8 775	13 578	2 897	925		44 748
Net Income – Surplus		21 125			21 125	1 874	1 808	605	4 287				25 412
Net Income – Deficit											11 617		11 617
Funds Utilised/Written off	XX											16 969	16 969
Transfers – Debit	XX	22 477	56 800		79 247	33 772	202 241	5 925	241 938				321 185
Balance at 31-12-20nn		3 381	117 439	234 960	355 780	156 025	222 771	125 638	504 434	12 528	4 257	194 761	1 071 760

The above statement of changes in funds is presented for the reporting year only – in compliance with GAAP the comparative figures for the previous year should be provided. An alternative form of presentation may be where individual funds comprise both identifiable restricted and unrestricted amounts. In such cases each fund will be contained in an individual column and both opening and closing balances must be separated into 'Unrestricted/Designated Use' and 'Restricted Use'.

NOTES:-

1. **The headings (or a note) should be adequately descriptive of the nature governing the restrictions in each case**
2. **Sub-Total A reflects the aggregate of available unrestricted/designated funds**
3. **Sub-Total B reflects the aggregate of restricted funds**
4. **The "Fixed Asset Fund PPE" is not classified and reflects aggregate expenditure on the asset item PPE**
5. **If a fund had been set aside for new, replacement or renewal of PPE and will have been derived from council designated amounts or from funds received for specific purposes this should be disclosed as a separate (Funds for PPE) fund.**
6. **The XXs that appear in the "Notes" column indicate that, where the detail of the item appearing on this statement is not clear from other statements or notes to the accounts, an explanatory note must be included in the "Notes to the accounts".**

5.6

The *XYZ* Higher Education Institution
Consolidated Income Statement for the year ended 31 December 20nn

	NOTES	COUNCIL CONTROLLED UNRESTRICTED	SPECIFICALLY FUNDED ACTIVITIES RESTRICTED	SUB-TOTAL	STUDENT AND STAFF ACCOMMODATION RESTRICTED	TOTAL	20nn-1
		←-------- EDUCATION AND GENERAL		------→			
TOTAL INCOME		746 448	302 711	1 049 159	25 994	1 075 153	1 020 497
RECURRENT ITEMS		738 748	302 711	1 041 459	25 994	1 067 453	936 375
State Appropriations– Subsidies and Grants		343 127	23 502	366 629	0	366 629	360 282
Tuition and Other Fee Income		178 969	0	178 969	25 994	204 963	188 422
Income from Contracts		79 713	202241	281 954		281 954	276 126
For research		78 927	199 125	278 052		278 052	276 126
For Other Activities		786	3 116	3 902		3 902	0
Sales of Goods and Services		27 098	10 010	37 108		37 108	44 423
Private Gifts and Grants		41 131	50 119	91 250		91 250	67 121
SUB-TOTAL		670 038	285 872	955 910	25 994	981904	824 830
Interest and Dividends	9	68 710	16 839	85 549	0	85 549	84 122
NON-RECURRENT ITEMS		7 700	0	7 700	0	7 700	0
Profit/Loss on disposal of PPE		0	0	0	0	0	0
Profit/Loss on Disposal of Investments		0	0	0	0	0	0
Disposal of Expensed Equipment	10	7 700	0	7 700	0	7 70	0
TOTAL EXPENDITURE		724 537	299 210	1 023 747	37 611	1 061 358	972 780
RECURRENT ITEMS		706 556	145 095	851 651	34 611	886 262	972 780
Personnel	11	358 572	113 736	472 308	7 842	480 150	445 919
Academic professional		215 415	104 861	320 276		320 276	323 239
Other Personnel		143 157	8 875	152 032	7 842	159 874	122 680
Other Current Operating Expenses	12	279 991	31 359	311 350	19 544	330 894	463 119
Depreciation Provision	1	51 225	0	51 225	6 500	57 725	51 231
Depreciation – Additional Provision	1	1 275	0	1 275	725	2 000	1 000
SUB-TOTAL		332 491	31 359	363 850	26 769	390 619	961 269
Finance Costs	13	15 493	0	15 493	0	15 493	11 511
NON-RECURRENT ITEMS		17 981	154 115	172 096	3 000	175 096	0
Extra Ordinary Operating Expenses		0	154 115	154 115	0	154 115	0
Personnel – Prior Year Adjustments		0	0		0	0	0
Capital Expenditure Expensed		12 981	0	12 981	0	12 981	0
Depreciation – Additional Provision	1	5 000	0	5 000	3 000	8 000	0
NET SURPLUS/(DEFICIT(-))		21 911	3 501	25 412	-11 617	13 795	47 717

NB: **The separation between Recurrent and Non-Recurrent Income & Expenditure items must be strictly observed. Consistent comparisons cannot be made unless this is done. The inclusion of prior year obligations for accumulated leave and post employment benefits are cases in point.**

5.7

The *XYZ* Higher Education Institution

Consolidated Cash Flow Statement for the year ended 31 December 20nn

	NOTES	20nn	20nn-1
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Retained from /(utilised by) Operations	18	21 931	(10 779)
Investment Income less Cost of Finance			
Finance Income		85 549	84 122
Finance Costs		(15 493)	(11 511)
NET INFLOW FROM OPERATING ACTIVITIES		91 987	61 832
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment		(82 521)	(60 472)
Purchase of Non-Current Investments		(315 701)	(562 185)
Disposals of Property, Plant and Equipment		3 870	21 200
Disposals of Non-Current Investments		323 002	479 684
(Increase)/Decrease in Student Loans		(2 897)	1 559
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(74 247)	(120 214)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Amount capitalised to/(expended from) from Reserves		20 483	95 735
Increase/(Decrease) in Interest Bearing Borrowings		6 208	(5 540)
NET CASH INFLOW FROM FINANCING ACTIVITIES		26 691	90 195
INCREASE IN CASH AND CASH EQUIVALENTS		24 533	31 813
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		31 260	(552)
CASH AND CASH EQUIVALENTS AT END OF YEAR		55 793	31 261

NB: Expenditures on renewal of property, plant and equipment should be deducted from cash generated by operations

5.8 Notes of explanation and elaboration to the Financial Statements

The numbered notes that follow relate directly to the content of the financial statements above and are numbered accordingly. In addition examples of notes that do not apply to the above statements but could apply in certain circumstances, are included in *italics* and are all 'numbered' XX. The wording and format of the notes are partly based on a document produced jointly by PriceWaterhouseCoopers and the Committee of Technikon Principals.

Reference to the appropriate South African Statements of Generally Accepted Accounting Practice is essential for the preparers of financial statements.

(In the notes all amounts are shown in Rands thousands (R'000s) unless otherwise stated)

AC 123 1 **Property, plant and equipment**

		Land & buildings	Furniture & equipment	Computer equipment	Vehicles	Library-, Museum- and Art collections	Total
	Year ended 31 December 20nn						
	Opening net book amount	215 725	47 159	18 725	4 855	-	286 464
	Additions	14 975	19 165	10 934	2 854	16 774	64 702
	Disposals	(159)	(2 523)	(928)	(260)	-	(3 870)
AC 128	Depreciation charge	(23 064)	(18 591)	(7 382)	(1 914)	(16 774)	(67 725)
	Closing net book amount	207 477	45 210	21 349	5 535	-	279 571
	At 31 December 20nn						
	Cost or valuation	363 790	94 347	40 860	10 593	127 147	636 737
	Accumulated depreciation	(156 313)	(49 137)	(19 511)	(5 058)	(127 147)	(357 166)
	Net book amount	207 477	45 210	21 349	5 535	-	279 571

The depreciation charge includes amounts of 'additional depreciation' provided in respect of deferred maintenance resulting in the 'impairment' in the use of a respective asset.

[Institutions are exempted from providing a statement of comparatives of movements on PPE as required by AC128.]

XX Included in the depreciation charge for furniture and equipment as an amount of R1 075 for research equipment that is no longer needed. The recoverable amount (that is, the carrying amount after deducting the impairment charge) represents the net selling price, determined by reference to market prices for equivalent assets.

AC 128 Additions include R850 (20nn-1 - R500) for vehicles leased under finance leases and disposals include R2,260 (20nn-1 - R1,435) vehicles sold under finance leases.

Leased assets included above comprise vehicles under financial leases:

	20nn	20nn-1
Cost - capitalised finance leases	10 996	8 074
Accumulated depreciation	(2 150)	(2 926)
Net book amount	8 846	5 148

Bank borrowings are secured on properties to the value of R (Note XX).

AC 100
AC 129 *XX Intangible assets*

(Intangible assets would not be a standard part of the financial statements of an HEI, but are shown for illustrative purposes as the possibility exists that some HEIs may start with R&D activities.)

		Goodwill costs	*Deferred development*	*Other intangible assets*	*Total*
	Year ended 31 December 20nn				
	Opening net book amount				
	Additions				
	Transferred to patents				
AC 128	*Impairment charge (Note XX)*				
	Amortisation charge (Note XX)				
	Closing net book amount				
	At 31 December 20nn				
	Cost				
	Accumulated amortisation				
	Net book amount				

[Institutions are exempted from providing a statement of comparatives of movements on Intangible assets as required by AC128.]

AC123 does not strictly require the above reconciliation of movements on intangible assets for the comparative year.

The impairment charge in 20nn represents the full write-off of goodwill and deferred development costs as part of the restructuring of one of the faculties.

Deferred development costs principally comprise internally generated expenditure on R&D development costs on major projects where it is reasonably anticipated that the costs will be recovered through future commercial activity. Other intangible assets comprise acquired patents and trademarks.

