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The Auditor-General

General Notices

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GENERAL NOTICES

NOTICE 645 OF 2007

GENERAL DIRECTIVE
PUBLIC AUDIT ACT, 2004
Act No. 25 of 2004

Under the powers vested in me by section 2 of the Public Audit Act, 2004 (Act No. 25 of 2004) (hereafter referred to as the PAA), I, Terence Mncedisi Nombembe, Auditor-General of the Republic of South Africa, hereby determine the following:

1. Audits of public entities listed in the Public Finance Management Act, 1999 (Act No. 1 of 1999) and any other institutions envisaged by section 4(3)(b) of the PAA

In terms of section 25(1) (a) of the PAA, unless advised otherwise prior to this announcement, I have opted not to perform any audits of institutions referred to in section 4(3) of the PAA for the 2007-08 financial year.

All auditees may therefore proceed to appoint their own auditors, only for the 2007-08 financial year (section 25(4)). In this connection the document: *Consultation of the Auditor-General (AG) on the appointment of an auditor* attached hereto should be completed as indicated.

2. Duties of auditors in public practice in terms of chapter 3 of the PAA

Auditors in public practice appointed to audit public sector entities in terms of section 25(1)(b) should take cognisance of their duties and powers and other matters contained in sections 25 to 28 of the PAA.

3. Audit reports - section 28 of the PAA

Where I have opted not to perform an audit in terms of section 25, the appointed auditor must furnish me with a copy of the audit report as prescribed by section 28 and the audited financial statements of the auditee no later than 31 July and the annual report by 31 August following the financial year-end.

4. Auditing of performance information - section 28 of the PAA

The attention of auditors in public practice is drawn to the separate notice I have issued on the auditing of performance information and the requirement that they must comply therewith.

5. Complaints against the Auditor-General- section 13(1)(c) of the PAA

The interim policy and process to be followed for complaints against the AG is attached to this notice.

6. Compliance with any applicable legislation relating to financial matters, financial management and other related matters - sections 20(2)(b) and 28(1)(b) of the PAA

in terms of sections 20(2) (b) and 28(1)(b) of the PAA an audit report must reflect an opinion or conclusion on the auditee's compliance with any applicable

legislation relating to financial matters, financial management and other related matters.

I have determined that, until further information is published in this respect, no separate opinion or conclusion as envisaged above should be included in the audit reports. Conclusions in this regard will be reached as part of the financial auditing process in terms of International Auditing Standard (ISA) 250.

Additional reporting on compliance with applicable legislation (not directly impacting on the opinion on the financial statements) in terms of the Public Sector Perspective in ISA 250, with specific reference to ISA study 3, and ISA 700R paragraph 45, will appear under "Other matters" in the audit report.

Any enquiry related to this notice should be addressed to the following office:

J H van Schalkwyk
Business Executive: Audit Research and Development
The Auditor-General
Tel: (012) 422 9823
Fax (012) 422 9822
Email: janvs@agsa.co.za

Signed and approved:

T M Nombembe
Auditor-General



A U D I T O R - G E N E R A L

CONSULTATION OF THE AUDITOR-GENERAL ON THE APPOINTMENT OR DISCHARGE OF AN AUDITOR IN TERMS OF SECTIONS 25 AND 26 OF THE PUBLIC AUDIT ACT, NO. 25 of 2004

INSTRUCTIONS

1. The checklist should be completed and submitted with supporting documentation by email tomarissab@agsa.co.za. The original checklist and supporting documentation should be posted to PO Box 446, Pretoria, 0001 for the attention of Ms M Bezuidenhout.
2. The checklist should be accompanied by a copy of your policy on the appointment of auditors and the allocation of non-audit services to auditors.

INFORMATION REQUIRED

3. Particulars of entity

Name
Postal address
Physical address
Fax number
Telephone number
Email address of CFO
Accounting authority chairperson
Name
Contact details
Responsible minister (executive authority)
Name
Contact details
Responsible department
Contact person at department
Financial year in question

DISCHARGE OF AUDITOR

4. Particulars of the audit firm discharged

Name(s) of audit firm(s)	Number of years engaged to date

5. Provide the notice to the auditor giving the reasons for the impending discharge

6. Provide written concurrence by the executive authority for the planned discharge

7. Costs of audit and non-audit services provided by the auditors during their term of office (last three years)

Financial year
Audit fees
Fees for other services
Total fees
Non-audit fees as a percentage of total fees
Nature of services performed

APPOINTMENT OF NEW AUDITORS

8. Particulars of audit firms shortlisted for appointment

	Name(s) of audit firm(s)	Estimated audit fee	Estimated fee for other services
Firm 1			
Firm 2			
Firm 3			
Firm 4			
Nature of other services to be performed:			

9. Audit firm proposed and anticipated date of appointment

Name
Date

10. Details of any prior involvement with the entity, including the costs

11. Indicate how the performance of auditors will be evaluated

12. Provide and attach a declaration in respect of the assurance team as far as it relates to the following:

Integrity and objectivity:

 The assurance team is free from conflict of interest and bias.

 No relationships or interests exist, direct or indirect, which could adversely influence, impair or threaten the capacity to act with integrity and objectivity.

Conflict of interest:

 The assurance team is free from any influence, interest or relationship, whether direct or indirect, which might be regarded as being incompatible with integrity, objectivity and independence.

