

GENERAL NOTICE

**GENERAL NOTICE XXX OF 2008
PUBLIC AUDIT ACT, 2004
Act No. 25 of 2004**

1. 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:

A. REQUIREMENTS OF THE PUBLIC AUDIT ACT, 2004 (ACT NO. 25 OF 2004)

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

2. 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 2008-09 and following financial years, unless advised otherwise prior to the start of the auditee's financial year.
3. An auditee may proceed to appoint its own auditors as stipulated by section 25(4) of the PAA:
 - if not advised before the start of the financial year that I will perform the audit; and
 - if not already being audited by me.
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.

Submission of audit reports – section 21 of the PAA

5. 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.

Duties of auditors in public practice – part 2 of chapter 3 of the PAA

6. Auditors in public practice appointed to audit institutions in terms of section 25(1)(b) of the PAA should take cognisance of the content of this General Notice, 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.
7. In terms of the requirements of section 28 of the PAA, the appointed auditor must:
 - i. in respect of subsections (1)(a), (b) and (c) comply with the matters as stipulated in paragraphs 10 to 18 of this gazette.
 - ii. in respect of subsection (3)(c) furnish me with:
 - three copies of the audit 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 AG's Audit Research and Development unit and must be furnished both in hard copy and on CD.

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

8. The policy and process to be followed for complaints against the AG may be obtained from the AG's Corporate Secretariat (300 Veale Street, PO Box 446, Pretoria, 0001).

B. AUDIT FUNCTIONS PERFORMED IN TERMS OF THE PUBLIC AUDIT ACT, 2004 (ACT NO. 25 OF 2004)

9. The Professional Standards Committee (PSC) of 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 International Standards of Supreme Audit Institutions (ISSAIs). The ISSAIs will state the basic prerequisites for the proper functioning and professional conduct of Supreme Audit Institutions and the fundamental principles of auditing in the public sector. When fully developed it is intended that the ISSAIs will incorporate the International Standards on Quality Control (ISQCs) and International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). As soon as the ISSAIs represent a complete auditing framework, I will consider adopting these for application in all regularity audits conducted by me.

Regularity audits

10. A regularity audit consists of three broad components – (i) an opinion on the financial statements, which includes (ii) an assessment of compliance with key applicable legislation and (iii) a conclusion on performance information. In the absence of a full suite of ISSAIs, the standards as set out on paragraphs 11 to 18 will be applied by me in fulfilling my constitutional mandate.

Opinion on the financial statements

11. In terms of section 13(1)(a) of the PAA I have adopted the entire suite of auditing pronouncements issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for application in all regularity audits conducted by me. In applying these standards I will take cognisance of the principles and guidance contained in the ISSAIs to ensure that a public sector perspective is incorporated in the execution of my audits.

Compliance with any applicable legislation relating to financial matters, financial management and other related matters – section 20(2)(b) of the PAA

12. In terms of section 20(2)(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.
13. 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 *Consideration of Laws and Regulations in an Audit of Financial Statements*.
14. Reporting on compliance with applicable legislation (not directly impacting on the opinion on the financial statements), as envisaged in:

- the Public Sector Perspective of ISA 250;
 - Study 3: *Auditing for Compliance with Authorities—A Public Sector Perspective*, issued by IFAC's International Public Sector Accounting Standards Board (IPSASB); and
 - paragraph 45 of ISA 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*,
- will be included under *Other matters* in the audit report.

Auditing of performance information – sections 20(2)(c) and 28(1)(c) of the PAA

15. In terms of section 13 of the PAA I have adopted a phasing-in approach to compliance with sections 20 and 28 of the PAA until such time as the environment shows a state of readiness to provide reasonable assurance in the form of an audit opinion or conclusion.
16. The phasing-in approach to the auditing of performance information constitutes a review of the policies, systems, processes and procedures for the managing of and reporting on performance against predetermined objectives. Details regarding the audit programmes may be obtained from the AG's Audit Research and Development unit on request.
17. The performance information should be submitted for auditing together with the annual financial statements within two months after the end of the financial year.
18. 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 auditing process. Reporting will be in relation to material shortcomings in the process, systems and procedures of reporting against predetermined objectives which may come to the attention of the auditor during the audit and which may impact on the public interest. This reporting will be contained in the *Other reporting responsibilities* section of the audit report.

