

GENERAL NOTICE

DEPARTMENT OF HIGHER EDUCATION AND TRAINING

No.,

Date.....

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

SCHEDULE

**REGULATIONS FOR REPORTING
BY PUBLIC HIGHER EDUCATION INSTITUTIONS**

Issued in terms of the Higher Education Act, 1997, as amended.

1 GENERAL DEFINITIONS

"Auditor" means any person registered as such in terms of the Auditing Profession Act, 2005 (Act No. 26 of 2005);

"Audited" means audited under the International Standard on Auditing as issued by the International Auditing and Assurance Standards Board (IAASB) and the Public Audit Act 25 of 2004

"Council" means the governing body of a public higher education institution as prescribed by the Higher Education Act, 1997 (Act No. 101 of 1997);

"Council controlled funds" includes the total of all funds, both encumbered and unrestricted, that are under the control of the council, but does not include restricted funds;

"Department" means the Department Higher Education and Training as the government department responsible for higher education;

"Designated funds" means those funds of a higher education institution under the control of the Council but are designated or earmarked for a specific purpose due to contractual agreement with an outsider or otherwise, or which for some reason are not freely available as operating funds;

"Employee cost" means the total of gross remuneration of employees plus other employment costs that would include the movement in employee related accruals (including but not limited to the movement in the value of outstanding leave accrual, movement in the value of the post retirement medical provision, etc.);

“Gross remuneration” means the full cost to the institution of all payments in cash and otherwise as defined in the Income Tax Act 58 of 1962;

"Higher Education Act" means the Higher Education Act, 1997 (Act No. 101 of 1997);

“King III” means the King Report on Corporate Governance in South Africa, 2009, together with the King Code of Corporate Governance in South African, 2009;

“IFRS” means International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB);

"Institutional statute" means any statute made by the council of a public higher education institution under section 32 of the Higher Education Act, 1997 (Act No. 101 of 1997);

"Minister" means the Minister of Higher Education and Training;

"Public higher education institution" means any public higher education institution that is established, deemed to be established or declared as a public higher education institution under the Higher Education Act, 1997 (Act No. 101 of 1997);

"Restricted funds" means those funds of a public higher education institution that may be used only for the purposes that have been specified in legally binding terms by the provider of such funds or by another legally empowered person;

"SA GAAP" means the South African Statements on Generally Accepted Accounting Practice as published by the South African Accounting Practices Board;

"Senate" means the body contemplated in section 28 of the Higher Education Act, 1997 (Act No. 101 of 1997), and includes an academic board;

"Senior management" means the employees of a public higher education institution designated as such in its Institutional Statute;

"Unrestricted funds" means those funds of a public higher education institution that fall within the unrestricted control of its council and does not include designated funds.

"Vice-Chancellor" means the head/chief executive or accounting officer of a public higher education institution and includes a Principal or a rector;

2. APPLICATION

These Regulations for Reporting apply to all public higher education institutions.

3. DATE OF COMMENCEMENT

These Regulations for Reporting take effect on publication.

4. PERFORMANCE PLAN

- a) A public higher education institution must prepare a Performance Plan in the prescribed format for approval by the Department in order to regularize the reporting of public higher education institutions.
- b) A Performance Plan must—
 - i. cover a period of five years and be consistent with goals and objectives as stated in a public higher education institution's strategic plan;
 - ii. include the predetermined objectives and outcomes identified as agreed between a public higher education institution and the Department.
 - iii. include the key performance measures, key performance indicators and performance targets for assessing a public higher education institution's performance in delivering the desired outcomes and objectives;
 - iv. include cash flow projections of revenue and expenditure for the following three years;
 - v. includes a public higher education institution's projected budget for the following three financial years;
 - vi. include proposed borrowings for each year;
 - vii. include a risk register which documents the identified risks; the likelihood of any such risks occurring; assessment of the identified risks' potential impact and the measures put in place to mitigate the risks.
 - viii. form the basis for the annual report of a public higher education institution; and
 - ix. be updated annually.
- c) The Performance Plan must be submitted to the Department on or before 31 August of each year to allow for further engagement between the two parties.
- d) The Department should approve the Performance Plan on or before 30 October where after it should be signed on or before 30 November by the Chairperson of Council on behalf of a public higher education institution and approved by the Minister on behalf of the Department.
- e) Council should not approve a deficit budget, where projected expenditure is above three percent of total income, unless the Department first endorses such a budget after engagement with and motivation by a public higher education institution concerned.

5 QUARTERLY REPORTING

- a) In order to facilitate effective in year performance monitoring, evaluation and corrective action, a public higher education institution must establish procedures for quarterly reporting and assessment with regard to implementation and achievements of predetermined objectives including financial management.
- b) The quarterly report should include information in relation to the financial health of the institution with respect to the financial year under review as well as progress made and expenditure in relation to the predetermined objectives.
- c) Council must review the process and should submit to the Department, 60 days after the end of each quarter the quarterly reports and a statement signed by the Chairperson of Council and Vice-Chancellor, confirming that Council has reviewed the quarterly reports as well as highlighting areas of concerns if any. This should include a cash flow statement and an abridged income statement.
- d) After analysing the financial statements or other information, the Department may call for more information from an identified institution allowing a reasonable timeframe to submit such requested information after discussion thereof with the identified institution.

