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Auditor-General of South Africa

General Notice

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GENERAL NOTICE

NOTICE 1570 OF 2009

PUBLIC AUDIT ACT, 2004 (Act No. 25 of 2004)

1. Under the powers vested in me by section 2(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:

A. AUDIT FUNCTIONS PERFORMED BY THE AGSA IN TERMS OF THE PUBLIC AUDIT ACT, 2004 (ACT No. 25 of 2004)

Evaluation of public finance management

2. The success of transformation in public sector financial management is evaluated as part of the outcomes of the annual regularity audit process. Accordingly, the auditor's report reflects views on:
 - financial information (through the auditor's opinion on the financial statements)
 - performance information (based on the audit findings on performance against predetermined objectives reflected under *Reporting on other legal and regulatory requirements* in the auditor's report)
 - internal control (reflected in the analysis of internal control deficiencies that resulted in qualifications of the auditor's opinion under *Other matters* in the auditor's report)
 - non-compliance with applicable laws and regulations relating to financial matters, financial management and other related matters (reflected under *Other matters* in the auditor's report where it does not directly impact the auditor's opinion on the financial statements)
 - any other pertinent matters related to key governance responsibilities (reflected under *Other matters* in the auditor's report).

Auditor's opinion on the financial statements

3. In terms of section 13(1)(a) of the PAA, the entire suite of auditing pronouncements issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) will be applied in all regularity audits conducted by public sector auditors. In applying these standards all public sector auditors will take cognisance of the principles and guidance contained in the International Standards of Supreme Audit Institutions (ISSAIs) to ensure that a public sector perspective is incorporated in the performance of all public sector audits.
4. The International Organization of Supreme Audit Institutions (INTOSAI) is in the process of developing a collection of professional standards and best practice guidelines for public sector auditors to be known as the ISSAIs. The ISSAIs will state the basic prerequisites for the proper functioning and professional conduct of Supreme Audit Institutions (SAIs) and the fundamental principles of auditing in the public sector. When fully developed, it is envisaged that the ISSAIs will incorporate the International Standards on Quality Control (ISQCs) and International Standards on Auditing (ISAs) issued by the IAASB. As soon as the ISSAIs represent a complete auditing framework, I will consider adopting these for application in all regularity audits conducted in the public sector.

Auditing of performance against predetermined objectives - sections 20(2)(c) and 28(1)(c) of the PAA

5. The objective of an audit of performance information is to enable the auditor to conclude whether the reported performance against predetermined objectives is reliable, accurate and complete, in all material respects, based on predetermined criteria.
6. The following are the sources of criteria against which the subject matter will be evaluated as a basis for the audit conclusions:
 - All relevant laws and regulations
 - Framework for the managing of programme performance information, issued by the National Treasury
 - Relevant frameworks, circulars and guidance issued by the National Treasury and the Presidency regarding the planning, management, monitoring and reporting of performance information.
7. All departments, institutions, municipalities and entities subject to audit in terms of this notice are required to submit their annual performance reports for auditing together with the annual financial statements within two months after the end of the financial year.
8. In terms of section 13(1)(b) of the PAA, a phasing-in approach has been adopted to implementing sections 20 and 28 of the PAA. This will constitute a review of the policies, processes, systems and procedures for the management of and reporting on performance against predetermined objectives as part of the regularity audit process.
9. Material shortcomings in the process, systems and procedures of reporting against predetermined objectives, which may come to the attention of the auditor and may impact on the public interest, will be reported in the *Report on other legal and regulatory requirements* section of the auditor's report until such time as the environment shows a state of readiness to provide reasonable assurance in the form of an audit opinion.
10. In addition to the above and as part of the readiness strategy, an audit conclusion will be prepared on the reporting of performance against predetermined objectives for the following categories of entities:
 - National and provincial departments, constitutional institutions and trading entities
 - National and provincial public entities
 - Municipal metropolitan councils and their related municipal entities.

The audit conclusions in this regard will be prepared in terms of the International Standard on Assurance Engagements (ISAE) 3000: *Assurance engagements other than audits or reviews of historical financial information* and will be issued as an annexure to the management report.

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

11. In terms of sections 20(2)(b) and 28(1)(b) of the PAA, the auditor's 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.
12. Conclusions in this regard will be reached as part of the financial auditing process in terms of the International Standard on Auditing (ISA) 250: *Consideration of Laws and Regulations in an Audit of Financial Statements*.

Other legislative functions

13. In terms of the PAA, public sector auditors also fulfil other responsibilities such as performance audits, investigations, special audits and related services. The standards that guide these processes are determined in paragraphs 14 to 17 below.

Performance audits - section 20(3) of the PAA

14. In terms of section 13(1)(a) of the PAA, the ISSAIs, with specific reference to the ISSAI 3000 series, issued by INTOSAI's Professional Standards Committee (PSC) have been adopted for application in all performance audits conducted in the public sector.