Independence: The assurance team has no fiduciary or financial involvement with or in the affairs of the auditee such as -

 • Direct or indirect financial interest in the auditee

 Fiduciary interests in the auditee

 Loans to or from the auditee, any official of the auditee, any member of the accounting authority or from the department responsible for the auditee

 Holding of a financial interest in a joint venture or public-private partnership with the auditee or any of its employees

 • Having a financial interest in a non-audit client that has an investee relationship with the auditee

REAPPOINTMENT OF AUDITORS

13. Details of firm to be reappointed

Name
Financial years previousl appointed

14. Provide details of the audit committee's assessment of the effectiveness and efficiency of the performance of the external auditors

15. Provide details of significant disagreements between the external auditors and the accounting authority during the preceding financial year, if any

16. Provide and attach a declaration in respect of the assurance team as far as it relates to the following:

Integrity and objectivity:

The assurance team is free from conflict of interest and bias.

No relationships or interests exist, direct or indirect, which could adversely influence, impair or threaten the capacity to act with integrity and objectivity.

Conflict of interest:

The assurance team is free from any influence, interest or relationship, whether direct or indirect, which might be regarded as being incompatible with integrity, objectivity and independence.

Independence: The assurance team has no fiduciary or financial involvement with or in the affairs of the auditee such as -

Direct or indirect financial interest in the auditee

Fiduciary interests in the auditee

- Loans to or from the auditee, any official of the auditee, any member of the accounting authority or from the department responsible for the auditee
- Holding of a financial interest in a joint venture or public-private partnership with the auditee or any of its employees

Having a financial interest in a non-audit client that has an investee relationship with the auditee

17. Indicate name of partner in charge of audit for the last five years

18. Indicate name of audit manager in charge of audit for the last five years

Completed by

(signature)

Designation

Date

INFORMATION:

525 (2) *Must give notice of the suggested appointment, including information on the extent to which the auditor would provide other services than audit services during the duration of the appointment and any other information required by the AG.*

(3) *If the AG, within 14 days of receiving notice in terms of subsection 2 or such longer period as agreed to, rejects the auditee's appointment, the auditee must, in terms of that subsection, recommence the process to appoint another person as its auditor.*

Appointment may only be for one year.

526 (1) *Discharge before expiry of term - only with consent of the AG and the relevant executive authority if applicable.*

(2)(a) *Give the auditor notice in writing setting out the reasons.*

(2)(b) *Give the auditor opportunity to make written representation to the AG within 20 days of receipt of the notice.*

(3) *The AG must report any discharge of the auditor to the relevant legislature.*

NOTICE 646 OF 2007

DIRECTIVE: PERFORMANCE INFORMATION
PUBLIC AUDIT ACT, 2004
Act No. 25 of 2004

Under the powers vested in me by sections 20(2) (c) and 28(1)(c) of the Public Audit Act, 2004 (Act No. 25 of 2004) (hereafter referred to as the PAA), I, Terence Mncedisi Nombembe, Auditor-General of the Republic of South Africa, hereby determine the following:

Applicability

1. This directive is applicable to all audits within the constitutional mandate of the Auditor-General as per sections 4(1) and 4(3) of the PAA, conducted by:
 - authorised auditors as defined by section 1 of the PAA, and
 - auditors in public practice where I have opted not to perform the audit in terms of section 4(3) of the PAA.

Auditing of performance information

2. The information related to the performance against predetermined objectives is subject to audit in terms of section 20(2)(c) or section 28(1)(c) of the PAA. Section 13 of the PAA requires me to determine the standards to be applied in performing such audits. I have adopted a phasing-in approach to compliance with sections 20 and 28 of the PAA until such time as the environment promotes a state of readiness to provide reasonable assurance in the form of an audit opinion or conclusion.
3. The 2006-07 stage of the phasing-in approach to the auditing of performance information constitutes the following:
 - Obtaining an understanding of the internal controls relating to performance information.
 - Documenting system descriptions for the systems relevant to reporting on performance information. The system descriptions should be verified by means of walkthrough tests.
 - Determining the stage of performance reporting by evaluating the following:
 - The existence of, and reporting against, predetermined objectives.
 - The existence of the following principles in the measurement objectives:
 - specific
 - measurable and
 - time bound.
 - The consistency of the predetermined objectives recorded in the strategic plan, budget, quarterly reports and annual report.
 - The format and presentation of the performance information in the annual report.
 - Comparing reported achievement of performance against objectives to the information sources and conducting limited substantive procedures on the information.
4. The performance information should be submitted for audit together with the annual financial statements within two months after the end of the financial year. The auditor appointed should ensure that the reported information is audited in accordance with the requirements listed above and is reported on as required by the PAA.

Reporting on performance information

5. In terms of section 20(2)(c) or section 28(1)(c) of the PAA, an audit report must reflect an opinion or conclusion on the reported information relating to the performance of the auditee against predetermined objectives.

I have determined that, until further information is published in this respect, no separate opinion on performance against predetermined objectives should be included in the audit reports. Reporting in this regard will form part of the regularity audit process. Reporting will be in relation to material shortcomings in the process, systems and procedures of reporting against predetermined objectives that may come to the attention of the auditor during the audit and that may impact on the public interest. This reporting will be contained in the "other reporting responsibilities" section of the audit report as per the attached example.

Any queries related to this notice should be addressed to the following:

J H van Schalkwyk
Business Executive: Audit Research and Development
The Auditor-General
Tel: (012) 422 9823
Fax: (012) 422 9822
Email: janvs@agsa.co.za

Signed and approved:

T M Nombembe
Auditor-General

REPORT OF THE AUDITOR-GENERAL TO [PARLIAMENT] NAME OF PROVINCE PROVINCIAL LEGISLATURE] ON THE [GROUP] FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF [VOTE NO. X] [NAME OF ENTITY] FOR THE YEAR ENDED [31 MARCH 200X/30 JUNE 200X]

REPORT ON THE FINANCIAL STATEMENTS

OTHER MATTERS

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

1. I have audited the performance information as set out on pages xx to xx.

Responsibility of the [accounting officer/accounting authority]

[for departments, constitutional institutions and trading entities]

2. The accounting officer has additional responsibilities as required by section 40(3)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the [type of entity].