6 ANNUAL REPORT

- a) A public higher education institution must on or before 30 June of each year submit three hard copies and an electronic version of its annual report in respect of the previous financial year on the prescribed format indicating among other things the extent to which the objectives as set out in the performance plan have been met.
- b) The performance report should be signed by the Chairperson of Council and the Vice-Chancellor. Engagement between the Department and a public higher education institution will be arranged by the Department to discuss the performance as reported in the annual report.
- c) The annual report must include the following information with respect of the financial year under review:
 - i. The performance report on achievement of objectives set for the period under review as well the measurement criteria used;
 - ii. The report of the chairperson of the council;
 - iii. The report of the Vice-Chancellor on management and administration;
 - iv. The council's statement on governance as per King III Report on Corporate Governance;
 - v. The council's statement on sustainability;

- vi. The senate's report to the council;
- vii. The institutional forum's report to the council;
- viii. The council's report on risk assessment and the management thereof;
- ix. The statement of the Finance Executive and the Chairperson of the Finance Committee on the Annual Financial Review;
- x. The council's report on transformation;
- xi. The audited annual financial statements, which must comply with the South African Statements of Generally Accepted Accounting Practice (SA GAAP) or International Financial Reporting Standards (IFRS). The consolidated Statement of Comprehensive Income should differentiating in separate columns between (1) Council Controlled unrestricted, (2) Specifically funded and (3) Student and staff accommodation restricted;
- xii. Disclosure of GROSS remuneration of senior management and Council members (as a note to the annual financial statements); and
- xiii. The supplementary financial data (through a CD, e-mail or other form and as an attachment to the annual report) verified by the auditor under a "agreed upon procedures report" in accordance with International Standards on Related Services issued by the IAASB. The Auditors' procedures are to agree to the submission of financial data to the audited financial statements or other accounting records / other academic records.

d) Disclosure of remuneration of senior management

Annualised Gross Remuneration for Senior Management and Council members must show the remuneration of each individual in a format to be provided by the Department.

e) Other information

- i. A table of Council members with their representative constituency must be included in the annual report categorized as internal or external.
- ii. A public higher education institution must submit to the Department a copy of the record of proceedings (minutes) at council meetings, agenda and a copy of the attendance register 45 days after the date of such a council meeting.

- iii. After analysing the financial statements or other information, the Department may call for more information from an identified institution allowing a reasonable timeframe to submit such requested information after discussion thereof with the identified institution.

7. COMPLIANCE WITH THE RECOMMENDATIONS OF THE KING REPORT ON GOVERNANCE FOR SOUTH AFRICA –2009 (KING III)

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 public higher education institutions, with the content and recommendations of King III.

It is important to note that King III has opted for an ‘apply or explain’ governance framework. Where the Council believes it to be in the best interests of a public higher education institution, it can adopt a practice different from that recommended in King III, but must explain it. Explaining the different practice adopted and an acceptable reason for it, results in consistency with King III principles.

The framework recommended by King III is principles-based and there is no ‘one size fits all’ solution. Public higher education institutions are encouraged to tailor the principles of the Code as appropriate to the size, nature and complexity of their organisation.

**DEPARTMENT OF HIGHER EDUCATION AND TRAINING
REPUBLIC OF SOUTH AFRICA**

**IMPLEMENTATION MANUAL FOR
REPORTING
BY
PUBLIC HIGHER EDUCATION INSTITUTIONS
(Third Edition)**

<http://www.dhet.gov.za/>

2012 Department of Higher Education and Training, Pretoria

IMPLEMENTATION MANUAL FOR REPORTING BY PUBLIC HIGHER EDUCATION INSTITUTIONS

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1. INTRODUCTION

Public higher education institutions in South Africa enjoy considerable statutory independence. This independence makes it important that the structures of governance and management of these institutions should 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 international generally accepted practice.

2. PURPOSE OF THE MANUAL

The primary purpose of this manual is to provide a framework for reporting by public higher education institutions aimed at ensuring minimum standards of reporting by governance structures and by management. The manual constitutes the determination of the Minister of Higher Education and Training in terms of the Higher Education Act, 1997 (Act No. 101 of 1997), as amended.

3. OBJECTIVES OF THE IMPLEMENTATION MANUAL

The governance, management, and financial reports must reflect the extent to which an institution's objectives in terms of its vision, mission, and strategic targets have been achieved, as well as showing that the structures of governance and of management/administration conform to accepted norms of corporate practice.

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 these requirements. Financial data and derived indicators must, however, interrelate with the other non-financial data required from public higher education institutions 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 the providers and users of such information. This manual sets out to achieve this aim by:

- prescribing the formats, principles, practices and definitions associated with the reporting statements illustrated in this manual, as well as providing examples of format and content for the preparation of various reports and statements;
- providing a framework for reporting on predetermined objectives and the assessment of their achievements in relation to performance measures and as part of annual financial reporting requirement.

- prescribing financial accounting recording principles and practices associated with higher education requirements to maintain separately identifiable records of funds received for specified purposes, and for the expenditure of those funds;
- providing the Minister with a tool to monitor institutional compliance with relevant legislation, and further monitor councils' ability to promote efficiency, effectiveness, and ethical behaviour when exercising control over state resources.