Investigations - section 5(1)(d) of the PAA

15. In terms of section 13(1)(a) of the PAA, *The Standards and Guidelines: Investigations* have been developed by the AGSA for conducting investigations.

Special audits - section 5(1)(d) of the PAA

16. In terms of section 13(1)(a) of the PAA, these audits are conducted in accordance with International Standard on Related Services (ISRS) 4400: *Engagements to perform Agreed-upon Procedures regarding Financial Information* issued by the IAASB.

Audit-related services - section 5(1)(a) of the PAA

17. In terms of section 13(1)(a) of the PAA, these audits are conducted in accordance with International Standard on Related Services (ISRS) 4400: *Engagements to perform Agreed-upon Procedures regarding Financial Information* issued by the IAASB and *Audit-Related Services: Policy and guideline* developed by the AGSA.

Donor funding

18. Public sector reports on donor funds are issued in accordance with ISA 800 *Special Considerations – Audits of Financial Statements prepared in accordance with Special Purpose Frameworks* or in terms of ISA 805: *Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.

B. AUDITS OF PUBLIC ENTITIES AND OTHER INSTITUTIONS NOT PERFORMED BY THE AGSA

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

19. In terms of section 25(1)(a) of the PAA, I opt not to perform the audits of any institutions referred to in section 4(3) of the PAA, which are not already being audited by me, for the 2010-11 and following financial year, unless advised otherwise prior to the start of the auditee's financial year.

Appointment of auditors - section 25 of the PAA

20. An auditee may proceed to appoint its own auditors as stipulated by section 25(1)(b), read with section 25(4) of the PAA, if not advised before the start of the financial year that the AGSA will perform the audit.
21. In this regard, the document: *Consultation of the Auditor-General (AG) on the appointment of an auditor*, attached hereto, should be completed in full as indicated.

22. If I have opted to perform the audit of an entity, such entity may not seek to or appoint alternative auditors.

Responsibilities of auditors in public practice - part 2 of chapter 3 of the PAA

23. Auditors in public practice appointed to audit institutions in terms of section 25(1)(b) of the PAA should take cognisance of and must apply the content of this *General Notice* where applicable, as well as the requirements contained in sections 25 to 27 of the PAA dealing with the following matters:

- Appointment of auditors (section 25)
- Discharge of auditors (section 26)
- Duties and powers of auditors (section 27) when conducting audits in the public sector.

24. In terms of the requirements of section 28 of the PAA, the appointed auditor must:

- in respect of subsections (1)(a), (b) and (c), comply with the matters as stipulated in sections A, C and D of this gazette.
- in respect of subsection (3)(c), furnish the AGSA with:
 - three copies of the auditor's report, together with a copy of the audited financial statements, within five months after the financial year-end; and
 - three copies of the annual report, within six months after the financial year-end.

This information must be furnished to the AGSA's Audit Research and Development unit and must be supplied both in hard copy and on CD.

25. Compliance with the provisions of the PAA and this *General Notice* in conducting an audit in terms of 25(1)(b) of the PAA will be monitored by the AGSA. A checklist and guidance on the minimum requirements to be adhered to by the appointed auditor will be posted on the AGSA website. The appointed auditor must complete the relevant checklist and furnish it within five months after the financial year-end to the AGSA's Audit Research and Development unit, either in hard copy or on CD.

26. Should a registered auditor be found to be in contravention of these requirements or any provision of the PAA, the Auditing Profession Act, 2005 (Act No. 26 of 2007) (hereafter referred to as the APA) or any act with which it is his/her duty to comply in his/her capacity as a registered auditor, a complaint or charge of improper conduct may be made to the Independent Regulatory Board for Auditors' (IRBA) Investigating Committee against auditors in public practice, appointed in terms of section 25(1)(b) of the PAA.

27. In addition, I may lay a complaint or a charge of improper conduct with the IRBA's Investigating Committee against auditors in public practice, appointed in terms of section 25(1)(b) of the PAA, if it comes to my attention that the registered auditor conducts himself/herself in a manner which is improper, discreditable, unprofessional, dishonourable or unworthy of a registered auditor or which brings the accounting profession into disrepute.

C. AUDITEES FOR WHICH LEGISLATION IS NOT PRESCRIPTIVE IN RESPECT OF THE FINANCIAL STATEMENTS - SECTION 14(2)(b) OF THE PAA

28. In terms of section 14(2)(b) of the PAA, financial statements submitted by an auditee that is not subject to the PFMA or MFMA must be submitted within the period and in a format, and contain the information as required by and otherwise comply with any legislation applicable to the auditee or, in the absence of such legislation, any requirements determined by the AGSA.
29. This notice sets out for all auditees the format and submission period, as well as the information and other requirements relating to financial statements *not* prescribed in any

legislation, but is in no way intended to supersede the requirements of any applicable legislation. Consequently, where an auditee is subject to legislation such as the PFMA, the MFMA, auditee-specific enabling legislation or any other applicable legislation that is prescriptive in terms of the financial statements, such legislation takes precedence over this notice.

