

APPENDICES

APPENDIX 1

Materiality and Significance Framework applicable to the 2007-08 Financial Year

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Materiality and Significance Framework applicable to the 2007-08 Financial Year

1. Background

This document was developed to give effect to the May 2002 amendment to the Treasury Regulations, whereby the following new requirement was set for public entities:

“ For purposes of material [sections 50(1), 55(2) and 66(1) of the Public Finance Management Act (PFMA) and significant [section 54(2) of the PFMA. The accounting authority must develop and agree a framework of acceptable levels of materiality and significance with the relevant executive authority in consultation with the external auditors.”

Public entities are required to include the Materiality and Significance Framework in the Strategic Plan to be submitted to its Executive Authority. [TR 30.1.3] Further, the Materiality and Significance Framework must be detailed in the public entity’s annual report. [TR 28.2.1]

No definitions for the concepts “material” and “significant” are included in either the PFMA or in the Treasury Regulations. Accordingly, in compiling this framework the Museum has sought guidance from, inter-alia SAAS 320.03 (published by the South African Institute of Chartered Accountants), which defines materiality as follows:

“Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point, rather than being a primary qualitative characteristic which information must have if it is to be useful”

Further guidance was drawn from SAAS 320.17 for a public sector perspective: The following SAAS guidance is pertinent to the Museum:

“In an audit of financial statements in the public accountability of the audited entity, and the sensitivity of the entity’s accounts, activities and functions regarding matters of public interest.

The reference to “economic” decisions (SAAS 320.03 above) is therefore, assessed as not being conclusive or wholly appropriate to a public entity such as Robben Island Museum.

0.5 Further, materiality can be based on a number of financial indicators. Detailed below is an indicative table of financial indicators of the type that is widely accepted in the accounting profession as basis for calculating materiality.

General Basis used in accounting profession	Acceptable Percentage Range	RIM Applicability
Gross Revenue	0.25 – 1%	Applicable; being Grants receive, ticket sales and interest income.
Gross Surplus	1 – 2%	Applicable; being excess of excess of grants over operating and capital expenditure
Net Surplus	2.5 – 5%	Applicable; being construction funding not applied during financial year.
Equity	2 – 5%	Not Applicable
Total assets	0.5 – 2%	Applicable; being construction cost (plus capitalized research and development cost and office infrastructure.)



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2. Broad Framework for Robben Island Museum

RIM will be dealing with this framework under two main categories, being quantitative and qualitative aspects.

2.1 Quantitative aspects

Materiality level

The Museum assesses the level of a material loss as being R 105, 031; being 0.1% of gross budgeted expenditure.

Motivation

It is recognized that different levels of materiality can be set for different classes of transactions. RIM has, however, taken the approach of setting a more conservative materiality level that will be used for all classes of transactions.

Factors considered

In determining the said materiality value as 0.1% of gross expenditure (operating cost plus capital expenditure), RIM took into account factors that include:

Nature of RIM'S business.

Revenue: Funding for the Museum primarily comprise grants received from the Department of Arts and Culture; own generated income from tourism activities (ticket sales), memorabilia shops together with interest earned on investments in deposit accounts as well as grants from donors.

Expenditure: Given the nature of RIM to be an entity mandated to construct and maintain physical structures and house intellectual property, preference is given to gross expenditure as basis of defining the level of materiality.

Statutory requirements applicable to the RIM.

- RIM is a project funded by the Department of Arts and Culture; approval for its formation having been obtained in terms of sec 38(1) (m) of the PFMA.
- The Museum has been listed as a PFMA Schedule 3A public entity.
- The Council of the Museum is required to execute the mandate in terms of the Cultural Institutions' Act.

The Museum accordingly elects to give preference to a lower level of materiality (i.e. closer to the lower level of the acceptable percentage range) due to it being so closely governed by various acts and the public accountability responsibility it has to stakeholders.

The control and inherent risks associated with RIM.

In assessing the control risk RIM concluded that a materiality level of 0.1% of expenditure is appropriate and prudent. This assessment is based on the fact that a sound control environment is being maintained. In this regard cognizance was given to amongst other matters:

- Proper and appropriate governance structures have been established that include a Management Committee, CEO, CFO, COO, Internal Audit Unit and the Company Secretary.
- The COO & CFO and Risk Management positions have been created with specific risk management responsibilities;
- An audit committee that closely monitors the control environment of RIM was established;
- The function of internal audit was co-sourced to a firm of professional internal auditors and RIM internal audit team; and
- A three year Internal Audit Coverage Plan, based on annual risk assessments being performed. This annually reviewed and agreed by the audit committee.



Materiality and Significance Framework applicable to the 2007-08 Financial Year

3. RIM General Approach to Qualitative Aspects

Materiality is not confined to the size of the entity and the elements of its financial statements.

