



# TECHNICAL GUIDANCE

## MEMORandum

<b>Number</b>	1 of 2015
<b>Date</b>	3 March 2015
<b>Applicable auditees</b>	All auditees, including section 4(3) auditees that the AGSA opted not to audit
<b>Subject</b>	AG Directive

This document has been reviewed and approved for distribution by the BE: Audit R&D after consultation with all relevant role players.

### Introduction

1. The purpose of this TGM is to inform the auditors of the revision and publication of the new AG Directive (*General Notice 125 of 2015*, issued in *Government Gazette No. 38464* on 11 February 2015).
2. The new AG Directive is effective for financial periods beginning on or after 1 April 2014 and is applicable until further notice. A similar directive will not necessarily be issued annually.
3. Changes resulting from the revision of the AG Directive have been incorporated in the audit developments for the 2014-15 audits.

### Guidance

4. The general purpose of the AG Directive is to clarify the following:
  - The nature of the audit functions performed in the public sector
  - The standards, criteria and processes applied in performing audits in the public sector
  - The responsibilities of auditors in public practice and the manner in which they are required to perform public sector audits.
5. More specifically, the AG Directive addresses the following:
  - Audit functions performed in terms of the Public Audit Act (PAA)
    - Audit of financial and performance management
    - Auditing standards
    - Auditing of reported information on performance against predetermined objectives
    - Auditing of compliance with applicable legislation relating to financial matters, financial management and other related matters
    - Internal control, as indicated by the reference to financial management in the PAA

- Focus areas
- Discretionary engagements
- Complaints against the AGSA
- Audits of public entities and other institutions not performed by the AGSA
  - Audits that the Auditor-General has opted not to perform
  - Appointment of registered auditors
  - Discharge of registered auditors
  - Responsibilities of registered auditors
  - Request for information
  - Complaints against registered auditors
- Auditees for which legislation is not prescriptive in respect of the financial statements
- Timing and submission of information for audit purposes
- Assessment and recognition of the financial reporting frameworks applicable in the public sector.

6. The following changes have been made in drafting the new AG Directive:

Par. no.	Change(s)	Reason for change(s)
Par. 2	In the section dealing with the standards that are applied in the audits, the reference to the IRBA's code of professional conduct for registered auditors was replaced with a reference to IFAC's code of ethics for professional accountants.	The reference was amended to bring the directive in line with the AGSA's ethics policy.
Par. 5	In the paragraph that sets out the performance management and reporting framework, the reference to DPME has been added.	As the planning function for predetermined objectives has been transferred from the National Treasury to the DPME, the DPME may issue circulars and guidance.
Par. 9	The Prevention and Combating of Corrupt Activities Act, 2004 (Act No. 12 of 2004) was added to the list of acts referred to when auditing compliance with legislation.	The Prevention and Combating of Corrupt Activities Act forms part of the criteria referred to when auditing the <i>Consequence management</i> subject matter.
Par. 39	In the section dealing with the financial reporting frameworks applied in the public sector, the reference to the <i>Departmental financial reporting framework</i> was changed to the Modified Cash Standard (MCS).	National Treasury changed the departmental reporting framework by issuing the Modified Cash Standard.
Par. 40 (deleted)	The paragraph that deals with the inclusion of an <i>Additional matter</i> paragraph in the auditor's report, where the financial reporting framework was assessed as not being a fair presentation framework, was deleted.	All the financial reporting frameworks that are currently applied in the public sector have been assessed as fair presentation frameworks. Previously we included this <i>Additional matter</i> paragraph by default as the <i>Departmental financial reporting framework</i> was not a fair presentation framework and the PAA requires a "present fairly" opinion. The additional matter paragraph is only used for departures/exemptions that result in a basis of preparation that is unacceptable, i.e. the departures were not to achieve fair presentation.  Wording changes have been made to paragraph 39, and extant paragraph 42 has been split into paragraphs 41 and 42 to better record the process followed.

## Previous guidance

7. The previous AG Directive (*General Notice 263 of 2014*, issued in *Government Gazette No. 37505* on 2 April 2014) and TGM 11 of 2014 that provided guidance on the previous AG Directive are hereby withdrawn.

## Action required

8. It is recommended that the product champion lead a technical discussion with audit staff to ensure understanding of the content of this TGM.
9. If audits are contracted out, the relevant senior manager (SM) should provide the team from the audit firm with this TGM and should brief them on the content thereof. The SM is also required to perform monitoring to ensure that the guidance provided is applied correctly by the audit firms.
10. Audit firms that perform audits in terms of section 4(3) should also be provided with this TGM by the relevant SM.

## Exemptions/ departures from the financial reporting framework

11. In instances where National Treasury grants an auditee an exemption/ departure from the financial reporting framework, it was agreed that ARD will consult with National Treasury on the impact of the departure in order to determine whether the financial reporting framework applied is still a fair presentation framework or no longer amounts to achieving fair presentation. All exemptions/ departures granted by National Treasury must therefore be referred to ARD for evaluation and consultation with National Treasury.

## Attachments

12. The new AG Directive, as published in *General Notice 125 of 2015*, issued in *Government Gazette No. 38464* on 11 February 2015, accompanies this TGM.

## Assistance

13. Should you have any questions regarding this TGM please contact your product champion for assistance. If necessary, the product champion will consult with Audit R&D in accordance with the consultation policy and procedures.

## BE: AUDIT R&D

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