4. GOVERNANCE OF SOUTH AFRICAN PUBLIC HIGHER EDUCATION INSTITUTIONS

Conditions confronting higher education institutions have become more demanding with regard to 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.

Compliance with the demands on public higher education institutions to adopt the best governance, 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.

The philosophy of the King Report on Governance (King III) revolves around leadership, sustainability and corporate citizenship:

- Good governance is essentially about effective leadership. Leaders should rise to the challenges of modern governance. Such leadership is characterised by the ethical values of responsibility, accountability, fairness and transparency and based on moral duties. Responsible leaders direct institutional strategies and operations with a view to achieving sustainable economic, social and environmental performance.
- Sustainability is the primary moral and economic imperative of the 21st century. It is one of the most important sources of both opportunities and risks for public higher education institutions. Nature, society, and public higher education institutions are interconnected in complex ways that should be understood by decision-makers. Most importantly, current incremental changes towards sustainability are not sufficient – we need a fundamental shift in the way public higher education institutions act and organise themselves.
- The concept of corporate citizenship which flows from the fact that a public higher education institution is a juristic person and should operate in a sustainable manner. Sustainability considerations are rooted in the South African Constitution which is the basic social contract that South Africans have entered into. The Constitution imposes responsibilities upon individuals and juristic persons for the realisation of the most fundamental rights (from the King III report).

The above mentioned focus areas of King III would require reporting on the achievement of the institution of these, in what would be referred to as an “integrated report”. By issuing integrated reports, a public higher education institution increases the trust and confidence of its stakeholders and the legitimacy of its operations. It can increase a public higher education institution’s business and educational opportunities and improve its risk management. By issuing an integrated report internally, a public higher education institution evaluates its ethics, fundamental values, and governance, and externally improves the trust and confidence which stakeholders have in it. King III therefore recommends integrated sustainability performance and integrated reporting to enable stakeholders to make a more informed assessment of a public higher education institution (from the King III report).

Governance responsibilities of Council:

- Council should provide effective leadership based on an ethical foundation;
- Council should ensure that a public higher education institution is and is seen to be a responsible corporate citizen;
- Council should ensure that public higher education institutions’ ethics are managed effectively;
- Council should act as the focal point for and custodian of governance;
- Council should appreciate that strategy, risk, performance and sustainability are inseparable;
- Council should ensure that there is an effective and independent audit committee
- Council should be responsible for the governance of risk;
- Council should be responsible for information technology (IT) governance;
- Council should ensure that public higher education institutions comply with applicable laws and considers adherence to non-binding rules, codes and standards;
- Council should ensure that there is an effective risk-based internal audit;
- Council should appreciate that stakeholders’ perceptions affect public higher education institutions’ reputation;
- Council should ensure the integrity of public higher education institutions’ integrated report;
- Council should report on the effectiveness of public higher education institutions’ system of internal controls; and
- Council and management should act in the best interests of public higher education institutions.

The promotion of economy, efficiency, effectiveness, and ethical behaviour in accordance with relevant legislation depends on adequate management measures for, amongst other things, the planning, budgeting, authorisation, control and evaluation of the procurement and utilisation of resources. At the same time it is essential for every public higher education institution to maintain the quality in its primary activities of education (teaching and learning) and research so that they conform to acceptable standards. It is the responsibility of a Vice-Chancellor, through the executive management team, to institute these management and operational measures. It is the responsibility of the Council to ensure that an institution's primary operations and its 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 for public higher education institutions information systems to support "best practice" in general and sound financial management. In respect of the latter, it is necessary to facilitate more flexible financial planning and reporting processes in order to enable the management of a public higher education institution to budget, allocate and employ its financial resources to the best advantage of the institution and with the minimum of restrictions.

The Higher Education Act requires public higher education 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 III and in their financial reporting they should comply with the standards as codified in the South African Statements of Generally Accepted Accounting Practice (SA GAAP) /International Financial Reporting Standards (IFRS).

However, the form of presentation of an Annual Report is adapted from what is in general use in the private sector in order, amongst other things, to acknowledge the identification of the different purposes for which funds are held and used in public higher education institutions.

5. ACCOUNTABILITY

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 public higher education institutions the following delegated powers and responsibilities are provided for in terms of the Higher Education Act:

- The duly constituted Council:

The council must govern a public higher education institution, subject to the Higher Education Act and the institutional statute. The emphasis on governance is prominent in this legislated requirement.

- The duly constituted Senate:

The senate is accountable to the council for the academic and research functions of a public higher education institution and must perform such other functions as may be delegated or assigned to it by the council

As the core function of a public higher education institution teaching and research deals specifically with the principle of ensuring sustainability. Senate therefore has an active role to play, in support of council.

- The duly appointed Vice-Chancellor:

The Vice-Chancellor is responsible for the management and administration of a public higher education institution.

Management and administration encompass risk management, the governance of information technology, risk-based internal audit and integrated reporting. These are all specific principles dealt with in King III.

- The duly appointed Institutional Forum:

The Institutional Forum of a public higher education institution must advise the council on issues affecting the institution; and perform such functions as determined by the council.