The Museum recognizes that misstatements that are large either individually or in the aggregate may affect a “reasonable” user’s judgment. Further, misstatements may also be material on qualitative grounds. These qualitative grounds include amongst other:

- New ventures that RIM may enter into.
- Unusual transactions entered into that are not of a repetitive nature and are disclosable purely due to the nature thereof affecting the decision making of the user of the financial statements.
- Transactions entered into that could result in reputational risk to RIM.
- Any fraudulent or dishonest behavior of an officer or staff of RIM.
- Any infringement of the Rim’s agreed performance levels.
- Procedures/processes required by legislation or regulation (e.g. PFMA and the Treasury Regulations)
- Unauthorised, irregular or fruitless and wasteful expenditure.
- Items of a non-financial nature, which would impact on the continued operation and deliverables of the Museum.

The Museum further expands on these aspects under **Annexure**, to this document.

The policy contained in this framework will be appropriately presented in the Annual Report of the Museum as required.

Definitions and Abbreviations

Accounting Authority: Robben Island Museum Council

Executive Authority: Department of Arts and Culture

Entity: Robben Island Museum

PFMA: Public Finance Management Act (Act 1 of 1999 as amended by act 29 of 1999)

Treasury Regulations: Public Finance Management Act, 1999:
Amendment of Treasury Regulations in terms of Sections 76 as published in
Government Gazette No. 7372

4. Annexure: Detailed/ Specific RIM Responses to Requirements

4.1 RIM Response to Fiduciary duties of the Accounting Authority Requirements

The accounting authority must (c) on request, disclose to the **executive authority** responsible for that public entity or the legislature to which the public entity is accountable, **all material facts**, including those reasonable discoverable, which in any way influence the decisions or actions of the executive authority or that legislature.



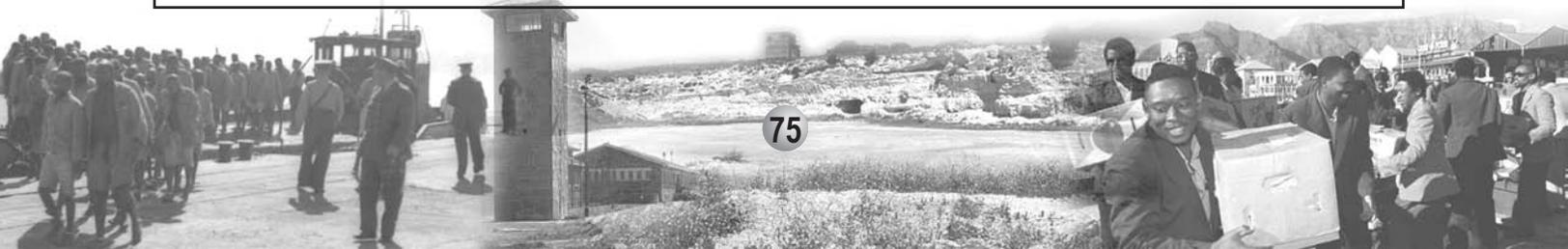
Materiality and Significance Framework applicable to the 2007-08 Financial Year

Further/Specific Requirements (PFMA sections 5a)	Quantitative (Amount)	RIM Response: Qualitative
None	RIM Response Any fact discovered of which the amount exceeds the determined materiality figure as calculated under par 2.1	RIM Response 1. Any item or event of which specific disclosure is required by law 2. Any fact discovered of which its omission or misstatement, in the Council's opinion, could influence the decisions or actions of the executive authority or legislature.

4.2 RIM Response to Annual Report and Financial Statements Requirement

General/ Principal Requirement (PFMA section 55)
 The annual report and financial statements referred to in subsection (1) (d) must (a) fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned:

Further/Specific Requirements (PFMA sections 55(a))	RIM Response: Quantitative	RIM Response: Qualitative
(b) include particulars of: <ul style="list-style-type: none"> (i) any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year; (ii) any criminal or disciplinary steps taken consequence of such losses or irregular expenditure or fruitless and wasteful expenditure; (iii) any losses recovered or written off; (iv) any financial assistance received from the state and commitments made by the state on its behalf; and (v) any other matters that may be prescribed 	1. Losses through criminal conduct: any loss identified will be disclosed 2. Losses through irregular, fruitless, wasteful expenditure: Where combined total exceeds the planning materiality figure used by the external auditors for the year under review.	All identified losses through criminal conduct



