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 expoşures 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

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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

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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	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

←-------- EDUCATION AND GENERAL------→

	NOTES	COUNCIL CONTROLLED UNRESTRICTED	SPECIFICALLY FUNDED ACTIVITIES RESTRICTED	SUB-TOTAL	STUDENT AND STAFF ACCOMMODATION RESTRICTED	TOTAL	20nn-1
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.**