30. 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 such unlisted public entity (section 47(1)(a) of the PFMA).
31. 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 paragraph 32.
32. The financial statements must be prepared in accordance with the Generally Recognised Accounting Practice (GRAP) reporting framework issued by the Accounting Standards Board (ASB) and must comply with the PFMA requirements as they pertain to the format of and information to be contained in the financial statements, as well as the period within which the financial statements are to be submitted.
33. In the case of an audit conducted in terms of the PAA where there is no applicable legislation setting out the period within which the auditor's report is to be submitted to the relevant legislature, the Auditor-General must, in terms of section 21(2) of the PAA, submit such auditor's report to the relevant legislature as per the requirements of the PFMA in this regard.
34. *Auditor-General Audit Circular 1 of 2007* is hereby withdrawn and replaced by the requirements as set out in paragraphs 27 – 32 which are effective for financial periods beginning on or after 1 April 2009.

D. ASSESSMENT AND RECOGNITION OF THE FINANCIAL REPORTING FRAMEWORKS AND BASES OF ACCOUNTING APPLICABLE IN THE PUBLIC SECTOR

35. The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material aspects, in accordance with an applicable financial reporting framework.
36. The requirements of the applicable financial reporting framework determine the form and content of the financial statements. Although the framework may not specify how to account for or disclose all transactions or events, it ordinarily embodies sufficiently broad principles that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the requirements of the framework.
37. The auditor is required to evaluate whether the financial statements are prepared, in all material aspects, in accordance with an applicable financial reporting framework and adequately refer to or describe the applicable financial reporting framework/basis of accounting. The description of the financial reporting framework/basis of accounting is important because it advises users of the financial statements of the framework/basis of accounting on which the financial statements are based.
38. The form of opinion expressed by the auditor will depend on the applicable financial reporting framework and any applicable law or regulation.

39. Without an acceptable financial reporting framework, management does not have an appropriate basis for the presentation of the financial statements and the auditor does not have suitable criteria for auditing the financial statements.

Requirements for an acceptable financial reporting framework

40. The applicable financial reporting framework provides the criteria the auditor uses to audit the financial statements, including, where relevant, fair presentation. As one of the preconditions for an audit, the auditor is required to determine whether the financial reporting framework to be applied in preparation of the financial statements is acceptable.
41. Factors that are relevant to the auditor's evaluation of the acceptability of the financial reporting framework to be applied in the preparation of the financial statements include the purpose of the financial statements, for example, whether they are prepared in a manner that meets the common financial information needs of a wide range of users or the financial information needs of specific users.
42. Acceptable financial reporting frameworks normally exhibit the following attributes that result in information provided in financial statements that is useful to the intended users:
- Relevance, in that the information provided in the financial statements is relevant to the nature of the entity and the purpose of the financial statements. For example, in the case of a business enterprise that prepares general purpose financial statements, relevance is assessed in terms of the information necessary to meet the common financial information needs of a wide range of users in making economic decisions. These needs are ordinarily met by presenting the financial position, financial performance and cash flows of the business enterprise.
 - Completeness, in that transactions and events, account balances and disclosures that could affect conclusions based on the financial statements are not omitted.
 - Reliability, in that the information provided in the financial statements:
 - where applicable, reflects the economic substance of events and transactions and not merely their legal form; and
 - results in reasonably consistent evaluation, measurement, presentation and disclosure, when used in similar circumstances.
 - Neutrality, in that it contributes towards information in the financial statements that is free from bias.
 - Understandability, in that the information in the financial statements is clear and comprehensive and not subject to significantly different interpretation.

Applicable financial reporting frameworks/basis of accounting

43. In the public sector there are a number of financial reporting frameworks that are or may be applied. For the 2009-10 financial year I will respond to the financial reporting framework/basis of accounting in public sector audits as detailed hereunder in terms of the International Standards of Auditing that are currently applicable.
44. For the 2010-11 financial year I will reassess this in the context of the redrafted and clarified ISAs, which include the matters set out in paragraphs 35 - 42.

Financial reporting frameworks

45. I recognise the following as financial reporting frameworks:

- South African Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board
- South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP), as codified by the Accounting Practices Board (APB) and issued by the South African Institute of Chartered Accountants (SAICA); and
- International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB).

46. My audit report on auditees that have applied the above financial reporting frameworks in the preparation of their financial statements will be issued in accordance with:
- ISA 700: *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*; and
 - ISA 701: *Modifications to the Independent Auditor's Report* (incorporating the principles of the clarified ISAs 705 and 706).

