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## GENERAL NOTICE

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### NOTICE 808 OF 2006

#### **PUBLIC AUDIT ACT, 2004 Act No. 25 of 2004**

#### **Standards for audits**

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

#### **1. Audit opinion**

The objective of an audit of financial statements is to enable the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework.

A financial reporting framework is a basis of accounting that has been established by authorised or recognised standard-setting bodies.

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, for example, legislation or guidance notes, issued by a regulator or professional body.

In terms of section 13(3) of the Act I hereby advise that I have determined the following with regard to the financial reporting frameworks, as prescribed by the National Treasury, in respect of which my audit of the financial statements of the different spheres of government will be conducted and in terms of which my 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 of 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 accounting. The audit report to be issued will therefore be in terms of International Standard of 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 follows:

"The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the prescribed Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement..." (This is more fully 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.

**(c) Schedule 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 700.

(d) **Entities falling under the scope of *Audit circular 1 of 2005***

Auditees, for which legislation is not prescriptive in respect of the financial statements, fall under the scope of *Audit circular 1 of 2005*, issued by my office. In terms of paragraph 4.1, *Format of financial statements of Audit circular 1 of 2005*, these entities are required to comply with SA Statements of GAAP.

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 700.

(e) **Other entities**

In terms of section 20(2) of the Act 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 (in the absence of formal guidance by legislation), **no opinion** on the fair presentation of the financial statements will be expressed and the opinion given will only be on whether the financial statements have been prepared, in all material respects, in accordance with the basis of accounting as disclosed, as required by ISA800.

## 2. Compliance with applicable legislation

In terms of section 20(2) of the Act an audit report must reflect an opinion or conclusion on (b) the auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters, and (c) 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 compliance with legislation or

performance against predetermined objectives should be included in the audit reports. Conclusions in this regard will be reached as part of the financial audit process. Reporting will be in respect of material non-compliance with applicable legislation relating to financial matters or material shortcomings in the process 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 "emphasis of matter" section of the audit reports.

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

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Other entities (a)

In terms of section 20(2) of the Act 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 (in the absence of formal guidance by legislation), no opinion on the fair presentation of the financial statements will be expressed and the opinion given will only be on whether the financial statements have been prepared, in all material respects, in accordance with the basis of accounting as disclosed, as required by IAS 800.

## 5. Compliance with applicable legislation

In terms of section 20(2) of the Act an audit report must reflect an opinion or conclusion on (a) the auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters, and (c) 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 compliance with legislation or