Each of these structures has the obligation to account for actions performed under their respective mandates. By law they are required to provide such account to the state through the Minister of Higher Education and Training and, according to accepted practice, to report to other stakeholders, which would normally include staff and students of the institution, its donors and alumni and members of the community in which it is located or serving.

6. CONTENT AND FORMAT OF ANNUAL REPORTS

The following is a representation or example of the content and format of the Annual Report that each public higher education institution is required to submit.

References in bold type are to page numbers in the King III published. All public higher education institutions 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 that is applicable to a public higher education institution.

The reports on governance and operations comprise of the following:

- Performance report
- Report of the Chairperson of the Council
- Council's statement on governance
- Council's statement on sustainability
- Senate's report to the Council

- Report of the Institutional Forum to the Council
- Report of the Vice-Chancellor on management/administration
- Report on internal administrative/operational structures and controls
- Report on risk exposure assessment and the management thereof
- Annual financial review
- Report of the audit committee
- Report on Transformation

a) Performance report

This report must indicate the extent to which the goals, as well as strategic and predetermined objectives and outcomes identified by a public higher education institution as agreed with the Department have been achieved. The report should refer to the key performance measures; indicators and targets as stated in the Performance Plan. The report should provide reasons for the under achievement of objectives and its impact on the public higher education institution and the stakeholder. A public higher education institution should indicate how it intends to address the shortcoming related to areas where achievements of objectives were below target.

The report should be signed by the Chairperson of Council and the Vice-Chancellor

b) 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 a public higher education institution during the period under review.

The respective reports must reflect not only the effect of decisions and actions taken and the influence, both past and present, of these decisions and actions but also the effect that these, and possibly other decisions and actions, will have on a public higher education institution in the future. In this latter regard the relationship between decisions and actions and the articulated mission, strategies, objectives, and plans of a public higher education institution should be incorporated in the report. 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.

The Report of the Chairperson of Council would include: (King III Chapter 9 Chapter 7 Chapter 6 Chapter 3, Chapter 2, Chapter 1; Chapter 4; Chapter 5, Chapter 8)

This is an integrated report that conveys adequate information about the operations of a public higher education institution and its sustainability and financial reporting. It should include a performance review encompassing economic, social and environmental aspects and

should not confine itself to past issues but should provide forward looking information to place the reported results and performance in context and to show transparency. King III recommends the following:

- Effective ethical leadership and Corporate Citizenship;
- Governance of Risk;
- Governance of Information Technology;
- Compliance with laws, Codes, Rules and Standards;
- Governing Stakeholder Relationships (worker, student and other stakeholders) Comment should probably be made about the social demands facing public higher education institutions: Freed education; equal access; promotion of PDI's; quality; industry demands (e.g. shortage of civil engineers, CA's); etc. This would be in response to the King III principles dealing with the governance of stakeholder relationships; and
- Remuneration of Councillors dealing with the policies, appraisals and amounts.

Council must disclose that a public higher education institution is a going concern and indicate whether it will continue to be a going concern. If not, Council must give the reasons and the steps it is taking to remedy the situation

Council are required to make a statement, outside of the financial statements, that they have established formal policies and frameworks for the design and implementation of the system of internal financial controls and that a review of internal financial controls has taken place. The Council should also make a statement on the effectiveness of a public higher education institution's internal financial controls.

Financial control inadequacies, whether from design, implementation or execution, that are considered material individually or in combination with other inadequacies that resulted in actual material financial loss, including fraud and/or material errors, should be reported to Council and disclosed in Council's integrated report.

Council must report on risk management in its report and particularly with regard to the following:

- Council are required to make a statement on risk management wherein they comment on how a public higher education institution has dealt with the risk management issue. It should provide a statement that the Council is responsible for the total process of risk management as well as forming its opinion on the effectiveness of the process. Council should disclose the system that it has put in place to support its opinion, including independent and objective reviews of the risk management processes within a public higher education institution.

- Make a disclosure confirming that Council maintained a reporting system that enabled it to monitor changes in a public higher education institution's risk profile and gain an assurance that risk management was effective.
- Disclose that a public higher education institution has and maintain an efficient and effective process of risk management to manage key risks and accordingly Council is not aware of any key risk current, imminent or forecast that may threaten the sustainability of a public higher education institution.
- Disclose any material losses and their causes that a public higher education institution has suffered in the period. (Materiality is as defined by the predetermined and communicated levels of materiality in line with a public higher education institution's risk appetite). In disclosing these, Council should quantify and disclose the effect of these losses on a public higher education institution and indicate the steps taken to prevent a recurrence.
- Council must demonstrate that it has dealt with the issues of risk management. This requires appropriate disclosure on matters such as risk tolerance and the risk management process,
- Council should assess a public higher education institution's degree of risk management maturity and disclose its findings in its report.
- In the event of non disclosure of any item the Council should provide a suitable explanation:
 - Disclose the role of the audit committee and whether the audit committee has adopted formal terms of reference and if so, whether the committee satisfied its responsibilities in compliance with its terms of reference;
 - A description of how the audit committee carried out its functions;
 - A statement as to whether the audit committee is satisfied that the auditor was sufficiently independent; and
 - In the event that Council decided not to establish an internal audit function, full reasons should be disclosed with an explanation as to how Council assures effective governance, risk management and internal control.