[for public entities]

3. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

[for municipalities]

4. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

[for municipal entities]

5. In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement or other agreement between the entity and its parent municipality.

Responsibility of the Auditor-General

6. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice [xx] of 2007*, issued in *Government Gazette No. [xx] of [xx] 2007* [and section 45 of the MSA].
7. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

8. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings

9. xxxxxxxxxxxxxxxxxxxxxxx

10. xxxxxxxxxxxxxxxxxxxxxxx

APPRECIATION

11. The assistance rendered by the staff of the [name of entity] during the audit is sincerely appreciated.

Signature

NOTICE 647 OF 2007

DIRECTIVE: PUBLIC FINANCE MANAGEMENT ACT
PUBLIC AUDIT ACT, 2004
Act No. 25 of 2004

Under the powers vested in me by section 13(3)(b) of the Public Audit Act, 2004 (Act No. 25 of 2004) (hereafter referred to as the PAA), I, Terence Mncedisi Nombembe, Auditor-General of the Republic of South Africa, hereby determine the following:

1. Standards for audits - section 13(1)(a) of the PAA

In terms of section 13(1)(a) of the PAA the International Standards on Auditing shall be applied for all regularity audits conducted by me until further notice to the contrary.

2. Audit reports - section 20 of the PAA

I have recognised the following bases of accounting as prescribed by the National Treasury, in respect of which my audit of the financial statements of the different spheres of government as indicated will be conducted and in terms of which my audit opinion will be expressed:

a) *National and provincial departments, Parliament and provincial legislatures*

As prescribed by the National Treasury (NT) in its *Specimen annual financial statements* and the accompanying *Guide for the preparation of annual reports*, departments are required to prepare their annual financial statements on a modified cash basis of accounting. The modified cash basis constitutes the cash basis of accounting supplemented with additional disclosure items. Under the cash basis of accounting, transactions and other events are recognised when cash is received or paid or when the final authorisation for payment is effected on the system (by no later than 31 March each year).

The National Treasury's *Specimen annual financial statements* and accompanying *Guide for the preparation of annual reports* have been recognised by me as a comprehensive basis of accountancy. The audit report will therefore be issued in terms of International Standard on Auditing (ISA) 800.

b) *Schedule 3A and 3C public entities and constitutional institutions*

The Minister of Finance approved Generally Recognised Accounting Practice Standards (GRAP) 1 to 3 for implementation by schedule 3A and 3C public entities and constitutional institutions for the 31 March 2006 financial year-end in terms of *Notice 991* issued in *Government Gazette No. 28095 of 7 December 2005*.

The National Treasury has determined that the basis of accounting to be applied by these entities will be as set out in the annexure to this notice.

Given the phased implementation of GRAP, I have recognised the basis of accounting set out above as a comprehensive basis of accounting and my audit report will therefore be issued in terms of ISA 800.

Disclosure of budget information

GRAP 1, paragraph 11 et seq. requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally obtained budget. However, in terms of the basis of accounting determined by the National Treasury, budget information need not be disclosed. A GRAP standard on the presentation of budget information in the financial statements is in the process of being developed by the standard setter. In the absence of such a standard and until presentation of budget information is required in terms of the prescribed basis of accounting, any budget information presented in the financial statements will be excluded from the scope of auditing.

c) *Schedule 2, 38 and 3D public entities and trading entities*

As stated in the introductory paragraphs to Standards of GRAP, the Accounting Standards Board (ASS) has approved the application of Statements of Generally Accepted Accounting Practice (GAAP), as codified by the South African Institute of Chartered Accountants (SAICA), as 'generally recognised accounting practice for the following:

Government business enterprises

Trading entities

Any other entity, other than a municipality, whose ordinary shares, potential ordinary shares or debt is publicly tradable on the capital markets

Entities under the ownership control of any of these entities

SA Statements of GAAP constitute a financial reporting framework set by an authorised/recognised standard-setting body and my audit report will therefore be issued in terms of ISA IOOR.

d) *Entity specific basis of accounting*

In terms of section 20(2) of the PAA an audit report must reflect at least an opinion or conclusion on whether the annual financial statements of the auditee fairly present, in all material respects, the financial position at a specific date and the results of its operations and cash flow for the period which ended on that date in accordance with the applicable financial framework and legislation.

I have determined that where an auditee prepares financial statements on an entity specific basis of accounting, due to written approval obtained from the National Treasury to depart from the applicable basis of

accounting as detailed in (a) to (d) above, no opinion on the fair presentation of the financial statements will be expressed and an opinion will only be given on whether the financial statements have been prepared, in all material respects, in accordance with the basis of accounting as disclosed, in terms of South African Auditing Practice Statement (SAAPS) 2.

