

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 PAA), 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 (GAAP). SA Statements of GAAP 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 GAAP 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 (SAAPS) 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 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.

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 (SAAPS) 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 M Nombembe
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 GAAP), 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 year¹
 - Any irregular, or fruitless and wasteful expenditure that occurred during the financial year¹
 - 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:
 - 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
 - Members or persons listed above, serving in other entities under the ownership control of the auditee

The remuneration disclosure must indicate the following:

- 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
- Any other material benefits received

16. Information to be disclosed elsewhere in the annual report:
- The auditee's performance against predetermined objectives, specifically:
 - 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
 - the auditee's actual performance against the strategic objectives and outcomes
 - Public-private partnership (PPP) agreements²
 - The audit committee's report on:
 - whether the audit committee has adopted formal terms of reference
 - whether the committee satisfied its responsibilities for the year, in compliance with its terms of reference
 - the effectiveness of the auditee's internal controls
 - 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 –
 - in the public interest, or
 - 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 –
 - 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
 - charges or fees to be collected by the private party from users or customers of a service provided to them, or
 - 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
 Tel (+27 12) 426 8000
 Fax (+27 12) 426 8333

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 resulted in the 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



AUDITOR-GENERAL

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:

- an accounting authority's / officer's report;
- a balance sheet;
- an income statement;
- a statement of changes in equity;
- a cash-flow statement; and
- 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.

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:

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:

- any material losses through criminal conduct that occurred during the financial year;
- any unauthorised, irregular, or fruitless and wasteful expenditure that occurred during the financial year;
- any criminal or disciplinary steps taken as a consequence of such losses through criminal conduct or unauthorised, irregular, or fruitless and wasteful expenditure;
- any losses recovered or written off?
- any financial assistance received from the state and commitments made by the state on the auditee's behalf;
- the financial statements of subsidiaries; and
- 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:

- the auditee's performance against predetermined objectives³;
- public-private partnership agreements⁴;
- 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
- 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:

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

¹This 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



- ❑ the reported information relating to the performance of the auditee against predetermined objectives;
- ❑ whether the auditee's resources were procured economically and utilised efficiently and effectively; and
- ❑ 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:

- 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 –
 - in the public interest; or
 - 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:
 - 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
 - charges or fees to be collected by the private party from users or customers of a service provided to them; or
 - 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:

- overspending of a vote or a main division within a vote:

Audit Circular 1 of 2005:
To the accounting authorities / officers of auditees for which legislation is not
prescriptive in respect of the financial statements



- 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.

S A FAKIE
AUDITOR-GENERAL

Pretoria
1 April 2005