AC 110 ***XX Investments in associated companies***

Information required to be disclosed about investments in associated companies is set out in AC110.27. Investments in associated companies may not be common for HEIs but would be included for instances where an HEI does have shares in a company in which it exercises significant influence. This influence might have been obtained through a share endowment to the HEI.

AC 125 **2 Non-current investments**

	20nn	20nn-1
Opening net book amount	724 323	641 822
Additions	312 701	562 185
(Disposals)	(323 002)	(479 684)
Closing net book amount	714 022	724 323
Market Value	784 810	789 719

Investments comprise marketable securities that are revalued annually at the close of business on 31 December by reference to Stock Exchange quoted prices. The market value approximates the fair value. Revaluation surpluses and deficits are taken to revaluation and other reserves.

AC 101 **3 Non-current receivables**

		20nn	20nn-1
AC 133	**Student loans**	12 528	9 631
	Refundable contributions made to NSFAS		
	Loans to employees		

The current receivables relating to the above items are shown in Note XX. All non-current receivables are due within 5 years from the balance sheet date. The weighted average interest rates on receivables (current and non-current) were as follows:

Student loans	7.1%	6.8%
Refundable contributions made to NSFAS	*6.0%*	*5.5%*
Loans to employees	*8.7%*	*8.5%*

All loans advanced to employees during the year are unsecured

			20nn	20nn-1
AC 108	4	**Inventories**		
		Stationery, technical inventories, study material, cleaning material, etc.	6 393	5 324
		Stationery		
		Technical inventories		
		Cleaning material		
		Study materials		
		Food		

			20nn	20nn-1
AC 101	5	**Receivables and prepayments**		
		Student debtors	26 930	28 488
		State subsidies and grants	23 222	5 325
		Prepayments	14 209	15269
		Loans to employees	12 464	16 673
		Car scheme loans	2 485	4 635
		Other receivables	115 385	85 092
		Provision for irrecoverable debt	(21 499)	(21803)
			173 196	133 589

			20nn	*20nn-1*
AC 125	*XX*	***Marketable securities***		
		Opening net book amount		
		Exchange differences		
		Additions		
		Decrease in market value		
		Closing net book amount		

The HEI has a trading portfolio of marketable securities which are valued at a market value of R415,876 at the close of business on 31 December nn by reference to Stock Exchange quoted prices.

Realised gains/losses and increases/decreases in market value are included in the line 'Finance cost' in the income statement (see Notes XX and XX).

In the Cash flow statement proceeds from disposal of marketable securities comprise:

	20nn	*20nn-1*
Net book amount		
Gain on sale (Note XX)		

			20nn	20nn-1
AC 118	6	**Cash and cash equivalents**		
		Cash at bank and in hand	55 793	33 202
		Bank overdrafts		(19420)
			55 793	31 260

XX *The weighted average effective interest rate on short-term bank deposits was 14.9% (nn-1: 15.6%).*

		20nn	20nn-1
7	**Interest-bearing borrowings**		
	Long term borrowings	74 395	81 965
	Secured loan	14 432	-
		88 827	81 965
	Current portion transferred to current liabilities	654	-
	Total amount outstanding	88 173	81 965

The long-term borrowing reflects the balance owing on loans raised to finance the acquisition of property, plant and equipment. The loans are fully secured by guarantees issued by the State. The annual costs of interest and redemption, together with the state subsidy on these payments, are disclosed in the Income Statement.
The secured loan bears interest at 16,03% and is repayable in equal instalments of R239 461 over a period of ten years. The borrowing is secured by land and buildings with a book value of R15 508 138.

AC 118

XX For the purposes of the cash flow statement, the year-end cash and cash equivalents comprise the following:

	20nn	*20nn-1*
Cash and bank balances		
Bank overdrafts (Note XX)		

XX ***Interest bearing borrowings***

Current		
Bank overdraft		
Bank borrowings		
Debentures		
Lease liabilities		
Non-current		
Bank borrowings		
Debentures and other loans		
Lease liabilities		
Total borrowings		

Interest-bearing borrowings include secured liabilities (leases and bank borrowings) in a total amount of R12,366 (20nn-1 - R15,196). The bank borrowings are secured over certain of the land and buildings. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

After taking account of interest rate swaps, the interest rate exposure of the borrowing of the HEI was as follows:

	20nn	*20nn-1*
Total borrowings:		
- at fixed rates		
- at floating- rates		
Weighted average effective interest rates:		
- bank overdrafts	17.6%	17.3%
- bank borrowings	17.0%	16.8%
- debenture and other borrowings	17.2%	17.0%
- lease liabilities	17.4%	17.0%

The carrying amounts and fair values of certain interest-bearing borrowing are as follows:

	Carrying amounts		*Fair values*	
	20nn	*20nn-1*	*20nn*	*20nn-1*
Interest-bearing bank borrowings				
Debentures and other loans				

The fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the council expects would be available to the HEI at the balance sheet date. The carrying amounts of short-term borrowings and lease obligations approximate their fair value.

Maturity of interest-bearing borrowings (excluding finance lease liabilities):

	20nn	*20nn-1*
Between 1 and 2 years		
Between 2 and 5 years		
Over 5 years		

Finance lease liabilities - minimum lease payments:

Not later than 1 year		
Later than 1 year and not later than 5 years		
Later than 5 years		
Future finance charges on finance leases		
Present value of finance lease liabilities		

Representing lease liabilities:
- current
- non current

The present value of finance lease liabilities may be analysed as follows:

Not later than 1 year
Later than 1 year and not later than 5 years
Later than 5 years

Where these exist, disclosure must be made of the basis for determining contingent rent payments, renewal or purchase options and escalation clauses, and financing restrictions arising from leases.

AC 101 **8 Trade and other payables**

	20nn	20nn-1
Trade amounts payable	169 836	117 807
Student deposits	1 867	1 760
	171 703	119 567

AC116 *XX* ***Pension and other post retirement obligations***

Amounts recognised in the balance sheet:

	20nn	*20nn-1*
Pension scheme	*3,138*	*1,438*
Other post retirement benefits	*1,402*	*692*
	4,540	*2,130*

Pension scheme

The HEI has established a pension scheme covering substantially all employees. The pension scheme is a final salary defined benefit plan and is funded. The assets of the funded plan are held independently of the HEI's assets in a separate trustee administered fund. The scheme is valued by independent actuaries every three years. The latest actuarial valuations were carried out as at 31 December 20nn-2.

XX ***The amounts recognised in the balance sheet are the following:***

	20nn	*20nn-1*
Present value of funded obligations		
Fair value of plan assets		
Present value of unfunded obligations		
Unrecognised actuarial gains / (losses)		
Unrecognised prior service cost		
Liability in the balance sheet		

The amounts recognised in the income statement are the following:

	20nn	*20nn-1*
Current service cost		
Interest cost		
Expected return on plan assets		
Net actuarial losses recognised in year		
Past service cost		
Losses on curtailment		
Total included in staff costs (Note XX)		

The actual return on plan assets was Rxxx xxx (20nn-1 – Rxxx xxx).
Movement in the liability recognised in the balance sheet:
At beginning of year

Exchange differences
Total expense as above
Contributions paid
At end of year

The principal actuarial assumptions used for accounting purposes were:

Discount rate	*7.0%*	*6.8%*
Expected return on plan assets	*8.5%*	*8.3%*
Future salary increases	*5.0%*	*4.5%*
Future pension increases	*3.0%*	*2.5%*

Post employment medical benefits

The HEI operates a number of post-employment medical benefit schemes. The method of accounting and the frequency of valuations are similar to those used for the defined benefit pension schemes.

XX *In addition to the assumptions used for pension schemes, the main actuarial assumption is a long-term increase in health costs of 12% per year (20nn-1 - 8%).*

The amounts recognised in the balance sheet are the following:

	20nn	*20nn-1*
Present value of funded obligations		
Fair value of plan assets		
Present value of unfunded obligations		
Unrecognised actuarial losses		
Liability in the balance sheet		

The amounts recognised in the income statement are as follows:

	20nn	*20nn-1*
Current service cost		
Interest cost		
Expected return on plan assets		
Net actuarial losses recognised in year		
Total included in staff costs (Note XX)		

The actual return on plan assets was R51 (20nn-1 - R24).