Council should provide in its report a statement of self-assessment of the achievement of the Council in attaining objectives set for the period under review with summary detail of realized achievements (self-evaluation) including the measurement criteria used. This information should be indicated in the Performance Report. A summary of attendance by members at meetings of the Council should be included.

This report also deals with the evaluation of the Council, its committees and its members.

Matters of significance considered by the Council during the period must be provided in the Council's report. This should include operational information such as 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).

Council should report on its achievements in meeting social responsibility commitments, including the composition of staff and student bodies.

Council must report on financial health/viability, including funding sources and material changes. The report should include not only the positive aspects, but also some of the challenges faced.

In respect of all Council sub-committees, a statement that those with a mandate of strategic or financial significance are chaired by external 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.

Council must also report on Campus development; facilities and major capital works; Events; Student services; Distance learning; Working with industry and Significant changes that have taken place.

Councils should give due consideration and report on the following:

- Where there are borrowings or additional borrowings have been raised in the year, a specific statement that these were properly approved in accordance with the Higher Education Act;
- Where there have been additional investments in infrastructure, a specific statement that these were properly approved in accordance with the Higher Education Act;
- Where the audit report has been qualified (on either the financial reporting or the Regulatory compliance), a statement to this effect, the reasons for the qualification and the steps being taken by Council to remedy the situation be provided. Where the audit report contains emphasis of matter, a statement to this effect, the reasons for the statements of emphasis of matter and the steps being taken by Council to remedy the situation or, where this is not possible, a detailed explanation as to why it is not possible;
- Where large tenders have been adjudicated in the year, an exposition of the process followed and the composition of the tender committee (names and functions/titles);
- A statement regarding how contracts are managed, the process of managing service level agreements and the monitoring of suppliers' performance and workplace ethics;

- Council should indicate in this report the reasons for refusals of requests for information that were lodged with a public higher education institution in terms of the Promotion of Access to Information Act, 2000; and
- Council should disclose in this report any material or immaterial but often repeated regulatory penalties, sanctions and fines for contraventions or non-compliance with statutory obligations.

The report is signed by the Chairperson of the Council.

**c) Council's statement on governance
(King III Code of Governance Principles)**

Where have applied the Code of governance principles, a positive statement to this effect should be made. Where the Council decides not to apply a specific principle and/or recommendation, this should be fully explained. The Council is required to provide an account of its governance by means of a separate governance statement, an example of which appears below, in which detail of governance structures, responsibilities and procedures are provided.

Council must approve this statement. There must be auditable evidence of Council's approval i.e. the approval of this statement must record the fact that the approval was obtained at a full Council meeting on dd/mm/yyyy, that the meeting was quorate and that the documentation for approval by the Council was circulated with the meeting agenda in advance with due notice.

**i. Council and Council Committees
(King III Chapter 1 principle 1.1.)**

The following statement is provided to assist readers of the Annual Report to obtain an understanding of the governance structures and procedures applied by a public higher education institution's Council:

A public higher education institution is committed to the principles of discipline, transparency, independence, accountability, responsibility, fairness and social responsibility, as advocated in the King III. Accordingly, the Council endorses, and during the period under review has applied, the Code of Practices and Conduct and the Code of Ethical Behaviour and Practice as set out in the King III Report). In supporting these Codes the Council recognises the need to conduct the business of a public higher education institution with integrity and in accordance with generally accepted practices. Monitoring the public higher education institutions' compliance with the Code, forms part of the mandate of a public higher education institution's Audit Committee.

Council

(King III Chapter 1 principle 1.1, 2.16, 2.18, 2.22, 2.23,)

The Council comprises academic and non-academic persons appointed in terms of the Statutes of, a public higher education institution of whom the majority (at least 60 per cent) are neither employees nor students. (A table of Councillors with their representative constituency to be attached indicating internal or external to a public higher education institution. An arithmetic summary indicating the percentage of internal vs. external members to be shown). The report should include a statement that the role of the Chairperson of the Council is separate from the role of a public higher education institution's chief executive, the Principal. The report should also include a statement of the proposed length of tenure of the Chairperson. Matters reserved to the Council for decision-making are set out in the Statutes of public higher education institutions by custom and in terms of the Higher Education Act, 1997. The Council is responsible for the ongoing strategic direction of a public higher education institution, approval of major developments and the receipt of regular reports from management on the day-to-day operation of its business. The Council meets four times a year and has several committees, including a Remuneration Committee, a Finance Committee, a Risk Committee, a Council Membership Committee and an Audit Committee (In the event that there is no separate Risk Committee, there must be an explicit statement to this effect and clarification as to how Council addresses the issue of risk i.e. which committee of Council is tasked with addressing the issues of risk.) A list of Council and sub committee meetings is attached on Pxx. All of these committees are formally constituted with terms of reference and are comprised of a majority of members of the Council who are neither employees nor students of a public higher education institution. The Council should indicate in this report that appraisals of the Council and its committees have been conducted. Include here a table indicating the composition of the Council, length of service (including service on a previous Council of a public higher education institution merged to form a new institution) and age of each Councillor, which sub committees they sit on, number of Council meetings and committee meetings held and their respective attendances at these meetings, significant directorships held,.