Comprehensive basis of accounting

47. A comprehensive basis of accounting comprises a set of criteria used in preparing financial statements which applies to all material items and which has substantial support. A comprehensive basis of accounting applies to a **class of entities**. It is a basis of accounting determined by a body other than:
- the preparers of the financial statements; or
 - an authorised/recognised standard-setting body,
- and may be codified in legislation or guidance notes, issued by a regulator or professional body.
48. I recognise the framework prescribed by the National Treasury for use by departments in the preparation of their financial statements as a comprehensive basis of accounting.
49. My audit report on auditees that have applied a comprehensive basis of accounting, prescribed by the National Treasury, in the preparation of their financial statements will be issued in accordance with:
- ISA 800: *The Audit Report on Special Purpose Audit Engagements*; and
 - ISA 701: *Modifications to the Independent Auditor's Report* (incorporating the principles of the clarified ISAs 705 and 706).
50. In these circumstances the following will also apply:
- Disclosure by management of the reasons for applying the basis of accounting in question and a general description of the basis of accounting
 - Reference to this disclosure in the 'Management's responsibility for the financial statements' paragraph in the auditor's report
 - Reference to this disclosure in my audit opinion
 - An emphasis of matter drawing the user's attention to this disclosure.

Entity-specific basis of accounting

51. An entity-specific basis of accounting comprises a set of criteria used in preparing financial statements which applies to all material items and which has been designed specifically for the preparation of the financial statements of an **individual entity**.
52. An exemption/departure/deviation from a financial reporting framework or a comprehensive basis of accounting, whether granted by the National Treasury or adopted by the auditee itself, or a conglomeration of accounting conventions to suit an individual auditee, results in an **entity-specific basis of accounting**.

53. In such instances I will not express my audit opinion in accordance with ISA 700, ISA 701 or ISA 800, but will express a “**prepared in accordance with ...**” audit opinion in terms of:
- the *International Framework for Assurance Engagements*, read with
 - South African Audit Practice Statement 2: *Financial Reporting Frameworks and Audit Opinions*.

54. In these circumstances the following will also apply:
- Disclosure by management of the reasons for applying the basis of accounting and a general description of the basis of accounting
 - Reference to this disclosure in the ‘Management’s responsibility for the financial statements’ paragraph in the auditor’s report
 - Reference to this disclosure in the audit opinion
 - An emphasis of matter drawing the user’s attention to this disclosure.

E. REPEAL OF PRIOR GOVERNMENT GAZETTES

55. *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*, is hereby withdrawn and replaced by the requirements as set out in this *General Notice*.

F. EFFECTIVE DATE

56. This *General Notice* is effective for financial periods beginning on or after 1 April 2009 and will apply until further notice. A similar *General Notice* will not necessarily be issued annually.

G. ENQUIRIES

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

Business Executive: Audit Research and Development
Auditor-General of South Africa
Tel. (012) 422 9823
Fax (012) 422 9822
Email: auditsupport@agsa.co.za

58. Documentation related to this directive, including the AGSA’s reporting guidance, will be available on the AGSA website under the *Technical Memos* link.

Signed and approved:

T M Nombembe
Auditor-General

**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, 2004 (ACT
NO. 25 OF 2004)**

INSTRUCTIONS

1. This checklist should be completed and submitted with supporting documentation to the AGSA's Audit Research and Development unit.
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
Firm 1		
Firm 2		
Firm 3		
Firm 4		
Firm 5		

5. Provide the notice to the auditor, giving 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			
Firm 5			
Nature of other services to be performed:			
<i>Insert details</i>			

9. Audit firm proposed and anticipated date of appointment:

	Name(s) of audit firm(s)	Anticipated date of appointment
Firm 1		
Firm 2		
Firm 3		
Firm 4		
Firm 5		

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

<i>Insert details</i>

11. Indicate how the performance of auditors will be evaluated:

<i>Insert details</i>

12. Indicate any matter that may influence a decision regarding the independence or objectivity or perceived independence of any of the auditors:

<i>Insert details</i>

REAPPOINTMENT OF AUDITORS

13. Details of firm to be reappointed:

	Name(s) of audit firm(s)	Financial year(s) previously appointed
Firm 1		
Firm 2		
Firm 3		
Firm 4		
Firm 5		

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

Insert details

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

Insert details

16. Indicate any matter that may influence a decision regarding the independence or objectivity or perceived independence of the auditors:

Insert details

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

Insert details

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

Insert details

Completed by: _____

(signature)

Completed by: _____

(name)

Designation: _____

Date: _____

INFORMATION:

- S25**
- (2) Must give notice of the suggested appointment, including information on the extent to which the auditor would provide services other than audit services during the period 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.
 - (4) Appointment may only be for one year.
- S26**
- (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 an auditor to the relevant legislature.
-