Evaluation of performance in public finance management

19. The evaluation of performance and the success of transformation in public sector financial management is based on the outcomes of the annual regularity audit process. Accordingly, the audit report format reflects views on:
 - the financial information (through the audit opinion on the financial statements and, where applicable, the related qualifications),
 - internal control issues (reflected in the root cause analysis),
 - performance information (based on the audit conclusion on the performance information), and
 - any other pertinent matters that those charged with governance should deal with.

Details on the assessment and reporting on financial management are incorporated in the AG's Reporting Guide which is available on www.agsa.co.za.

Other legislative functions

20. In terms of the PAA the AG also fulfils other responsibilities such as performance audits, investigations and special audits. The standards that guide these processes are determined in paragraph 21 to 24 below.

Performance audits – section 20(3) of the PAA

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

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

22. In terms of section 13(1)(a) of the PAA I have developed and adopted interim policies, standards and guidelines for application in all investigations conducted by me.

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

23. In terms of section 13(1)(a) of the PAA I have adopted the entire suite of auditing pronouncements issued by IFAC's International Auditing and Assurance Standards Board (IAASB) for application in all special audits conducted by me. In applying these standards I will take cognisance of the principles and guidance contained in the ISSAIs to ensure that a public sector perspective is incorporated in the execution of my special audits.
24. Special audits in the context of the PAA are equated to special purpose audits in terms of the International Standards on Auditing and consequently my report on such will be issued in accordance with ISA 800: *The Independent Auditor's Report on Special Purpose Audit Engagements*.

C. ASSESSMENT AND RECOGNITION OF THE BASES OF ACCOUNTING IMPLEMENTED BY THE NATIONAL TREASURY

25. The objective of an audit of financial statements is to enable the auditor to express an opinion on whether the financial statements have been prepared, in all material respects, in accordance with an identified basis of accounting. The following three types of bases of accounting may be applicable:

Financial reporting frameworks

26. A financial reporting framework is a basis of accounting that has been established by authorised or recognised standard-setting bodies, and is designed to achieve fair presentation.
27. I recognise the following as financial reporting frameworks:
- 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).
28. Statements of Generally Recognised Accounting Practice (GRAP) are still in the process of development. While still in the development and/or implementation stage, these statements will be dealt with in terms of paragraphs 30 to 32 below.
29. My audit report on auditees who have applied either of the above two 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*.

Comprehensive basis of accounting

30. 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.
31. I recognise the various sets of criteria prescribed by the National Treasury for use by different classes of entities in the preparation of their financial statements as comprehensive bases of accounting.
32. My audit report on auditees who 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*.

Entity-specific basis of accounting

33. 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**.
34. 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**.
35. 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 together with
 - South African Audit Practice Statements 2: *Financial Reporting Frameworks and Audit Opinions*.

D. REPEAL OF PRIOR GOVERNMENT GAZETTES

36. *General Notices 645, 646, 647 and 648 of 2007*, issued in *Government Gazette No. 29919 of 25 May 2007*, are hereby withdrawn and replaced by the requirements as set out in this General Notice.
37. This General Notice is effective for financial periods beginning on or after 1 April 2007 and will apply until further notice; a similar General Notice will not necessarily be issued annually.

E. ENQUIRIES

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

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

39. Documentation related to this directive will be available on the AG web-site.

Signed and approved:

T M Nombembe
Auditor-General



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, NO. 25 OF 2004**

INSTRUCTIONS

1. This checklist should be completed and submitted with supporting documentation to the Auditor-General'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

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

REAPPOINTMENT OF AUDITORS

13. Details of firm to be reappointed

Name	
Financial years previously 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. Indicate any matter that may influence a decision regarding the independence or objectivity or perceived independence of the auditors

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:

- S25**
- (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.
 - (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 the auditor to the relevant legislature.