Movement in the liability recognised in the balance sheet:

At beginning of year
Exchange differences
Total expense as above
Contributions paid
At end of year

XX ***Provisions for liabilities and charges***

	Warranty	*Restructuring*	*Other*	*Total*
At 31 December 20nn-1				
Exchange differences				
Additional provisions				
Unused amounts reversed				
Charged to income statement				
Utilised during year				
At 31 December 20nn				

9 **Finance income**	**20nn**	**20nn-1**
Income from investments	55 626	83 676
Interest received – call accounts	12	446
	55 638	84 122

10 **Non-recurrent income**	**20nn**	**20nn-1**
Proceeds of sale of Laboratory and computer equipment, furniture and vehicles previously expensed	7 700	-

11 Staff costs	**20nn**	**20nn-1**
Academic professional	321 293	323 239
Other personnel	117 095	87 603
Pension costs	37 568	32 099
Other post-retirement costs	4 194	2 978
	480 150	445 919

		XX Staff costs	*Academic Professional*	*Other*	*Totals 20nn*	*Totals 20nn-1*
		Wages and salaries				
AC 116		*Termination benefits*				
AC 116		*Pension costs - defined benefit plans (Note XX)*				
AC 116		*Other post retirement benefits (Note XX)*				

Average weekly number of persons employed by the HEI during the year:

Full time
Part time

12 Other operating expenses

The following items have been charged in arriving at operating profit:	**20nn**	**20nn-1**
Supplies and services	228 550	376 347
Cost of services outsourced	16 717	15 338
Fixed property cost – rental	37 568	32 099
Maintenance of PPE (incl. "additional depreciation")	15 267	9 248
Bursaries	32 792	30 087
	330 894	463 119

	13 Finance costs	**20nn**	**20nn-1**
AC 112	Net foreign exchange transaction gains/(losses)		
	Interest expense		
	Long-term borrowings		
	- bank borrowings	15 493	11 491
	- finance leases		21
		15 493	11 512

AC 133 *XX Financial instruments*

i) Objectives and significant terms and conditions

In order to manage the risks arising from fluctuations in currency exchange rates and interest rates, the HEI makes use of the following derivative financial instruments:

Interest rate swaps

The HEI has entered into interest rate swap contracts that entitle it to receive interest at floating rates on notional principal amounts and oblige it to pay interest at fixed rates on the same amounts. The interest rate swaps allow the HEI to raise long term borrowings at floating rates and swap them into fixed rates that are lower than those available if it borrowed at fixed rates directly. Under the interest rate swaps, the HEI agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed rate and floating rate interest amounts calculated by reference to the agreed notional principal amounts. At 31 December 20nn the fixed interest rates vary from 6.9% to 7.4% (20nn-1 6.7% to 7.2%) and the floating rates are linked to the repo rate.

The remaining terms and notional principal amounts of the outstanding interest rate swap contracts at 31 December were:

	20nn	***20nn-1***
Less than one year		
One to five years		
Five to ten years		

Forward foreign exchange contracts

Forward foreign exchange contracts are entered into to manage exposure to fluctuations in foreign currency exchange rates on specific transactions. In general the HEIs policy is to enter into forward foreign exchange contracts for up to 75% of net foreign currency receipts anticipated in each month over the following two years.

At 31 December 20nn and 20nn-1 the settlement dates on open forward contracts ranged between 3 months and 1 year. The local currency amounts to be received and contractual exchange rates of the HEIs outstanding contracts were:

	20nn	***20nn-1***
Deutschmarks [at rates averaging 1 R= DM 2.835 (20nn-1 -, 1 R= DM 2.795)]		
US dollars [at rates averaging 1 R= USD 1.635 (nn-1 - 1 R= USD 1.614)]		

The net unrecognised gains at 31 December 20nn on open contracts which hedge anticipated future foreign currency sales amounted to R12 (20nn-1, - R3). These gains will be recognised in the income statement when these open contracts mature at various dates between 6 months to 1 year from the balance sheet date.

Net fair values

The net fair values of the HEIs derivative financial instruments at the balance sheet date were:

	20nn	***20nn-1***
Favourable interest rate swap contracts		
Favourable forward foreign exchange contracts		
Unfavourable interest rate swap contracts		
Unfavourable forward foreign exchange contracts		

The fair values of interest rate swaps and forward foreign exchange contracts have been calculated (using rates quoted by the HEIs bankers) to terminate the contracts at the balance sheet date.

ii) Credit risk

The HEI has no significant concentrations of credit risk. Derivative instruments are entered into, and cash is placed with substantial financial institutions. The credit exposures of derivatives are represented by the net fair values of the contracts, as disclosed above.

iii) Fair values

The carrying amounts of the following financial assets and financial liabilities approximate to their fair value: cash, investments, trade receivables and payables, other receivables and payables, finance lease receivables and obligations, short term borrowings and floating rate long-term borrowings. Information on the fair values of borrowings, interest rate swaps and foreign currency forward exchange contracts is included in Note 10 and in Section (i) of this note.

14 Changes in Funds

The Changes in Funds Statement contains direct additions to and subtractions from individual funds that are not reflected in the Income Statement or are apparent elsewhere in the Annual Financial Statements:

Capital gains of disposal of investments	R 8 331 million
Transfers – credit **[detail should be provided]**	R 44 748 million
Funds utilised or written off **[detail should be provided]**	R 16 969 million
Transfers – debit **[detail should be provided]**	R 321 185 million

15 The following disclosures relate to compensation paid to Executive staff. Remuneration is based on the cost of employment to the institution comprising flexible remuneration packages.

Annualised gross remuneration
Format of disclosure

NAME	OFFICE HELD	AGGREGATE AMOUNT R,000s
AA	Vice-Chancellor	1 265
AB	Vice-Principal	884
AC	Deputy Vice-Chancellor Research	721
AD	Executive Director – Finance	720
AE	Deputy Vice-Chancellor Academic	658
AF	Deputy Vice-Chancellor Personnel	658
AG	Registrar	542
AH	Deputy Vice-Chancellor Student affairs	537
AI	Executive Dean - Business School	488
AJ	Executive Dean - Health Sciences	480
AK	Executive Dean – Science	478
AL	Executive Dean – Engineering & Built Environment	478
AM	Executive Dean – Commerce and Business Studies	475
AN	Executive Dean – Humanities	475

Exceptional payment amounts – each exceeding in annual aggregate R249 999
Format of disclosure

	NAME	TO WHOM PAID	AMOUNT R's
Commutation of leave	AN	Executive – Dean Humanities	277 500
	AM	Exec. Dean – Commerce	276 650
Pension top-up	BZ	Retired Dean Humanities	285 000

Payments for attendance at meetings of the Council and its Committees

Format of disclosure

TO WHOM PAID	NUMBER OF MEMBERS	ATTENDANCE AT MEETINGS AGGREGATE AMOUNT PAID – R'000s	REIMBURSEMENT OF EXPENSES AGGREGATE AMOUNT PAID – R'000s
Chair of Council	1	15	7
Chairs of committees	4	30	9
Members of Council	28	85	27
Members of committees	20	36	18

AC130 **16 Contingencies**

Contingent liabilities

Bank and similar guarantees
At 31 December 20nn the HEI had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise. In the ordinary course of business the HEI has given guarantees amounting to R18,624 (20nn-1 - R19,629) to third parties in respect of housing loans supplied to employees.

17 Commitments

Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is the following:

	20nn	20nn-1
Property, plant and equipment	4,053	4,141

AC105 *XX Operating lease commitments*

The future minimum lease payments under non-cancellable operating leases are as follows:

	20nn	*20nn-1*
Not later than 1 year		
Later than 1 year and not later than 5 years		
Later than 5 years		

AC 118 **18 Cash generated from operations**

Reconciliation of profit before tax and extraordinary items to cash generated from operations:

	20nn	20nn-1
Surplus before appropriations and transfers	13 795	47 717
Adjustments for:		
Depreciation (Note 1)	57 725	51 231
Additional depreciation (Impairment resulting from deferred maintenance) (Note 1)	10 000	1 000
Net amount capitalised to (expended from) reserves	20 483	(95 735)
Finance income	(85 549)	(84 122)
Finance costs	15 493	11 511
Changes in working capital:		
-receivables and prepayments	(39 607)	10 066
-inventories	(1 257)	1 778
-trade and other payables	30 848	2 271
Cash retained/(utilised by) operations	21 931	31 813

AC 126 **19 Related party transactions**

During the year there were transactions with entities controlled by members of Council and with joint ventures in which the University was a party. All these transactions were conducted at "arms length" and comprised purchases of goods and services totalling R326 848 and sales of goods and services totalling R179 286.

AC 107 **20 Post balance sheet event**

In March 20nn the HEI reached an agreement with the College of Nursing to merge at the earliest practicable date. The College of Nursing has total income of some R11 million, 1 600 full-time and 1 900 part time students and nearly 300 staff. The College trains nurses for the whole of Goliath Regional Health Authority and some nurses for a number of adjoining Health Authorities.

AC 136 **21 Post employment benefit plans**

A number of pension/retirement schemes exist covering permanent and part-time employees. These are all established in terms of existing legislation and are all defined contribution schemes. Actuarial valuations are performed every three years and all funds are fully funded based on most recent valuations. The assets of each fund are held separately under the control of the duly appointed trustees of the funds. The cost charged to income represents contributions payable by the employer at rates specified in the rules of each fund.

CHAPTER 6

SUPPLEMENTARY AUDITED FINANCIAL DATA AND "PERFORMANCE/STATUS" INDICATORS TO BE SUBMITTED IN ELECTRONIC FORMAT ON COMPUTER DISKS

EXCEL spreadsheets that must be completed and certified by an institution's auditors for submission to the Department of Education at the same time as the audited financial statements.
A printed copy of the spreadsheets, initialled by the auditors, must accompany the audit report.

6.1 Example of an independent auditor's report on these data

To the (name of institution) on factual findings.

Scope

We performed the procedures agreed with you as described below with respect to the schedules on computer disk and set forth in the accompanying schedules - "Supplementary financial data and performance/status indicators from Universities and Technikons" in respect of the year ended *dd/mm/yyyy*, which we have initialled for identification purposes. Our engagement was undertaken in accordance with the statements of South African Auditing Standards applicable to agreed-upon procedures agreements. The responsibility for determining the adequacy or otherwise of the procedures agreed to be performed is that of the Council. Our procedures were performed solely to assist you in evaluating the accuracy of the above mentioned schedules and are summarised as follows;

- We performed such checks as to satisfy ourselves that the calculations are mathematically correct
- The information used in the calculations and included on the schedule of "financial data" agree to the financial records of the *HEI.*

Because the above procedures do not constitute either an audit or a review made in accordance with statements of South African Auditing Standards, we do not express any assurance on the Schedule "Performance/status indicators from Universities and Technikons" for the year ended *dd/mm/yyyy*.