Remuneration Committee

(King III Chapter 2 principle 2.25)

The remuneration committee should issue a remuneration report to explain a public higher education institution's remuneration philosophy and how it has been implemented. The remuneration committee must disclose the remuneration policies followed and the strategic objectives that it seeks to achieve. The committee must explain the policy on base pay, including the use of appropriate benchmarks. A policy to pay salaries on average at above the median requires special justification.

The Remuneration Committee's specific terms of reference must include direct authority for, or consideration and recommendation to the Council of, matters relating to, amongst other things, general staff policies, remuneration and perquisites, bonuses, executive remuneration, members of Council remuneration and fees, service contracts and retirement funds including post retirement medical aid funding. The definition of Gross remuneration is to be found in Section

1 of these Regulations – all components of this definition must be considered and reported on by the remuneration committee.

Any material payments that may be considered ex gratia in nature should be fully explained and justified.

Disclose must be made of the performance parameters in respect of performance bonuses and the methods of evaluation of performance and determination of such bonuses.

Policies regarding executive service contracts should be disclosed in the annual remuneration report, including the period of the contract and notice conditions.

The note to the annual financial statements which reflects executive remuneration together with the comparative figure for the prior year must be approved by the Remuneration Committee. This includes fees paid to Councillors and committee members.

Finance Committee

(Some HEI's might have a "combined" Finance, Risk and Audit committee)

The Finance Committee, amongst other things, recommends a public higher education institution's 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 are appropriate and the personnel complement is sufficient, not excessive and is suitably qualified to maintain 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, amongst other things, 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 III Chapter 3 principle 3.1,3.2,3.4,3.7,3.8,3.9,)

The Council, operating through its Audit Committee, provides oversight of the financial reporting process.

The Audit Committee, whose chairperson and members must either be members of Council or not members of Council but specialists in the field, was established xxx years ago. The Audit Committee has a minimum of X number of members. All members of the Audit Committee are independent of the public higher education institution and are not employed by the public higher education institution. Members of the audit committee have the following combined qualifications and/or experience in business: X, Y, Z....

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;
- consideration of sustainability matters in the integrated report;
- monitoring the appropriateness of a public higher education institution's combined assurance model;
- concluding and reporting to stakeholders on an annual basis on the effectiveness of internal financial controls;
- matters relating to financial and internal control, accounting policies, reporting and disclosure;
- reviews at least annually the internal auditor's assessment of risks and approves the internal audit plan to ensure that audits are appropriately conducted to mitigate the risks identified;
- internal and external audit policies;
- the activities, scope, adequacy and effectiveness of the internal audit function and audit plans;
- the assessment of all areas of financial risk and the management thereof;
- review/approval of external audit plans, findings, annual audit management letters, problems, reports and fees;

- after due deliberation and discussion with the external auditors, recommends the annual financial statements to the finance committee;
- follows up on a regular basis that all items raised in the annual audit management letter and interim internal audit reports are addressed and that actions previously taken to address these issues are still in place and effective – including points raised in previous reports and deemed to have been previously resolved; so as to ensure that the problem has not recurred;
- approves financial policies and any changes thereto;
- is responsible for ensuring that policies are in place to ensure the protection of the a public higher education institution’s assets from loss or unauthorised use and reporting to the Department on material losses arising from unauthorised or illegal actions and actions taken to remedy the situation (Material meaning: Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific (i.e. determined by the Audit Committee or Council) aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity’s financial report);
- in the event that the a public higher education institution’s audit report is qualified, the audit committee makes a statement to that effect and explains the reasons for the qualification and outlines in reasonable detail what actions have been implemented to ensure the immediate reversal of this state;
- in the event that the a public higher education institution’s audit report includes a statement of emphasis of matter, the audit committee makes a statement to that effect and explains the reasons for the statement of emphasis of matter and outlines in reasonable detail what actions have been implemented to ensure the immediate reversal of this state;
- compliance with a public higher education institution’s Ethics and Corporate Citizenship initiatives (replaced the old “Code of Corporate Practices and Conduct”);
- compliance with a public higher education institution's Code of Ethics; and
- in the event of a public higher education institution having no credible internal audit function, an explicit statement as to this fact needs to be accompanied by how the audit committee have satisfied themselves that all the necessary controls and procedures have been adhered to.

The composition of the committee, with a public higher education institution’s qualifications, to be attached indicating internal or external to a public higher education institution and the period for which they have served. An arithmetic summary indicating the percentage of internal vs. external members to be shown) as well as the number of meetings held and members’ attendances.

Risk Committee

(King III Chapter 3 3.8 Chapter 4 4.1,4.2,4.3,4.6,4.8,4.9,)

Each public higher education institution should have a risk committee in some form. The risk committee considers all issues of risk which may result in some form of exposure for a public higher education institution, not just financial risk. The Council's integrated report will indicate how this committee is constituted and its reporting line.

The risk committee must maintain a reporting system that enables it to monitor changes in the a public higher education institution's risk profile and gain an assurance that risk management is effective.

The risk committee establishes materiality levels and determines a public higher education institution's risk appetite. It then considers all possible risks, their likelihood and where applicable, establishes risk mitigation procedures. They also ensure that there is a risk management system and they maintain a risk register. The register is constantly monitored and updated.

