

**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, 3B and 3D public entities and trading entities***

As stated in the introductory paragraphs to Standards of GRAP, the Accounting Standards Board (ASB) 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 700R.

**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:

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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:

<b>Standard of GRAP</b>	<b>Replaced Statement of GAAP</b>
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:

<b>Standard of GRAP</b>	<b>Replaced Statement of GAAP</b>
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 to 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.