3. Report on administration by the National Treasury - section 5(3) of the PAA

I will issue a report in respect of any matters concerning the duties assigned to the National Treasury (NT) in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and any related matters. This report will be included as an addendum to my report on the consolidated financial statements/information as prepared by the National Treasury in terms of section 8 of the PFMA and will, inter alia, deal with the following matters:

- Approval by the NT of deviations from the applicable financial reporting framework
- Impact of practice notes issued
- Transitional plan for the implementation of Generally Recognised Accounting Practice (GRAP)
- Evaluation of the readiness of entities to migrate to GRAP
- Guidance and capacity building at the entities
- Effective monitoring of management discipline at the entities
- Transversal information systems

Any query related to this notice should be addressed to the following office:

J H van Schalkwyk
Business Executive: Audit Research and Development
The Auditor-General
Tel: (012) 422 9823
Fax (012) 422 9822
Email: janvs@agsa.co.za

Signed and approved:

T M Nombembe
Auditor-General

Basis of preparation as published by the National Treasury

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practices (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

Standard of GRAP	Replaced Statement of GAAP
GRAP 1: Presentation of financial statements	AC101: Presentation of financial statements
GRAP 2: Cash flow statements	AC118: Cash flow statements
GRAP 3: Accounting policies, changes in accounting estimates and errors	AC103: Accounting policies, changes in accounting estimates and errors

Currently the recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 & 3 has resulted in the following changes in the presentation of the financial statements:

1. Terminology differences:

Standard of GRAP	Replaced Statement of GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/deficit	Profit/loss
Accumulated surplus/deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends

2. The cash flow statement can only be prepared in accordance with the direct method.
3. Specific information has been presented separately on the statement of financial position such as:
 - a. Receivables from non-exchange transactions, including taxes and transfers;
 - b. Taxes and transfers payable;
 - c. Trade and other payables from non-exchange transactions;
4. Amount and nature of any restrictions on cash balances is required.

Paragraph 11 - 15 of GRAP 1 has not been implemented due the fact that the budget reporting standard has not been developed by the local standard setter and the international standard is not effective for this financial year. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect the objective of the financial statements.

NOTICE 648 OF 2007

DIRECTIVE: UNLISTED ENTITIES
PUBLIC AUDIT ACT, 2004
Act No. 25 of 2004

Under the powers vested in me by section 2 of the Public Audit Act, 2004 (Act No. 25 of 2004) (hereafter referred to as the PM), I, Terence Mncedisi Nombembe, Auditor-General of the Republic of South Africa, hereby determine the following:

Audits of public entities not listed in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999)

1. Format and submission of financial statements - section 14 of the PAA
 - a) Auditees for whom the format and submission period of, the information to be contained in and other relevant requirements in respect of the financial statements are not prescribed by any legislation are subject to the contents of Audit Circular 1 of 2005 and Audit Circular 1 of 2007, issued as annexures to this notice.
 - b) In terms of Audit Circular 1 of 2005 and Audit Circular 1 of 2007, these entities are required to prepare their financial statements in accordance with SA Statements of Generally Accepted Accounting Practice (GMP). SA Statements of GMP constitute a financial reporting framework set by an authorised/recognised standard-setting body, and my audit report on the financial statements will therefore be issued in terms of International Standard on Auditing (ISA) 700R.
 - c) Where entities fall within the scope of Audit Circular 1 of 2005 and Audit Circular 1 of 2007 and, as agreed with the auditors, it would not be cost effective or possible to compile financial statements in terms of SA GMP due to their size, they may prepare their financial statements on an entity specific basis of accounting as envisaged by South African Auditing Practice Statement (SMPS) 2. This would typically apply to hospital boards, committees, museums, funds and trusts, et al. The audit report to be issued will be as detailed in paragraph 2 hereunder.

2. Audit reports - section 20 of the PAA

In terms of section 20(2) of the PM an audit report must reflect at least an opinion or conclusion on whether the annual financial statements of the auditee fairly present, in all material respects, the financial position at a specific date and the results of its operations and cash flow for the period which ended on that date in accordance with the applicable financial framework and legislation.

In this respect I have determined that where an auditee prepares financial statements on an entity specific basis of accounting (in the absence of formal guidance by legislation), no opinion on the fair presentation of the financial statements will be expressed and an opinion will only be given on whether the financial statements have been prepared, in all material respects, in accordance with the basis of accounting as disclosed, in terms of South African Auditing Practice Statement (S.AAPS) 2.

3. Submission of audit reports - section 21 of the PAA

Where an audit is undertaken in terms of the requirements of the PAA, and there is no applicable legislation setting out the period within which the audit report is to be submitted to the relative legislature, the Auditor-General must, in terms of section 21(2) of the PAA, submit such audit report to the relevant legislature within a reasonable time. I have determined a period of up to a maximum of six months after the financial year-end of the auditee, depending on the circumstances, to be a reasonable time.

Any enquiry related to this notice should be addressed to:

J H van Schalkwyk
Business Executive: Audit Research and Development
The Auditor-General
Tel: (012) 422 9823
Fax (012) 422 9822
Email: janvs@agsa.co.za

Signed and approved:

T MNombembe
Auditor-General

Glossary:

GAAP = Generally Accepted Accounting Practice
ISA = International Standards on Auditing
PAA = Public Audit Act, 2004 (Act No. 25 of 2004)
SAAPS = South African Auditing Practice Statement



A U D I T O R - G E N E R A L

To the accounting authorities/officers of auditees for which legislation is not prescriptive in respect of the financial statements

1 April 2007

Dear Madam/Sir

Auditor-General Audit Circular 1 of 2007

Repeal of prior circular

1. Auditor-General Audit Circular 1 of 2005 is hereby withdrawn and replaced by the requirements as set out in this circular. This circular is effective for financial periods beginning on or after 1 April 2007 and will apply until further notice; a similar circular will not necessarily be issued annually.