No audit procedures have been performed by us on the projected figures for yyyy and yyyy according to the attached schedules and thus we express no opinion thereon.

Had we performed additional procedures or had we performed an audit or review of the financial data included in accordance with South African Auditing Standards, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set out in the first paragraph of this report and for your information and is not to be used for any other purpose, nor to be distributed to any other parties. This report relates only to the items specified above and does not extend to any financial statements of the *HEI* taken as a whole.

XYZ & Co., Public Accountants and Auditors
Date
Address

6.2 The content of the Excel spreadsheets follows: -

CHAPTER 7

EXPLANATORY COMMENTS ON ANNUAL FINANCIAL STATEMENTS OF HIGHER EDUCATION INSTITUTIONS

7.1 Introduction

To assist users in understanding and using the data contained in the annual financial statements required in the Annual Report by the Higher Education Act, the following definitions and descriptions of the basic concepts and data elements used are provided.

7.2 Scope

The financial statements of Higher Education Institutions (HEIs) must include as "consolidated entities" all entities, whether legal entities or not, and including incorporated limited companies, close corporations and trusts, over which the institution exercises legal control by way of appointment of the majority of the governing body/trustees or other means of control of the activities of such an entity, or by authorising the entity to issue Income Tax certification on its behalf for deduction by the donor of funds donated to it for the benefit of the institution. (See "Identifying Control, Joint Control and Significant Influence Relationships" a paper by Prof A Watson reproduced in the Appendix B).

7.3 Balance Sheet

7.3.1 Funds – available/utilised

The various sources of funding received or accumulated by the institution over time and represented by its net assets at the date of its financial statements comprise its net disclosed financial position. For universities/technikons this comprises a variety of different groupings.

For higher education institutions this component is separated into two major categories –**AVAILABLE FUNDS (RESTRICTED USE** and **UNRESTRICTED USE) AND UTILISED FUNDS.** Within each category there are groupings that identify accurately the nature of the items comprising each individual group. (See Appendix A)

7.3.1.1 Funds utilised or available only for the acquisition of fixed assets: PPE (fixed asset) funds

These comprise the aggregate of expenditure funded separately for fixed properties (land, buildings, land improvements other than buildings, e.g. roads), movable property (equipment, library collections, museum and art collections, livestock) and construction of immovable and movable assets in progress. In addition are included, moneys received or appropriated specifically for use to finance new constructions or acquisitions of Property, Plant and Equipment (PPE), servicing of debt acquired for the financing of PPE as well as for the renewal or replacement of PPE. Any appropriations that are the result of designations made by the Council and which can be reversed must be included among "unrestricted funds".

7.3.1 Restricted use funds

7.3.1.2.1 Residences' funds

Institutional residences are separate funding entities and, primarily because of the diversity between institutions of the extent of the use of such facilities, need to be separately identified both in the income statement and the balance sheet. In the latter any such accumulated fund or funds are grouped as "restricted".

7.3.1.2.2 Other funds – restricted use

These comprise income received by an institution the use of which is legally beyond the control of its Council. These will comprise, for example, state appropriations, contracts, grants, donations or other income that, in terms of a legal requirement must be used only for the specified purposes. In terms of the separate reporting structure of the income statement, such donations will be reported accordingly under the heading "Specifically funded activities". The terns of use.of such funds will normally be in writing and the detailed accounting records of the institution should identify each such amount and the extent to which it is unexpended. An institution in this situation acts as a "trustee" in respect of such funds. Where the use of any such fund will extend over more than one financial period, the expenditure of the fund in a financial period will be "matched" in the income statement with an equivalent transfer from the fund to income. The encumbered nature of any unspent amounts of these funds at the date of the financial year-end must be indicated in the statement of changes in funds. If a situation arises that the intention of the provider cannot be achieved, for whatever reason, the provider must be contacted and given the choice of the return of the balance of the funds or the opportunity to select an alternative use. Thus, until it is known what the decision of the provider will be, "contingent liability" should be included in the "Notes to the Accounts" expressing the extent of the amount involved.

In addition, there may be "Trust/Agency Funds" which are funds held by the institution on behalf of other entities or agencies for ultimate use on purposes within the scope of the activities of the institution.

Within the component of "FUNDS" appearing on the balance sheet the major component of this grouping will normally result from the acquisition of non-current assets (PPE), either from income specified for this purpose or from the use of money representing the actual use of what had been unrestricted use funds.

7.3.1.3 Endowment and similar funds – restricted or unrestricted

These are funds provided by donors or other agencies to be invested appropriately. The institution is entitled to use either: (i) the income generated by the assets representing the fund, (ii) a portion of the income, reinvesting the balance to maintain the "capital value of the fund", (iii) a combination of both the income generated plus a stipulated portion of the capital.

The utilisation of these funds may thus be either for general institutional purposes or for purposes specified by the donor. The distinction of availability for use between the two must be identified for income stateOment and balance sheet purposes. The Council, as a financial management strategy, may create an endowment fund from generally available reserves. In cases where such a fund is created from donor funds, with the condition that any income not required for re-investment is available for general institutional purposes, or the fund has been created from funds so "designated" by the Council, these funds must be treated as unrestricted.

Endowment funds must be separately identified on the balance sheet or on the statement of changes in funds and specified as unrestricted or restricted as the case may be.

7.3.1.4 Unrestricted use funds – general and designated

These comprise a fund or funds arising from income or surpluses (accumulated funds) that are available to the Council in its unfettered and absolute control for allocation to resource the activities of the institution. This fund or these funds are normally represented by current assets on a balance sheet. Portions of these funds may, however, be "designated" by the Council for identified purposes, e.g. "replacement of motor vehicles" or "provision of student loans". Until such time as such designated amounts are used for the identified purpose, they will be disclosed but separately identified as part of "unrestricted funds" on the statement of changes in funds. Once designated funds are utilised for their created purpose resulting in items to be expensed, the charge will appear in the income statement and the corresponding amount will be transferred from its designated fund to the general unrestricted fund. If the utilisation results in creation of an asset, e.g. student loans granted, the amount so utilised shall be transferred from its designated fund to an appropriately named and separately disclosed fund. Where a Council has designated funds for specific purposes, e.g. Bursaries and Scholarships, these can be separately identified on the "Changes in Funds Statement" as funds within "Sub-Total A" (Chapter 5.5). The balance sheet disclosure of "Unrestricted Funds" must, however, comply with the examples in Chapter 5.4,

The accumulated funds comprise the aggregate of the balances on the various funds in the accounts of the institution and its proportion of the funds of its consolidated and equity accounted entities that have no restrictions on use. These include any funds that the Management/Council may have decided to retain separately for designated purposes, such as general contingencies and other possible future liabilities or costs. The amounts of these funds appear on the balance sheet appropriately aggregated and identified with unrestricted funds. Included should be unspent budget allocations to organisational entities that may be carried forward to following financial periods.

7.3.2 Liabilities

The various components and disclosure of both non-current and current liabilities are comprehensively explained in the extract on the Examples of Notes to the Financial Statements (Chapter 5.8 - Notes 7 & 8). A formal opinion from the technical division of PWC supports the separation between Current Liabilities and Non-Current Liabilities of amounts set aside for employee and post-retirement benefits accrued. To the extent that such amounts can realistically be estimated as being expended/utilised during the following financial period, these must be included as Current Liabilities and the balance, usually the significantly greater portion, must then be included as Non-Current Liabilities.

7.3.3 Assets (including investments held)

Assets are separated into "Non-Current" and "Current". Whenever an enterprise supplies goods and services within a clearly identifiable operating cycle, separate classifications of current and non-current assets and liabilities on the face of the balance sheet provides useful information by distinguishing the assets that are continuously circulating as working capital [current assets] from those used in the enterprise's long-term operations. It also identifies assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period. An asset should be classified as a current asset when it:

(a) is expected to be realised in, or is held for sale or consumption in, the normal course of the enterprise's operating cycle, or
(b) is held primarily for trading purposes or for the short term, and expected to be realised within twelve months of the balance sheet date, or
(c) is cash or a cash equivalent asset that is not restricted in use (AC101)

7.3.3.1 Non-Current Assets

7.3.3.1.1 Property, plant and equipment (PPE) treatment of acquisition and disposal of property, plant and equipment and disclosure thereof:

The accounting entries arising from the acquisition and disposal of fixed assets (PPE) must be in accordance with the balance sheet disclosure of this asset category. The binding relationship between the source of funding of this asset group and the carrying value of the related assets on the balance sheet must be apparent. Therefore, the carrying value of PPE must equal the aggregate of the balance of the "Fixed Asset Fund" included in the aggregate funds of an institution, the balance of any debt raised to acquire such assets less the aggregate of depreciation provided.

7.3.3.1.2 Funding the acquisition/replacement of PPE

The previous practice of a university or technikon of relying on specific grants from the state for funds to replenish its complement of fixed assets is no longer applicable. Institutions must, therefore, through their financial management practices, ensure that funding from its normal operations is available to maintain the essential fixed asset base either by accumulation of the required cost or through being in a position to service debts raised to finance the acquisition of the required fixed assets.