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

IT Governance committee

Would include the following:

- Statement that the council is responsible for the information technology (IT) governance and how the council has fulfilled this role; and that management is responsible for the implementation of an IT governance framework.
- Comments on the alignment of IT with the performance and sustainability objectives of the HE;
- Comments that council monitors and evaluates significant IT investment and expenditure;
- How IT is an integral part of the HE's risk management;
- Monitoring that IT assets are managed effectively; and
- Comments that/how the Risk committee and Audit committee (if/as appropriate) assist the council in carrying out its IT responsibilities.

(ii) Statement on 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. (In the event that there was student unrest on campus at all in the year, include a statement on the extent, effect, number of academic days lost, cost of damage to property and how the problem was resolved and at what additional cost to the public higher education institution. The same applies to staff unrest or unrest by outsourced staff).

**(iii) Statement on worker and student participation (co-operative governance)
(King III: Chapter 8)**

Public higher education institutions 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 a public higher education institution. A public higher education institution signed recognition agreements with the following staff structures on the dates specified:

- | | |
|--------|----------|
| 1) xyx | ddmmyyyy |
| 2) pty | ddmmyyyy |

**(iv) Statement on Code of Ethics
(King III: Chapter 1, principle 1.1)**

The Code of Ethics commits a public higher education institution 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 its business through the use of fair commercial competitive practices.

The Council reviewed the Code of Ethics in the year under review at its meeting of dd/mm/yyyy, which meeting was quorate and the documentation for approval by the Council was circulated with the meeting agenda in advance with due notice.

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

The Council must approve the above statements.

d) Council statement on sustainability

The Sustainability Report should have sufficient information to record how a public higher education institution has both positively and negatively impacted on the economic life of the

community in which it operated during the year under review, often categorised as environmental, social and governance issues (ESG).

Further, it should report how the Council believes that in the coming year it can improve the positive aspects and eradicate or ameliorate the negative aspects, in the coming year.

The essential links between governance, strategy, risks and opportunities, key performance indicators and ultimately sustainable development, should be made clear in the way the integrated report is presented.

Matters to be dealt with:

- Inclusivity of stakeholders;
- Innovation, fairness, and collaboration;
- Social transformation;
- Student numbers and through-put, including pipe-line number of students; and
- Progression on third-stream income.

e) Senate's 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:
 - o Teaching and learning, e.g. modes of delivery
 - o Research
- Composition and size of student body
- Teaching and Learning:
 - o Limitations on access to certain courses
 - o Levels of academic progress in different disciplines and levels of study
 - o Awards and achievements
 - o Outputs produced
- Research
 - o Summaries of various programmes
 - o Awards

- Funding
 - Outputs produced
- Access to financial aid and the provision thereof
 - Changes in tuition fees charged and financial aid for students

Note that the King Code places major emphasis on the identification and management of risk. Academic risk (which is arguably the biggest risk in a public higher education institution) falls under the Senate and consequently the Senate report must discuss this aspect. Academic risk would include (but not limited to): Excellence, quality, student numbers, grade 12 learner numbers (i.e. sustainability), relevance, etc.

The Chairperson of the Senate signs this report.

f) 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 advice given to the Council by the Institutional Forum. The composition of the Forum should be listed. The report must specify how often they met. The report should indicate whether the Institutional Forum was consulted in every instance that the Council Membership Committee deliberated regarding a vacancy on Council.

The Chairperson of the Institutional Forum signs this report.

**g) Report of the Vice-Chancellor on management/administration
(King III: Chapter 9, Chapter 8)**

The report of the 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, regarding 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 involved;
- Student services and extra-curricular activities;
- Relationships with the community, both academic and service;
- Changing patterns in the provision of academic courses; and
- In addition, a statement of self-assessment of the achievement of the Principal in attaining the objectives set for the period under review with summary detail of realised achievements (self-evaluation) should be included.

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

The Vice Chancellor signs this report.

h) Report on internal administrative/operational structures and controls

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

(King III: Chapter 9, Chapter 7, Chapter 5,)

Public higher education institutions maintain systems of internal control over financial reporting and the safeguarding of assets against the unauthorised acquisition, use or disposal of such assets. Such systems are designed to provide reasonable assurance to a public higher education institution and the Council regarding an operational environment that promotes the safeguarding of a public higher education institution's assets and the preparation and communication of reliable financial and other information.

This includes documented organisational structures setting out the division of responsibilities, as well as established policies and procedures, including a Code of Ethics that is communicated throughout the organisation to foster a strong ethical climate and the careful selection, training and development of its people. (A brief note should be included here indicating how this is communicated and how often).

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 privacy and ensure control over all data, including disaster recovery and "back-up" procedures. Password controls are strictly maintained with users required to change passwords on a monthly basis. There are regular reviews (monthly) that there are no clashes in user access rights and that the basic internal control concept of division of duties is maintained. Where for capacity reasons an occasional clash does occur, sufficient manual controls are in

place to ensure that these clashes are mitigated. Systems are designed to promote ease of access for all users and the systems are sufficiently integrated to minimise duplication of effort and ensure minimum manual intervention and reconciliation procedures. The development, maintenance and operation of all systems are under the control of competently trained staff.