Authority

2. This circular is issued based on the powers conferred on the Auditor-General in terms of section 14(2)(b) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA):

Financial statements submitted by an auditee which is not subject to the Public Finance Management Act or the Municipal Finance Management Act, must be submitted within the period, be in a format, contain the information and otherwise comply with any requirements determined -

- (a) *by any legislation applicable to that auditee; or*
- (b) *in the absence of such legislation by the Auditor-General.*

Scope

3. The requirements set out in this circular are applicable to all auditees for which the format and submission period of, the information to be contained in, and other requirements in respect of the financial statements are not prescribed by any legislation. (The term "auditee" is defined in the "Definitions" paragraph below.)
4. This circular is in no way intended to supersede the requirements of any legislation. Consequently, where an auditee is subject to legislation such as the Public Finance Management Act, 1999 (Act No.1 of 1999) (PFMA), the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), auditee-specific enabling legislation or any other applicable legislation, which is prescriptive in terms of the financial statements, such legislation takes precedence over this circular.

5. The accounting authority/officer should identify the auditee's legal form, i.e. public entity, trading entity, municipal entity, etc. and ensure compliance with all applicable legislation. Only in instances where the applicable legislation is not prescriptive in terms of the financial statements are auditees required to comply with this circular.
6. It is important to note that only section 47 of the PFMA is applicable to auditees that meet the definition of a public entity contained in the PFMA, but that have not been listed as such in either schedule 2 or 3 of the PFMA. Consequently, the PFMA sections prescribing the format and submission period of, the information to be contained in, and other requirements in respect of the financial statements are not applicable to unlisted public entities.
7. Section 47(2) of the PFMA requires the accounting authority of an unlisted public entity to notify the National Treasury without delay, in writing, that the entity is not listed. The Minister of Finance, by notice in the national *Government Gazette*, must then amend the appropriate PFMA schedule to include in the schedule all unlisted public entities (section 47(1)(a) of the PFMA).
8. All unlisted public entities should comply with the requirements of section 47 of the PFMA; and the Auditor-General encourages them to do so. Non-compliance may be reflected in an emphasis of matter paragraph in the audit report. Unlisted public entities should also take cognisance of the various PFMA reporting requirements and should prepare to comply fully with the PFMA requirements upon listing.

Financial statement requirements

9. The following requirements with regard to the annual financial statements are applicable to auditees for which the applicable legislation is not prescriptive in terms of the financial statements:

Format of financial statements

10. The annual financial statements must consist of the following:
 - The accounting authority's/officer's report
 - Statement of financial position
 - Statement of financial performance
 - Statement of changes in net assets
 - Cash-flow statement
 - Accounting policies and notes to the annual financial statements
11. The annual financial statements must be prepared in accordance with South African Statements of Generally Accepted Accounting Practice (Statements of GMP), except where, as agreed with their auditors, this may not be cost effective or possible due to the size of the entity.
12. Timely consultation with the auditors on any matters affecting the compilation of the financial statements is recommended to speed up the finalisation of the statements.

Information to be contained in the financial statements and annual report

13. The financial statements and annual report must, by means of figures and a descriptive report, explain any matters and information of public interest and material to the affairs of the auditee.
14. In terms of section 14(2)(b) of the PAA, the Auditor-General may also determine any further information to be contained in the financial statements. Consequently, the Auditor-General

requires the following information to be included in the financial statements and annual report:

15. Information to be disclosed in the financial statements:

- Any material losses through criminal conduct that occurred during the financial year'
- Any irregular, or fruitless and wasteful expenditure that occurred during the financial year'
- Any criminal or disciplinary steps taken as a consequence of losses through criminal conduct or irregular, or fruitless and wasteful expenditure¹
- Any losses recovered or written off¹
- Any financial assistance received from the state and commitments made by the state on the auditee's behalf
- The remuneration for the last financial period in respect of the following members or persons, both in aggregate and per member or person:
 - a Members of the accounting authority
 - o The accounting officer
 - a The chief executive officer or the person in charge of the auditee
 - a The chief financial officer
 - o Persons serving on the auditee's senior management
 - a Members or persons listed above, serving in other entities under the ownership control of the auditee

The remuneration disclosure must indicate the following:

- a Fees for services as a member or person listed above
 - a The basic salary
 - o Bonuses and performance-related payments
 - a Sums paid by way of expense, salary or other allowances
 - o Contributions made to any pension fund, medical aid, insurance scheme, etc.
 - a Any commission, gain or profit-sharing arrangements
 - o Any share options, including their strike price and period
 - o Any other material benefits received

16. Information to be disclosed elsewhere in the annual report:

- The auditee's performance against predetermined objectives, specifically:
 - o particulars of the auditee's strategic objectives and outcomes as identified and agreed on by the executive authority
 - a the key performance measures and indicators for assessing the auditee's performance in delivering the desired outcomes and objectives
 - o the auditee's actual performance against the strategic objectives and outcomes
- Public-private partnership (PPP) agreements"
- The audit committee's report on:
 - o whether the audit committee has adopted formal terms of reference
 - o whether the committee satisfied its responsibilities for the year, in compliance with its terms of reference
 - o the effectiveness of the auditee's internal controls
 - o the audit committee's evaluation of the auditee's financial statements
- Any other matters of public interest

¹ This information should be disclosed in a note to the annual financial statements of the auditee.

² The following should be disclosed for each PPP:

Reasons for the existence of the PPP
 Nature and main characteristics of the partnership
 Accountability arrangements
 Effectiveness of the partnership
 Financial arrangements

Submission of financial statements and annual report*Time frames - financial statements*

17. The financial statements, including the accounting authority's/officer's report, must be submitted to the Auditor-General for auditing within two months after the end of the financial year. Should financial statements not be received within this time frame, the late submission of the financial statements will be reflected in the audit report.
18. No further changes may be made to the financial statements once they have been submitted to the Auditor-General.
19. Where the financial statements require material/significant changes in nature and/or amount, based on the audit findings, the financial statements will be handed back to the auditee, should they wish to effect the necessary changes. The finalised financial statements, adjusted for material/significant audit findings, must be submitted to the Auditor-General within four months after the end of the financial year. This matter will be reflected in the audit report.
20. Should the Auditor-General not receive the finalised financial statements within four months after the end of the financial year or if the auditee declines to effect any changes to the financial statements resulting from material/significant audit findings, the audit report will be issued based on the latest version of the financial statements in his possession.