7.3.3.1.3 Carrying values of PPE

The acquisition of an individual asset costing in total R5 000 or less need not be recorded in an asset register and should normally be expensed in the year of acquisition. An individual asset acquired at a total cost exceeding R5 000 must be recorded in the asset register and individual assets acquired for a total cost not exceeding R15 000 may be expensed in total in the year of acquisition. Any assets not so expensed must be subject to the standard depreciation at the appropriate rates.

Expenditure on library collections should be expensed in the year the expenditure is incurred. Existing amounts carried in PPE for library collections should be written off over a period not exceeding three years.

7.3.3.1.4 Depreciation

The carrying value must take cognisance of the "going concern" nature of the operation and thus amounts must be provided to reflect the life cycle and the need for replacement of items within a category of PPE The cost of utilisation of assets must be accounted for through the expense item of depreciation. Examples of depreciation rates appear in the illustrative notes above and the accepted SARS rates per annum, using the "straight line method", are:-

Fixed Property:	
- Land	0%
- Buildings	2%
Motor Vehicles	10% - 20%
Furniture and Equipment	10% - 20%
Computer equipment:	
Mainframe and Networks	16.67% - 25%
PCs and Other	20% - 33,3%
Library Books	100%
Collections in Museums and Art galleries	100%

The rates applied in individual cases will depend on circumstances and applied professional judgement. The actual rates utilised by an institution must reflect its assessment of the amount that best expresses the use made of that asset during the financial period.

Library collections currently in the accounts of institutions must be written down to zero over not longer than a three-year period.

7.3.3.1.5 Maintenance

In addition to normal amounts set aside for depreciation, it is essential for institutions to maintain all components of PPE in good useable order. These expenditures will include, in addition to those on buildings, such expenditures required for all campus infrastructure including roads and landscaping. In those circumstances where an institution is unable to maintain its assets in their useable condition, with the resultant consequence that the use of such assets is impaired, the effect of this must be recorded by means of an "additional depreciation" provision created from a charge to income. The amount of such depreciation will have to be calculated by reference to individual assets that have been reduced to the levels of impairment that affect the use thereof.

As the amount so provided reflects an "impairment of the assets" it should be deducted with the normal depreciation provisions from the carrying value of the assets on the balance sheet.

The amounts set aside in a particular year for "additional depreciation" will normally be disclosed in the Income Statement as a non-recurrent amount and referred to in the Notes to the Accounts. (Chapter 5.8 – Note 1)

The aggregate amount expended on maintenance of PPE, including "additional depreciation", must be disclosed in the annual financial statements (Chapter 5.8 - Note 12).

7.4 Statement of Changes in Funds

The balance sheet discloses the aggregates of balances on funds at a respective date. Movements within fund groupings during the financial period resulting from additions, depletions, transfers, etc., must be disclosed in the statement of changes in fund balances.

The separate disclosure of items making up total funds must reflect the legal and/or financial management decisions that distinguish the separate nature of those items and require them to be disclosed individually.

This statement comprises the separately identifiable funds groups and the elements of increases or decreases (including any transfers between them) that have taken place during the financial period. Details of transfers between funds and in or out of funds must, if not clearly indicated in the statement itself or in the income statement, be adequately disclosed in the notes to the financial statements.

Sub-totals are shown in the statement to provide aggregates that can be related to amounts appearing on the balance sheet within the grouping of "Funds". However, there will be circumstances where it will not be practical to denote the characteristic of "(i) Restricted; (ii) Unrestricted/Designated" within the column headings to the Changes in Funds Statement. Particular funds may comprise composite elements of the two, although separately identifiable. In such cases the opening and closing balances of each such composite column in the statement must be separated into the two elements to reconcile to the disclosure in the Balance Sheet where the distinction between Unrestricted (including Council designated funds) Funds and Restricted Funds is clearly disclosed.

7.5 Income Statement

The presentation of the Income Statement accords with the three primary groupings of income and expenditure of higher education institutions, viz., (i) education and general activities funded from unrestricted or Council designated funds that are under the control of the institution's Council, (ii) education and general activities that are funded for restricted, specifically identified purposes, and (iii) activities directly related to providing student and/or staff accommodation.

It is important that for all items of income and expenditure appearing in the Income Statement the clear distinction between "Recurrent" and "Non-recurrent" be rigorously applied.

The income statement is thus a combination of three separate statements in columnar form:

7.5.1 Education and General

7.5.1.1 Unrestricted (Council controlled)

This grouping comprises the operations that are funded directly from appropriations of revenues that fall under the absolute discretion/control of Council, e.g. state subsidies for general purposes; tuition and related fee income; sales of goods and services; non-prescriptive donations and grants; income from investments that are not held as cover for trust; specific purpose endowments or administered funds; etc.

Prior to the commencement of a particular financial period, the Council will decide how best to apportion the estimated annual income within this grouping in order to achieve the institution's strategic objectives. A substantial apportionment of the income will be made to the "annual operating budget" to cover operating expenditure including amounts to finance capital expenditure items to be expensed and other non-recurrent items. Other amounts may be apportioned, *inter alia*, to certain "non-operating-budget" expenditures including the financing of major capital expenditure projects and decisions made to transfer certain of the income to "contingency reserves". Council may also decide to retain in the "Accumulated Funds" amounts not committed for other purposes as a buffer for future eventualities in addition to any "Contingency" or similar fund.

The expenditure in the grouping will usually substantially comprise the actual amounts of the various line items of the annual "Operating Expenditure Budget". However, there will usually be other budgeted or non-budgeted expenditure items including exceptional items of expenditure that did not form part of the institution's normal annual operating expenditure budget all of which will have been approved by Council.

Where Council has "designated" amounts of income for certain specified purposes, Council retains the option to change its decisions and thus such amounts must remain as unrestricted funds subject to comments below.

7.5.1.2 Specifically funded activities

Income received for designated specific purposes will arise from contracts, grants, donations and income on specifically purposed endowments. In all cases any such income should be brought to the income statement in the financial period in which the institution becomes entitled to the use of that income. However, if such income is provided for a project or defined activity that will take a number of years to complete, the donation/grant should be placed in an appropriate fund and included as such in the Changes in Funds Statement in the year of receipt and transfers made from that fund to the Income Statement to match expenditures on the project/defined activity over the period to its completion. Thus funds from donations/grants in the possession of an institution that it cannot use until some specified future period or occurrence must be held in an appropriate fund until the financial period in which the fund is used, at which time the amount will be recognised as income. Until that time the amount will be appropriately grouped in one of the funds comprising "Restricted Funds". In the event of the "Specifically Funded Activities" segment of the income statement disclosing a surplus, it must be transferred to the relevant restricted fund or funds. There are no circumstances in which this segment of the income statement may result in a deficit. If the expenditure exceeds the amounts provided, the institution will have to fund such a deficit from its "Unrestricted Funds" unless there are certain undertakings to cover the deficit from outside sources.

There is a distinction between "contract income" and "donations/gifts for specifically identified purposes". In the case of an institution being party to a "third party contract", the terms of the contract will usually contain a clause that the benefits deriving from the activities undertaken and funded by the third party, will accrue to the third party. In the case of "gifts/donations for specified purposes" the institution may expend the money received only on the specified activities are there is normally no clause requiring the institution to accrue any benefits deriving therefrom to the donor.

Accounting treatment for receipts to be used to pay student debt

Any receipts from third parties, e.g. National Student Financial Aid Scheme (NSFAS), specifically for the payment of student debt whether as a bursary or a loan from the third party, must be credited to accounts in the name of the respective party. In due course amounts will be transferred to the credit of individual students (and the appropriate control account). Unspent amounts are to be treated as determined by the agency that provided them, usually by returning the money or by retaining it for future use for the same purpose. Under no circumstances should these receipts be included as income in an income statement with a "contra" expenditure item as "Bursaries and scholarships". So called "donations for bursaries" to be awarded at the discretion of the institution or on other specified criteria must also be treated as above. Donations received for "scholarships" to be awarded in open competition should be treated as income with a corresponding, suitably described, expenditure item in the income statement. If the financial periods of the receipt of the donation and the related expenditure do not coincide, the donation should be held in a "restricted fund" until it is utilised.

7.5.2 Student and Staff Accommodation

This comprises all income (including any allocation by the Council from its general funds) and expenditure arising from operating staff and student residence accommodation and directly related catering services. Any allocation by the Council, if directly related to any benefit to be received by staff, should be shown as "grant income" in the "residence and catering" income statement. The expenditure against this grant will be included among its expenditure in its income statement and equally included in "personnel remuneration" in the "education and general" income statement.

7.6 Single income statement

The income statement must be a comprehensive and cohesive statement of all income and those expenditures that are to be "expensed". Income of a "capital" nature that is prescribed for use in the acquisition of PPE that has to be "capitalised", must also be included and the appropriate transfers to the relevant restricted funds are to be made through the Statement of Changes in Funds. Where a "reserve fund" exists for unexpended amounts restricted for use in the acquisition of fixed assets, the utilisation of such fund will also be reflected in the Statement of Changes in Funds. Expenditures and transfers to/from provisions, e.g. depreciation, surpluses/deficits on disposal of PPE must likewise appear through the one income statement.

7.7 Comments on the content and format of the financial statements

The above illustrations of the format and content of the financial statements and the notes thereto must not be taken as absolute "templates" for the respective individual statements or notes. However, the general format and style must be followed but, in instances where a particular line item is not applicable to the financial statements of an individual institution, that line item and the concomitant note will not appear. Equally, an item descriptive of an element that, for reasons of fair and complete disclosure, should appear separately on one of the statements or as a note (but is not included on the above illustrative statements), that item should be included as a line item on the relevant financial statement with its concomitant note, or the item disclosed as a note, but only if appropriate.