In utilising electronic technology to conduct transactions with staff and with third parties, control aspects receive close scrutiny and procedures are 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 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 according to circumstances.

A public higher education institution 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 – where there is no such manual or reasonable facsimile thereof, an explicit statement of this fact is required. A brief description of how this assessment took place should be included. Based on this assessment, a public higher education institution believes that, as at dd/mm/yyyy, its systems of internal control over its operational environment, information reporting and safeguarding of assets against the unauthorised acquisition, use or disposal of assets met those criteria.

A public higher education institution conducted a review of its risk assessment document and, in conjunction with the internal auditors, developed a programme of internal audits to examine the systems, procedures and controls in those areas considered as high risk.

This section must be prepared for and signed by the chairperson of the Audit Committee **and the head of Internal Audit.**

The Audit committee reviewed the Report on internal administrative/operational structures and controls in the year under review at its meeting of dd/mm/yyyy, which meeting was quorate and the documentation for approval by the Committee was circulated with the meeting agenda in advance with due notice.

**i) Report on risk exposure assessment and the management thereof
(King III: Chapter 4)**

The following note provides the basis on which the statement on risk should 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 to be able to prepare a report on risk. There should be a clear statement of where risk is managed in the institution (Risk committee, Exco of Council etc.) This includes the fact that separate minutes were kept, how often this forum met to specifically address risk issues, who the member of the committee are and whether they are external or internal, what their respective qualifications to serve on this committee are, how this committee interacts with the audit committee and whether this committee has input to the risk assessment review prepared by internal audit and approved by the audit committee for recommendation to Council.

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 their occurrence and their anticipated impact assessed. In every organisation there is a need to balance its opportunities and risks if 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 may occur and will affect the results of normal operations throughout the institution at all levels of activity. It is therefore essential that, first, 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, be assessed. Finally, and most importantly, a public higher education institution must have identified, through defined responsibility and accountability for management, each risk event, condition or area. **There must, therefore, be an established line-function individual/committee with the remit of determining the identification and interpretation/assessment of risks, as well as intervention measures and all aspects of the management of risk affecting** a public higher education institution. 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 must report to both the Audit and Finance Committees and through them to the Council, and such individual or chairperson must have unrestricted access to the chairpersons of the Audit Committee and of the Council and to the Principal. 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 some risks that will have direct financial implications and there are others that will not have immediate financial implications. These are differentiated from each other as "financial

risks" and "non- financial risks". Eventually, "non-financial risks" may have serious financial implications, which will need to be identified.

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

All potential risk consequences must be both identified and evaluated and, by appropriate management, the conditions arising within which such risks must constantly be controlled and monitored. Methods of minimising adverse consequences must be employed based on cost effectiveness analysis. For this reason the risk register must 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 precondition for this is that responsibility and accountability for the identification and management of risk events and risk areas should be 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 responsible 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 that are 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 the measures applied to control these risks within the context of the strategic attitude to risk adopted by the Council and the administration.

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

j) Annual financial review - Report of the chairperson of the Finance Committee and the Chief Executive: Finance

The review should provide an overview of the institution's budget process and indicate the means whereby the process, specifically as regards to resource allocation, promotes the attainment of the strategic goals and objectives of the institution and intends to promote operational sustainability in the foreseeable future. A comment on the process and the relevant inclusivity/participation of stakeholders in the process is appropriate here. The effect of the budgetary control mechanism in maintaining financial discipline throughout the institution should be addressed. The review should 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 is reflected in these statements. The requirement here is an intelligent commentary on the numbers. Merely stating, for example that income increase by x% from one year to another is not a valid commentary. There should be a statement distinguishing between the financial consequences of the use of assets representing restricted and those representing unrestricted (Council-controlled) funds. The report should concentrate on "Operational finance" of a public higher education institution i.e. excluding non recurrent items

or dramatic movements in the investments, for example. These other items should receive a mention, where material, but the emphasis should be on operations. **This report should be treated as a thorough financial analysis** of the institution using all data contained in the financial statements, and any other additional financial records.

The Chairperson of the Finance Committee and the Chief Financial Officer sign this report.

k) Report of the Audit committee

The following elements of audit committee's reporting duties are dealt with in Chapter 3 of King III:

- The audit committee should satisfy itself of the expertise, resources and experience of the company's finance function – Results of the review should be disclosed.
- The audit committee should report internally to the board on its statutory duties and duties assigned to it by the Council.
- The audit committee must report to the Department on its statutory duties:
 - how its duties were carried out;
 - if the committee is satisfied with the independence of the external auditor;
 - the committee's view on the financial statements and the accounting practices; and
 - whether the internal financial controls are effective.
- The audit committee should provide a summary of its role and details of its composition, number of meetings and activities,
- The audit committee should recommend the integrated report for approval by the Council.

This report to be signed by both the Chairperson of the Audit Committee and Chairperson of Council

l) Report on Transformation

Public higher education institutions are required to adopt and implement policies that promote transformation in the Higher Education Sector. The Report on Transformation should clearly indicate initiatives that seek to assist people from historically disadvantaged backgrounds, women and people with disabilities.

Public higher education institutions should monitor effectiveness and impact of policies implemented to address transformation at public higher education institutions.

This report to be signed by both the VC and Chairperson of Council

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