Time frames - annual report

21. The annual report must be submitted to the Auditor-General for review within three months after the end of the financial year. No further changes may be made to the annual report once it has been submitted to the Auditor-General. If on reviewing the annual report, the auditor identifies material inconsistencies with the financial statements, feedback regarding the required amendments to the annual report will be provided to the auditee and such changes must be effected within four months after the end of the financial year.
22. The final printer's proof of the annual report and financial statements must be sent to the Auditor-General for review before it is returned to the printers, in order to ensure that the published annual report and financial statements do not differ from those submitted to, audited by and reported on by the Auditor-General.

Time frames - published annual report and financial statements

23. The accounting authority/officer must submit the annual report, financial statements and the audit report thereon within five months after the end of the financial year to the relevant treasury and to the executive authority responsible for the auditee. The executive authority is responsible for tabling the annual report, financial statements and the accompanying audit report in the National Assembly or provincial legislature, as may be appropriate, within one month after the accounting authority/officer has received the audit report.

Number of copies

24. Two copies of the financial statements and the annual report should be submitted to the Auditor-General for auditing.
25. Fifteen copies of the final, printed annual report should be delivered to the Resource Centre of the Auditor-General at Lefika House, 300 Middel Street, Pretoria.

Signatories

26. The financial statements and annual report should be signed and dated by the accounting authority/officer before submission to the Auditor-General for auditing.

Definitions

27. For purposes of this circular, the terms listed below are defined as follows:

"Accounting authority" means:

the board or controlling body of the auditee, if the auditee has a board or controlling entity, or

- the chief executive officer or the other person in charge of the auditee, if the auditee does not have a board or controlling entity

unless specific legislation applicable to that auditee designates another person as the accounting authority.

"Accounting officer" means the chief executive officer of the auditee.

"Auditee" means an auditee as defined in section 1 of the PAA.

"Executive authority"

in relation to a national auditee, means the Cabinet member who is accountable to Parliament for that auditee and

- in relation to a provincial auditee, means the member of the Executive Council who is accountable to the provincial legislature for that auditee or in whose portfolio it falls.

"Fruitless and wasteful expenditure" means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

"Institutional function" means:

- a service, task, assignment or other function that an auditee is entitled or obliged to perform -
 - o in the public interest, or
 - o on behalf of the public service generally, or
- any part or component of or any service, task, assignment or other function performed or to be performed in support of such a service, task, assignment or other function.

"Irregular expenditure" means expenditure, other than unauthorised expenditure, incurred in contravention of, or that is not in accordance with, a requirement of any applicable legislation.

"Public-private partnership" means a commercial transaction between an auditee and a private party in terms of which the private party:

- performs an institutional function on behalf of the auditee and/or
- acquires the use of state property for its own commercial purposes and
- assumes substantial financial, technical and operational risks in connection with the performance of the institutional function and/or use of state property and receives a benefit for performing the institutional function or from utilising the state property, either by way of –
 - o consideration to be paid by the auditee which derives from a revenue fund or, where the auditee is a national government business enterprise or a provincial government business enterprise, from the revenues of such auditee, or
 - o charges or fees to be collected by the private party from users or customers of a service provided to them, or
 - o a combination of such consideration and such charges or fees.

"ppp agreement" means a written contract recording the terms of a PPP concluded between an auditee and a private party.

"Senior management" refers to the level of management that is directly accountable to the chief executive officer or to the person in charge of the public entity.

Abbreviations

28. MFMA:	Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
PAA:	Public Audit Act, 2004 (Act No. 25 of 2004)
PFMA:	Public Finance Management Act, 1999 (Act NO.1 of 1999)
PPP:	Public-private partnership
Statements of GAAP:	Statements of Generally Accepted Accounting Practice

29. Any query related to this notice should be addressed to the following office:

J H van Schalkwyk
Business Executive: Audit Research and Development
The Auditor-General
Tel: (012) 422 9823
Fax (012) 422 9822
Email: janvs@agsa.co.za

Yours faithfully

TM Nombembe
Auditor-General



A U D I T O R - G E N E R A L

PO Box 446
Pretoria, 0001
South Africa
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1 April 2005

AUDIT CIRCULAR 1 OF 2005

TO THE ACCOUNTING AUTHORITIES / OFFICERS OF AUDITEES FOR WHICH
LEGISLATION IS NOT PRESCRIPTIVE IN RESPECT OF THE FINANCIAL
STATEMENTS

1. Introduction

The enactment of the Public Audit Act, 2004 (Act No. 25 of 2004) and the simultaneous repeal of the Auditor-General Act, 1995 (Act No. 12 of 1995) have necessitated a revision of Audit Circular 1 of 2003. As a result, Audit Circular 1 of 2003 is hereby withdrawn and is replaced by the requirements as set out in this circular. This circular is effective for financial periods beginning on or after 1 April 2005 and will apply until further notice; a similar circular will not necessarily be issued annually.