7.8 Disclosure of remuneration and of any "exceptional amounts" above the stated amount: -

(i) remuneration of **senior management** (as contemplated in S.31(1)(iii) of the HE Act) (sometimes labelled as **executive management**). Those involved are, in most cases, defined in the institution's Statute (e.g. one Statute defines "senior management" as meaning the Vice-Chancellor, deputy vice-chancellors, registrar, deans and executive directors) and where so defined their remuneration must be disclosed. Where the institution's Statute does not define **senior management**, or **executive management**, or a similar term in this way, senior management is deemed to comprise, at a minimum, Vice/Chancellor/Principal/Rector, Deputy Principal(s), Deputy Vice-Chancellor(s), Registrar, Chief Executive Officers of Finance, of Personnel/Human Resource Management and of Estates, and full-time executive Deans

7.8.1 Introduction

Disclosure of relevant financial and non-financial information is a fundamental component of evidence of "good and effective governance". This policy statement for technikons and universities requires standards of governance, management and financial reporting that are in line with South African Standards of Generally Accepted Accounting Practice and the King Report on Corporate Governance.

Public higher education institutions (HEIs) are empowered, in terms of the Higher Education Act 1997 (No. 101 of 1997), *inter alia*, to employ staff and to determine their remuneration. As regards the 'senior management' and other highly paid staff, there are no established or formal norms among institutions with regard to levels of compensation. In this regard, the placing of remuneration packages of all Vice-Chancellors and Senior Management in the public domain is seen as an important part of the process to ensure that the public higher education institutions, while autonomous, become more efficient and accountable for the utilisation of their intellectual, infrastructural and financial resources.

7.8.2 Policy

HEIs must report annualised compensation (gross remuneration) for all members of "Senior Management" as well as "exceptional payments" (as defined) above the specified amount to any such employee.

They must also report payments to non-employee members of Council, distinguishing between re-imbursive allowances, on the one hand, and fees for attendance at or membership of meetings, on the other.

7.8.3 Disclosure of compensation (gross remuneration) and of exceptional payments

The gross remuneration, as defined, must be disclosed, including the name and designated post occupied for each member of the "Senior Management".

The amount of "gross remuneration" for any individual should be expressed as an "annualised" figure.

Two categories of amounts are required:

- Gross remuneration
- Exceptional amounts

Gross Remuneration includes all amounts/facilities from the institution for which the individual is liable for income tax (other than amounts declared as "exceptional payments"). (Where an individual receives remuneration/compensation in a capacity other than his/her primary function, such remuneration/compensation must be included and an explanatory note provided. This must include all remuneration/compensation from affiliated bodies that form part of the consolidated financial statements of the institution). The amount of "gross remuneration" will be computed as the "cost to the employer" and will thus include the employer's contribution to health insurance and to post-employment benefits, e.g. pension.

Gross remuneration will, therefore, include:

(a) salaries;
(b) salary supplementations;
(c) fees, annual or special bonuses,
(d) allowances expressed in monetary terms,
(e) the deemed value (market or income tax value) of benefits of which the "rand" value is not given (low interest loans, free or subsidised use of an institution-owned vehicle, free or subsidised housing, employer contributions to pension and medical aid and other forms of insurance funds, etc.),
(f) overtime or commuted overtime payments
(g) employer's contribution to benefits

If an employee is required to live in specified accommodation in terms of the contract of employment, the income tax value, rather than a "market" value of the benefit must be used.
Where an employee receives any form of remuneration or benefit from an entity that falls within the scope of control of the institution and is thus "consolidated" in its financial statements, such amounts must be included

Taxes and levies, not related to individual employees, but paid by an employer in respect of its employee complement are not to be included.

Exceptional payments will include commutation of leave, special bonuses; amounts paid in respect of "restraint of trade", etc.

For the year ended 31 December 2002 the disclosure of "exceptional payments" of amounts received by an individual will apply where the aggregate amount for the year exceeds: **R249 999**

The example of the format and content of the required disclosure is included in Chapter 5.8 - Note 15 to the annual financial statements on page 47 above.

7.9 Additional information to be submitted to Department of Education

7.9.1 Introduction

The information required by the Department will, in addition to the "hard copy" financial statements, be contained on three Microsoft Excel spreadsheets. A copy of the "Excel workbook" will be supplied annually to institutions via e-mail. The format of the spreadsheets will be inserted in advance before the disks are sent to institutions. These formats must be used for inserting the relevant required financial data. The formulae in the spreadsheet "Indicators" are computed automatically but certain of the cells that are marked "—→" will require insertion of user specific data not contained in the spreadsheet of financial data.

The data on the disk must be inserted and submitted by the institution together with appropriate certification by the institution's auditors together with the institution's "Annual Report" not more than six months after the financial year-end date of a university/technikon. (A suitable audit report appears in Chapter 6 on page 48.)

IT IS ESSENTIAL THAT ALL INSTITUTIONS USE THE EXCEL WORKBOOK SUPPLIED ANNUALLY BY THE DEPARTMENT

7.9.2 Content

The data required on the three spreadsheets is separated into:

(i) basic financial data from the financial statements, and
(ii) performance/status indicators, the detail of which appears above.
(iii) supplementary financial data relating to
  (a) expenditure by activities
  (b) investments data and
  (c) borrowings data.

7.9.3 Purposes for which data are required

The data required on the three spreadsheets serves various essential purposes for the Department of Education. Firstly, it is necessary to have the financial information contained in the audited financial statements of all universities and technikons available in a format that facilitates analysis and interpretation. The Department has a responsibility to be constantly aware of the "financial health" of institutions and to be in a position to give advice on the financial "norms" that are indicative of sound financial management. Furthermore, the Department must, on a regular basis, be able respond to questions about the sector from parliament, from other state departments, from the media and from the general public.

The Department is aware of the necessity to be able to prepare scenario projections for improving its own planning processes as well as providing planning data to other state departments, e.g. Finance, to enable the future of higher education to be addressed on a sound footing. For these reasons it is essential that individual institutions, in preparing their annual submissions, prepare the projection data as accurately as possible. The need for the inclusion of the final annual budget figures for the reporting year will enable the department to assess any significant variations and, if there is seen to be a common trend among institutions, to inquire into possible causes and to address possible solutions.

7.9.4 Explanation of content required

The financial data for the reporting year, the corresponding data for the final approved budget for that year and the projected budgets for the following two years are required in columnar form. As regards the latter, the question arises whether changes in the value of money between the current and the subsequent year should be included in the final projection. It has been decided that these latter figures should assume the value of money at the time the projection is prepared, i.e. no account should be taken of inflation in the following year. Thus, only real increases or decreases are to be disclosed.

The basic financial data will require extraction, for the most part, of figures stated on the various financial statements. The items relating to the Income Statement must reconcile to the relevant aggregate amounts recorded in the appropriate segment, including the final surplus/deficit. Additionally, information is required that will require extraction from the working documents in the preparation of the final statements. The following clarification relates to the required information on personnel cost:

1. Data required on personnel costs include, as in the Income Statement, the cost of employment inclusive of all benefits, plus all statutory levies and taxes for which the employer is responsible. This does not include direct cost of, e.g., training, recruitment and relocation. **It is essential that, as with other items of expenditure, 're-current' be separated from 'extra-ordinary/non-recurrent' amounts.** Costs of retrenchments, prior year adjustments for accumulated leave and post-employment

benefits must be included as non-recurrent in both the Income Statement and in the data supplied on computer disk.

2. Academic staff: This includes all staff who are classified as academic staff by the institution, as well as researchers but not research support staff. Such staff will have teaching and/or research duties.

3. Library professional staff: Will comprise the holders of posts ordinarily requiring a qualification in library and information science.

4. Permanent staff are normally on pension or provident funds, but are distinguished by having open-ended appointments to retirement.

5. These costs must not include "outsource contract costs" associated with staff and student housing.

6. There are data requirements relating to student debt and amounts written off as irrecoverable but the latter does not include increases or decreases in provision made for probable irrecoverable amounts.
7. Information on bursaries and scholarships, on the one hand, and loans granted, on the other, will differentiate between those funded from the institution's own "Council controlled" funding and those specifically funded for these purposes, including amounts credited directly to student fee accounts from agencies, corporations or other such sources.

The data required on the separate spreadsheet for "performance indicators" are to be calculated exactly according to the formula in the relevant cell of the spreadsheet. The majority of the calculations will be computed automatically by means of the imbedded formulae but are dependent on the relevant data being correctly located in the first spreadsheet. Where manual calculations are required the line item is clearly identified.

The percentage changes between the data for the years "n", "n+1" and "n+2" reflected in the financial data provided, are calculated by means of imbedded formulae dependent on the relevant data correctly located in the first spreadsheet.

Formula to arrive at the "Capitalisation Indicator" - Clarification:

Example of the computation of the Capitalisation Measure:

Current Liabilities			
State Guaranteed Loans	X 1,0		0
Extra-ordinary Items*	X 1,0		0
Other	X 1,67	+R	287 836 000
Less Current Assets			
Deposits with public Debt Commissioners	X 1		0
Other	X 1	-R	-221 982 000
Sub-total			**65 854 000**
Add Non-Current Liabilities			
Extra-Ordinary*	X1,05		0
State Guaranteed	X 1,015		0
Other	X ,125	+R	11 022 000
Sub-total			**76 876 000**
Less Realisable value of Non-Current Investments			
Deposits with Public Debt Commissioners	X ,015		0
Other	X .75	-R	598 004 000
Sub-total			**-521 128 000**
Aggregate Depreciation Provisions	X .05	+R	17 786 000
Endowment, Agency, Trust Funds – should be represented by realisable assets	X ,75	+R	270 449 000
Residence funds	X ,5	+R	2 129 000
Other "Restricted funds"**	X ,5	+R	178 962
CAPITALISATION MEASURE		**R**	**-51 802 000**

* "Extra-Ordinary" current or non-current liabilities arise from situations not normally part of an institution's operations, e.g. amounts accumulated over a number of years and only now provided for employee or post employment benefits, e.g. accumulated leave entitlements

** "Other restricted funds" will exclude funds invested in PPE.

The above example illustrates the components and the relative weightings that are to be applied in the computation of the "capitalisation measure". The result is a subjective measure of the "going concern" status of a respective technikon or university.

The other indicators required are self-explanatory. For those indicators that require student or staff data the definitions to determine these must be consistent with the definitions used in the Higher Education Management Information System (HEMIS) to be found in the Glossary of terms used for that system, a print copy of which is available from the Department of Education.

APPENDIX A

FUNDAMENTAL DISTINCTION BETWEEN CORPORATIONS (COMPANIES) OPERATING IN THE PRIVATE SECTOR AND PUBLIC HIGHER EDUCATION INSTITUTIONS

The financing of corporations operating in the private sector is, apart from money borrowed, provided by individuals, corporate entities and others that do so in the expectation of deriving a flow of income (profit) in return for their investment. These individuals and corporations that provide this finance become the effective "owners" (shareholders) of the corporation.

The operation of such corporations is entrusted (mandated) to a group of professional managers (directors) who are responsible for the strategic direction of the corporation and for its day-to-day operations. The directors also decide on the proportion of the profits made by the entity that should be given to the shareholders as "dividends". If, at annual meetings, the shareholders do not approve of the decisions and actions of the directors they can, by resolution, remove the existing board and appoint new directors.

The financial interest of the shareholders is expressed in the annual financial statements of a corporation as the difference between "Total Assets and Total Liabilities" and is referred to as the "Shareholders Equity". Shareholders equity comprises the financing provided (Share Capital) and the earnings/profits retained (Reserves) for the ongoing operations of the corporation.

The amount of the Equity disclosed on a Balance Sheet is not intended to reflect the real value of the ownership of a corporation. In the case of listed/quoted corporations this value is a derivative of the values at which shares change hands on the Stock Exchange and thus from what a willing buyer is prepared to pay to a willing seller.

By contrast, Public Higher Education institutions (HEIs) are creations of the state by a general Higher Education Act and by individual Statutes covering the governance, administration and structures enacted by each HEI. However, these institutions are not organs of the state although the state provides the initial funds to establish the infrastructure, and provides a significant proportion of the funding for annual operating costs. The state is not legally entitled to exercise direct control over individual institutions, each of which is a separate autonomous legal entity.

In terms of the Higher Education Act, each institution must establish a "Council" (akin to a board of directors in private sector corporations) that is mandated by the state to provide strategic direction for the institution "in its best interests" and to appoint senior executive staff responsible for the management and operation of the institution. A Council also monitors the performance of the management of an institution. The Vice-Chancellor/Principal/Rector of a higher education institution is equivalent to a "chief executive officer/director" of a company in the private sector. The Vice-Chancellor/Principal/Rector is accountable to the Council for her/his actions.

Neither the Council nor the state or any other "stakeholders" in HEIs can be seen to be equivalent to the shareholders of a company. The funds received by an HEI and any of its operating surpluses belong to it, but certain of the funds received will be subject to legal obligations or limitations on their use imposed at the time of their receipt.

Funds that are provided or accrue to an HEI are either for its general operational/infrastructural needs or are for specifically identified (by the provider) purposes. In the former case the Council is both responsible for, and controls the use of, such funds. In the latter case the Council is responsible for ensuring that the funds are used according to the mandate under which they were provided. Council may, however, refuse to accept such funding on the grounds that its use would be contrary to the strategic objectives or principles of the institution.

The "Capital" of an HEI at any point, but especially as a measure at the end of a financial reporting period, comprises funding over which Council exercises both control and responsibility, on the one hand, and funds over which the Council has responsibility but not control, on the other. These are separately identified respectively as "Unrestricted Funds" and "Restricted Funds". In addition, there are funds received that were utilised to develop the infrastructure of the institution that are not "expensed" and appear on its Balance Sheet as "Non-Current Assets – Property, Plant and Equipment (PPE)". The "Funds Group" appearing on the Balance Sheet comprise, therefore, (i) Utilised Funds - PPE; (ii) Unrestricted Funds, and (iii) Restricted Funds. The unrestricted funds are those that are under the absolute, unfettered control of the Council. The restricted funds (which will eventually be utilised for the specified purposes) are analogous to "Moneys in Trust" in so far as their disbursement is legally dependent on those purposes for which they were provided and are thus not under the "control" of the Council.

It is thus apparent that the term "Equity" is not applicable to HEIs as the term expresses "an ownership entitlement". The Oxford English Dictionary definition of "equity" would preclude its application to the relationships of an HEI with its stakeholders.

The relationships within individual structures in a private sector corporation and those within a HEI in the public sector, is completely different: the control aspect of the finance available differs; the proprietary interests are different. However, within these differences there is the common essential requirement for accountability within structures for good governance. In the case of private corporations the accountability is to the shareholders/owners and in the case of HEIs it is to the state and other stakeholders. It is the state and the implicit requirements of good governance and the appropriate standards of financial reporting that determine the format and content of this accountability.

The rule of consistency in financial reporting requires that like items must be subject to like treatment. All funds that are restricted in use, whether surpluses on activities funded from "restricted funds" or donations received for specified activities prior to the commencement of all or portion of the designated activity – must be treated alike. The treatment of a "restricted donation" in these circumstances as a "deferred income" liability is inconsistent with the recognised treatment of surpluses arising from donor specified activities that are likewise restricted and are thus added to the respective restricted fund.

Furthermore, the inclusion of restricted funds among Non-Current Liabilities cannot be justified on legal grounds as the institution has title to the funds as long as it is capable of fulfilling the terms under which they were granted. If there are realistic grounds for believing that the institution will not be in a position to utilise these funds as required and, as a result, will have to return the money, then and then only should the respective amount be disclosed with Current or Non-Current Liabilities as the case may be. In fact, the concept of "deferred income" is irrelevant within the funding of specified activities at HEIs. Even in a situation of a "use it or lose it within an identified time period" clause in a funding agreement for a specified activity, any balance of funds remaining at the end of that period ceases to be part of the institution's "funding pool" and becomes a current liability which is due to the provider of the funds.

APPENDIX B

IDENTIFYING CONTROL, JOINT CONTROL AND SIGNIFICANT INFLUENCE RELATIONSHIPS

Bases for consolidation

In view of the creation of increasing numbers of corporate entities (including trusts) within and on the actual corporate "boundaries" of technikons and universities, the treatment of the finances of these entities has assumed significant importance in reporting on the finances of the institutions

[Extracted and adapted from a paper prepared by Prof. A Watson of UCT]

1. INTRODUCTION

Group financial statements are required to include the results of all entities over which a HE institution has at least significant influence (this would include entities controlled, jointly controlled or significantly influenced). There are a number of different ways in which the results are included, depending on the degree of influence that the institution is able to exert. These methods include consolidation, proportionate consolidation or equity accounting.

All the methods result in recognition of the profit/loss when it is earned as opposed to when it is distributed, and a balance sheet impact that is related to the underlying share of net assets of the enterprise as opposed to the cost of the investment. All three methods require goodwill on acquisition to be amortised over its useful life as an expense, and the elimination of unrealised profits on transactions between "group" entities.

If the institution has enterprises that are controlled, jointly controlled or significantly influenced, the "group" financial statements has to include the results of the enterprise unless:

1. The investment is acquired and held exclusively with a view to its subsequent disposal, or
2. It operates under severe long-term restrictions, which significantly impair its ability to transfer funds to the parent. This is usually considered to be exchange control restrictions, but could include any enterprise that is controlled by the institution that institution is not able to benefit from as a result of restrictions.
3. The results of the enterprise are not material.

2. CONTROL

Control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities (AC131:09). If an enterprise is controlled, it is required to be consolidated in almost all circumstances.

Control is presumed to be obtained when one enterprise acquires more than half of the voting rights of another enterprise unless, in exceptional circumstances, it can be demonstrated that such ownership does not constitute control. It is possible that one enterprise can acquire control over another enterprise despite not having more than half of the voting rights. AC 131 identifies the following circumstances in which control results from the:

"(a) power over more than one half of the voting rights of the other enterprise by virtue of an agreement with other investors;
(b) power to govern the financial and operating policies of the other enterprise under a statute or an agreement;
(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body of the other enterprise, or
(d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body of the other enterprise" (AC 131:11; IAS 22:10).

It is worth noting that control over an enterprise requires having the ability to direct or dominate its decision-making, regardless of whether this power is actually exercised. The ability to govern decision-making must be accompanied by the objective of obtaining benefits from the entity's activities.