2. Authority

This circular is issued based on the rights conferred on the Auditor-General in terms of section 14(2)(b) of the PAA:

"Financial statements submitted by an auditee which is not subject to the Public Finance Management Act or the Municipal Finance Management Act, must be submitted within the period, be in a format, contain the information and otherwise comply with any requirements determined -

- (a) by any legislation applicable to that auditee; or
- (b) in the absence of such legislation by the Auditor-General"

3. Scope

The requirements set out in this circular are applicable to all auditees for which the format and submission period of, the information to be contained in, and other requirements in respect of the financial statements are not prescribed by any legislation. The term "auditee" is defined in paragraph 5 below.

This circular is in no way intended to supersede the requirements of any legislation. Consequently, where an auditee is subject to legislation such as the Public Finance Management Act, 1999 (Act No. 1 of 1999), the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), auditee-specific enabling legislation or any other applicable legislation, which is prescriptive in terms of the financial statements, such legislation takes precedence over this circular.

As a first step, the accounting authority / officer of any auditee therefore needs to identify the auditee's legal form, i.e. public entity, trading entity, etc. and ensure compliance with all applicable legislation.

Audit Circular 1 of 2005:

To the accounting authorities / officers of auditees for which legislation is not prescriptive in respect of the financial statements



It is important to note that only section 47 of the PFMA is applicable to auditees that meet the definition of a public entity contained in the PFMA, but that have not been listed as such in either schedule 2 or 3 of the PFMA. Section 47(2) of the PFMA requires the accounting authority of an unlisted public entity to notify the National Treasury without delay, in writing, that the entity is not listed. The Minister of Finance, by notice in the national Government Gazette, must then amend the appropriate PFMA schedule to include in the schedule all unlisted public entities (section 47(1)(a) of the PFMA).

All unlisted public entities should comply with the requirements of section 47 of the PFMA; and the Auditor-General encourages them to do so. Non-compliance may be reflected in an emphasis of matter paragraph in the Auditor-General's report. Unlisted public entities should also take cognisance of the various PFMA reporting requirements and should prepare to comply fully with the PFMA requirements upon listing.

As the PFMA requirements, with the exception of section 47, are not applicable to unlisted public entities, such entities should comply with this circular, along with any other auditees for which their applicable legislation is not prescriptive in terms of the financial statements.

4. Financial statement requirements

The following requirements with regard to the annual financial statements are applicable to auditees for which the applicable legislation is not prescriptive in terms of the financial statements:

4.1 Format of financial statements

The annual financial statements must consist of:

- o an accounting authority's / officer's report;
- o a balance sheet;
- o an income statement;
- o a statement of changes in equity;
- o a cash-flow statement; and
- o accounting policies and notes to the annual financial statements.

The annual financial statements must be prepared in accordance with *generally accepted accounting practice* (gaap). Should these statements materially depart from *Statements of Generally Accepted Accounting Practice* (Statements of GAAP), the financial statements must provide disclosure of the departure, the particulars thereof, the reasons therefore and the effect of such departure on the financial statements.¹

Timely consultation with the auditors with regard to any matters affecting the compilation of the financial statements is recommended to speed up the finalisation of the statements.

4.2 Information to be contained in the financial statements

The financial statements and annual report must, by means of figures and a descriptive report, explain any matters and information of public interest and material to the affairs of the auditee.

In terms of section 14(2)(b) of the PAA, the Auditor-General may also determine any further information to be contained in the financial statements. In addition to the format of the financial statements prescribed in paragraph 4.1 above, the Auditor-General requires the following information to be included in the financial statements and annual report:

¹ Definitions and further discussions on the issue of gaap versus Statements of GAAP can be found in Circular 8 of 1999, issued by the South African Institute of Chartered Accountants.

Audit Circular 1 of 2005:

To the accounting authorities / officers of auditees for which legislation is not prescriptive in respect of the financial statements



Information to be disclosed in the financial statements:

- o any material losses through criminal conduct that occurred during the financial year²;
- o any unauthorised, irregular, or fruitless and wasteful expenditure that occurred during the financial year³;
- o any criminal or disciplinary steps taken as a consequence of such losses through criminal conduct or unauthorised, irregular, or fruitless and wasteful expenditure⁴;
- o any losses recovered or written off²;
- o any financial assistance received from the state and commitments made by the state on the auditee's behalf;
- o the financial statements of subsidiaries; and
- o the remuneration for the last financial period in respect of the following members or persons, both in aggregate and per member or person:
 - members of the accounting authority;
 - the accounting officer;
 - the chief executive officer or the person in charge of the auditee;
 - the chief financial officer;
 - persons serving on the auditee's senior management; and
 - members or persons listed above, serving in other entities under the ownership control of the auditee.

The remuneration disclosure must indicate:

- fees for services as a member or person listed above;
- the basic salary;
- bonuses and performance-related payments;
- sums paid by way of expense, salary or other allowances;
- contributions made to any pension fund, medical aid, insurance scheme, etc.;
- any commission, gain or profit-sharing arrangements;
- any share options, including their strike price and period; and
- any other material benefits received.

Information to be disclosed elsewhere in the annual report:

- o the auditee's performance against predetermined objectives³;
- o public-private partnership agreements³;
- o the audit committee's report on:
 - whether the audit committee has adopted formal terms of reference and if so, whether the committee satisfied its responsibilities for the year, in compliance with its terms of reference;
 - the effectiveness of the auditee's internal controls; and
 - the audit committee's evaluation of the auditee's financial statements; and
- o any other matters of public interest.

In addition to the Auditor-General's opinion on the fair presentation of the financial statements of the auditee, the Auditor-General's report may reflect an opinion or conclusion on at least the following:

- o the auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters;

² This information should be disclosed as a note to the annual financial statements of the auditee.

³ Particulars of the auditee's strategic objectives and outcomes as identified and agreed on by the executive authority, the key performance measures and indicators for assessing the auditee's performance in delivering the desired outcomes and objectives and the auditee's actual performance against the strategic objectives and outcomes, must be disclosed in the auditee's annual report.

⁴ The following should be disclosed for each PPP:

- Reasons for the existence of the PPP;
- Nature and main characteristics of the partnership;
- Accountability arrangements;
- Effectiveness of the partnership; and
- Financial arrangements.

Audit Circular 1 of 2005:

To the accounting authorities / officers of auditees for which legislation is not prescriptive in respect of the financial statements



- o the reported information relating to the performance of the auditee against predetermined objectives;
- o whether the auditee's resources were procured economically and utilised efficiently and effectively; and
- o any other matter within the functions of the Auditor-General that is in the public interest.

4.3 Submission of financial statements

a. Time frame

The financial statements, including the accounting authority's / officer's report, must be submitted to the Auditor-General for auditing within two months after the end of the financial year. Should financial statements not be received within this time frame the Auditor-General's report will be issued in the absence of financial statements.

No further changes may be made to the financial statements once they have been submitted to the Auditor-General.

Where the financial statements require material/significant changes in nature and / or amount, based on the audit findings, the financial statements will be handed back to the auditee, should they wish to effect the necessary changes. The finalised financial statements, adjusted for material/significant audit findings, must be submitted to the Auditor-General within four months after the end of the financial year. This matter will be reflected as an emphasis of matter in the Auditor-General's report.

Should the Auditor-General not receive the finalised financial statements within four months after the end of the financial year or if the auditee declines to effect any changes to the financial statements resulting from material/significant audit findings, the Auditor-General's report will be issued based on the latest version of the financial statements in his possession.

The annual report must be submitted to the Auditor-General for review within three months after the end of the financial year. No further changes may be made to the annual report once it has been submitted to the Auditor-General. If on reviewing the annual report, the auditor identifies material inconsistencies with the financial statements, feedback regarding the required amendments to the annual report will be provided to the auditee and such changes must be effected within four months after the end of the financial year.

The printer's proof of the annual report and financial statements must be sent to the Auditor-General for review before it is sent to the printers, in order to ensure that the published annual report and financial statements do not differ from those submitted to, audited by and reported on by the Auditor-General.

The accounting authority / officer must submit the annual report, financial statements and the Auditor-General's report thereon within five months after the end of the financial year to the relevant treasury and to the executive authority responsible for the auditee. The executive authority is responsible for tabling the annual report, financial statements and the accompanying audit report in the National Assembly or provincial legislature, as may be appropriate, within one month after the accounting authority / officer received the audit report.

b. Number of copies

Two copies of the financial statements and the annual report should be submitted to the Auditor-General.

c. Signatories

The financial statements and annual report should be signed and dated by the accounting authority / officer before submission to the Auditor-General for auditing.

Audit Circular 1 of 2005:

To the accounting authorities / officers of auditees for which legislation is not prescriptive in respect of the financial statements



5. Definitions

For purposes of this circular, the terms listed below are defined as follows:

"Accounting authority" means:

- o the board or controlling body of the auditee, if the auditee has a board or controlling entity; or
 - o the chief executive officer or the other person in charge of the auditee, if the auditee does not have a board or controlling entity;
- unless specific legislation applicable to that auditee designates another person as the accounting authority.

"Accounting officer" means the chief executive officer of the auditee.

"Auditee" means an auditee as defined in section 1 of the PM.

"Executive authority"

- o in relation to a national auditee, means the Cabinet member who is accountable to Parliament for that auditee; and
- o in relation to a provincial auditee, means the member of the Executive Council who is accountable to the provincial legislature for that auditee or in whose portfolio it falls.

"Fruitless and wasteful expenditure" means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

"Institutional function" means -

- o a service, task, assignment or other function that an auditee is entitled or obliged to perform - in the public interest; or on behalf of the public service generally; or
- o any part or component of or any service, task, assignment or other function performed or to be performed in support of such a service, task, assignment or other function.

"Irregular expenditure" means expenditure, other than unauthorised expenditure, incurred in contravention of, or that is not in accordance with, a requirement of any applicable legislation.

"Public-private partnership" means a commercial transaction between an auditee and a private party in terms of which the private party -

- o performs an institutional function on behalf of the auditee; and / or
- o acquires the use of state property for its own commercial purposes; and
- o assumes substantial financial, technical and operational risks in connection with the performance of the institutional function and/or use of state property; and
- o receives a benefit for performing the institutional function or from utilising the state property, either by way of:
 - o consideration to be paid by the auditee which derives from a revenue fund or, where the auditee is a national government business enterprise or a provincial government business enterprise, from the revenues of such auditee; or
 - o charges or fees to be collected by the private party from users or customers of a service provided to them; or
 - o a combination of such consideration and such charges or fees.

"PPP agreement" means a written contract recording the terms of a PPP concluded between an auditee and a private party.

"Unauthorised expenditure" means:

- o overspending of a vote or a main division within a vote;

Audit Circular 1 of 2005:

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- o expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

6. Abbreviations

gaap:	generally accepted accounting practice
MFMA:	Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
PAA:	Public Audit Act, 2004 (Act No. 25 of 2004)
PFMA:	Public Finance Management Act, 1999 (Act No.1 of 1999)
PPP:	Public-private partnership
Statements of GAAP:	Statements of Generally Accepted Accounting Practice

I would like to express my appreciation for your cooperation in this regard. Please acknowledge receipt of this letter.

SA FAKIE
AUDITOR-GENERAL

Pretoria
1 April 2005