An interpretation (AC412) on the consolidation of special purpose entities (SPEs) is relevant for an institution as it specifically looks at the definition of control in SPEs. If an SPE is controlled it must be consolidated. Control may arise through the predetermination of activities of the SPE, and may exist even in cases where an enterprise owns little or none of the SPE's equity. AC412 lists the following situations that are likely to indicate a control relationship by the enterprise):

1. in substance, the activities of the SPE are being conducted on behalf of the enterprise according to its specific business needs so that the enterprise obtains benefits from the SPE's operations,
2. in substance, the enterprise has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an "autopilot" mechanism, the enterprise has delegated its decision making powers,
3. in substance, the enterprise has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE, or
4. in substance, the enterprise retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

IFAC Public sector committee has very useful guidance on this issue in ED 6 (paras 31 to 34). These paragraphs have been reproduced as they could be used as a basis for determining control:

Determining whether control exists:

31. "In examining the relationship between two entities, control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exist. Under these circumstances, the presumption that control exists is only rebutted where there is clear evidence of control being held by another entity.

Power conditions

(a) The entity has, directly or indirectly through controlled entities, ownership of a majority voting interest in the other entity.

(b) The entity has the power, either granted by, or exercised within, existing legislation, to appoint or remove a majority of the members of the governing body of the other entity.

(c) the entity has the power to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a general meeting of the other entity.

(d) The entity has power over more than one half of the voting rights in the other entity (where its ownership interest is in the form of a shareholding or other formal equity structure).

Benefit conditions

(a) The entity has the power to extract distributions of assets/financial assets from the other entity.

(b) The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits.

32. When one or more of the circumstances listed in paragraph 31 does not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control.

Power indicators

(a) The entity has the ability to veto operating and capital budgets of the other entity.

(b) The entity has the ability to veto, overrule, or modify governing body decisions of the other entity.

(c) The entity has the ability to approve the hiring, reassignment, and removal of key personnel of the other entity.

(d) The mandate of the other entity is established, and limited by, legislation.

(e) The entity holds a "golden share" (or equivalent) in the other entity that confers rights to govern the financial and operating policies of that other entity.

Benefit indicators

(f) The entity holds direct or indirect title to the net assets/net financial assets of the other entity with an ongoing right to access these.

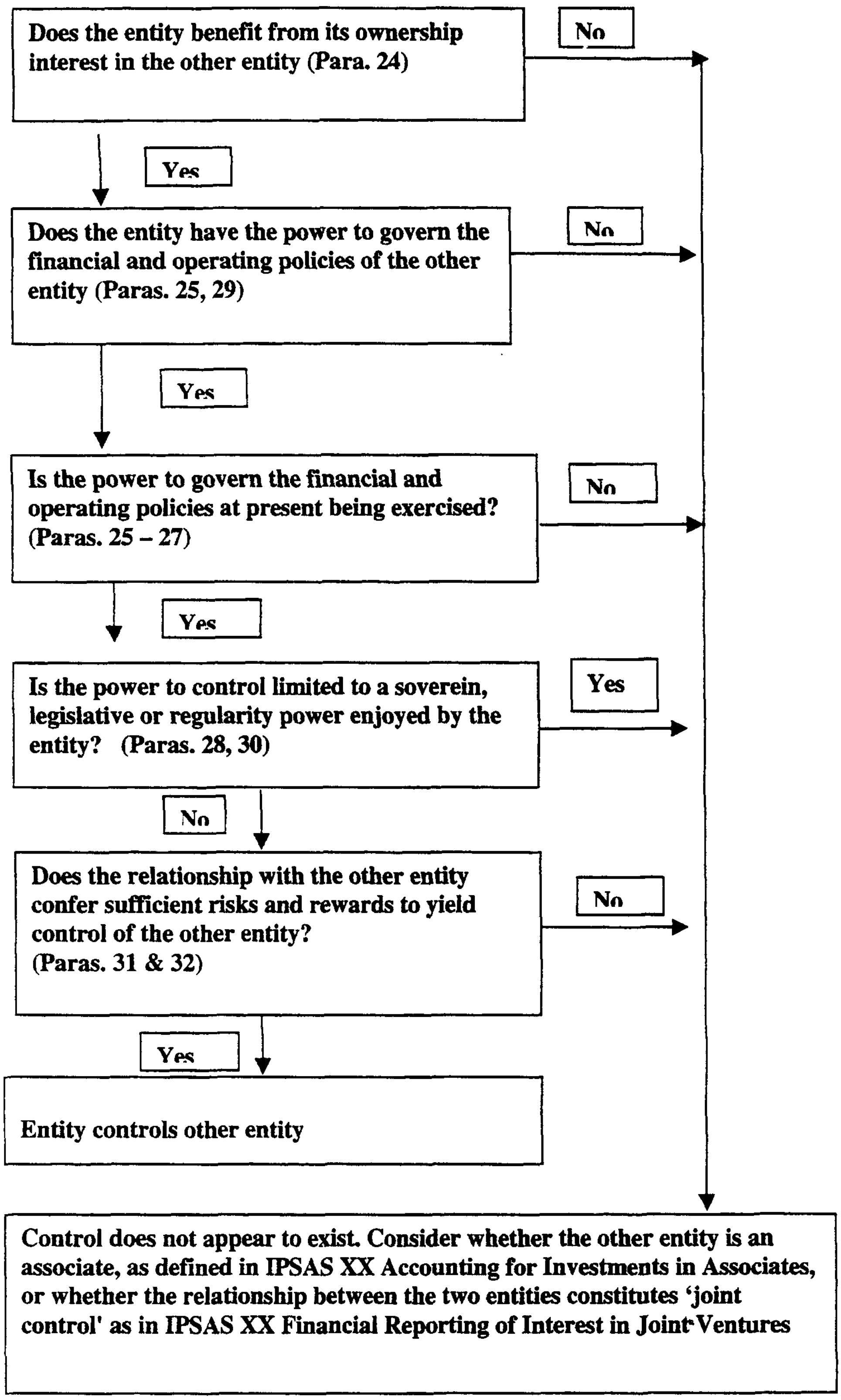
(g) The entity has a right to a significant level of the net assets/net financial assets of the other entity in the event of a liquidation or in a distribution other than a liquidation.

(h) The entity is able to direct the other entity to co-operate with it in achieving its objectives.

(i) The entity is exposed to the residual liabilities of the other entity.

33. The following diagram indicates the basic steps involved in establishing control of another entity. It should be read in conjunction with paragraphs 23 to 32 above."

Establishing Control of another Entity



3. JOINT CONTROL

Joint control is the contractually or otherwise agreed sharing of control over an activity.

Where two or more parties are committed to undertaking an activity which is subject to joint control in terms of a **binding** arrangement, this is known as a joint venture. The word "binding" has been highlighted as that is a significant difference between the usual GAAP requirements, and the definition in terms of the public sector ED.

In terms of AC119 (or internationally, IAS31), the definition of a joint venture is the same, except that the word "contractual" is used instead of binding. This change is intentional in order to broaden the application of the Standard to both contractual and binding arrangements. The definition in AC119 includes the word "economic", which has been deleted from the public service ED definition. This is also deliberate, as it is intended to broaden the definition to include activities that do not generate cash flows.

In terms of the definition, if an institution has a binding arrangement to share control over an enterprise, that enterprise is a joint venture and must be accounted for in terms of the selected policy. The accounting implications depend on the way in which the venture is structured. A joint venture may take the form of jointly controlled operations, jointly controlled assets and jointly controlled enterprises. In the first two cases, the institution's accounts would automatically include the attributable portion of the joint venture. If the joint venture is in the form of a separate enterprise, then adjustments in the group financial statements are required either in the form of equity accounting or proportionate consolidation, depending on the policy selected.

Binding arrangement:-
To be a joint venture, there needs to be a binding arrangement to establish joint control. The arrangement may be as a result of a contract, in terms of legislation, articles or by-laws of the joint venture. Whatever its form, the arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the joint venture

(b) the appointment of the board of directors or equivalent governing body of the joint venture and the voting rights of the venturers,

(c) capital contributions by the venturers; and

(d) the sharing by the venturers of the output, revenue, expenses/expenditures, surpluses or deficits, or cash flows of the joint venture.

The arrangement must establish joint control over the joint venture. Such a requirement ensures that no single venturer is in a position to assume unilateral control of the activity (in which case it should be consolidated). The arrangement will identify those decisions in areas essential to the goals of the joint venture which require the consent of all the venturers and those decisions which may require the consent of a specified majority of the venturers.

SIGNIFICANT INFLUENCE

Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

Whether an investor has significant influence over the investee is a matter of judgement based on the nature of the relationship between the investor and the investee. In a normal company situation, there is a presumption that a shareholding of between 20% and 50% will give rise to significant influence.

The existence of significant influence by an investor is usually evidenced in one or more of the following ways:

(a) representation on the board of directors or equivalent governing body of the investee
(b) participation in policy making processes
(c) material transactions between the investor and the investee
(d) interchange of managerial personnel, or
(e) provision of essential technical information.

If an institution has significant influence over investees, the investee must be accounted for on the equity method. **[End of Prof. Watson's paper]**

WHERE NEITHER CONTROL NOR SIGIFICANT INFLUENCE EXISTS

There will be situations where funds are provided to a separate legal entity specifically or implicitly intended solely or almost solely for a particular higher education institution (*HEI*) and for which the appropriate "tax deduction certificate" is provided, but the institution has neither control nor significant influence over that entity as defined above. In such cases the entity will be deemed to be holding such funds on behalf of the institution and these must be brought to account in its financial statements as should the corresponding deposit of these funds with the specific entity. Alternatively, the entity's financial statements should be consolidated with those of the *HEI*.