Materiality and Significance Framework applicable to the 2007-08 Financial Year

4.3 RIM Response to Information to be submitted by Accounting Authority Requirement

General/Principal Requirements (PFMA section 54)		
<p>Before a public entity concludes any of the following transactions, the accounting authority for the public entity must promptly and in writing obtain approval from the executive authority and inform the National Treasury accordingly.</p>		
Further/Specific Requirements (PFMA sections 55(a))	RIM Response: Quantitative	RIM Response: Qualitative
(b) participation in a significant partnership, trust, unincorporated joint venture or similar arrangement.	A cut-off figure of R 50000	Any participation, outside of the approved strategic plan and budget
(c) acquisition or disposal of a significant shareholding in a company.	Qualitative aspect is more relevant	any acquisition or disposal, outside of the approved plan and budget
(d) acquisition or disposal of a significant asset.	Qualitative aspect is more relevant	<ol style="list-style-type: none"> Any asset that would increase or decrease the overall operational functions of the Museum outside of the approved strategic plan and budget Disposal of the major part of the asset of the Museum.
(e) Commencement or cessation of a significant business activity.	Qualitative aspect is more relevant	Any business activity that would increase or decrease the overall Operational functions of the Museum, outside of the approved strategic plan and budget.



APPENDIX 2

RIM Statement of progress on the implementation of the recommendations of SCOPA.

This document is a summary of progress on the implementations of the recommendations containing in the twenty-fifth Report of the Standing Committee on Public Accounts on Robben Island Museum, date 08 June 2007. The left-hand column reflects the contents of the SCOPA report.

<p>The Standing Committee on Public Accounts (SCOPA), heard and considered evidence on the Annual Report and the Report of the Auditor-General on the financial statements of the Robben Island Museum (RIM) for the financial year ending 31 March 2006, tabled in Parliament and referred to it.</p> <p>The Committee noted the qualified audit opinion expressed by the Auditor-General. However, the Committee raised concerns that needed urgent interaction with the Accounting Officer of the entity and therefore reports as follows:</p>	
SCOPA Recommendation	Statement of Progress
<p>1. Capacity and Skills</p> <p>The committee is dissatisfied with the situation at Robben Island Museum. Based on the Auditor-General's report the entity seems to have relapsed and this is fuelled by the apparent capacity constraints and lack of financial skills at the entity.</p> <p>The Committee therefore recommends that the Accounting Officer ensures that:</p> <p>(a) appropriately skilled individuals are recruited; and (b) all financial staff are trained with regards to the recent developments in accounting practices that require entities such as RIM to comply with regulations as set by Generally Recognised Accounting Practice (GRAP).</p>	<p>Action not taken by RIM senior management during 2007-08 financial year.</p>
<p>2. Internal control weaknesses (page 33, paragraph 4 of 2005/2006 Audit Report)</p> <p>The Auditor-General reported on a number of control weaknesses. These include:</p> <ul style="list-style-type: none"> • Inadequacy of controls over journals; • Incorrect accounting treatment of leases; and • Ineffective project management controls exercised by RIM over grant income received for a special project. <p>The Committee therefore recommends that the Accounting Officer ensures that:</p> <p>(a) Adequate policies and procedures are developed and implemented to deal with the financial issues within the entity; (b) All financial staff are properly trained to perform their functions; and (c) Compliance with the relevant laws and regulations is strictly monitored and corrective action be taken where deviation is detected.</p>	<p>Action not taken by RIM senior management during 2007-08 financial year.</p>



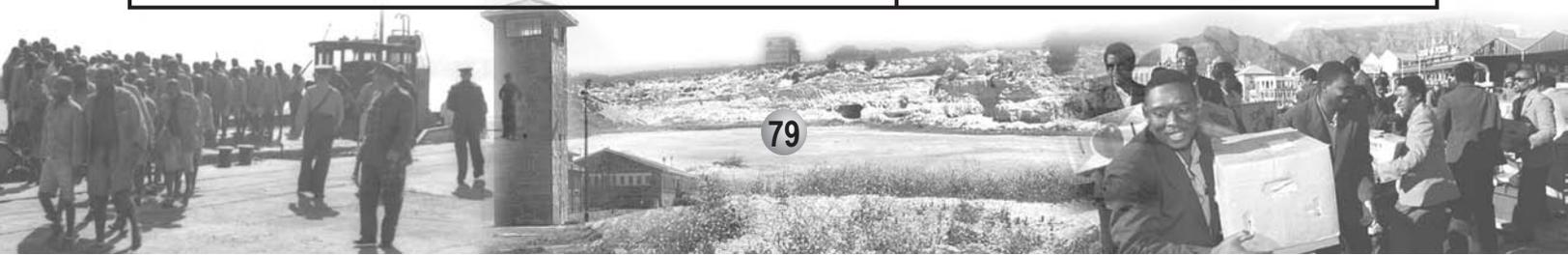
RIM Statement of progress on the implementation of the recommendations of SCOPA.

SCOPA Recommendation	Statement of Progress
<p>3. Non-compliance with Generally Recognised Accounting Practice (GRAP) (page 34, paragraph 6.1 of 2005/2006 Audit Report.</p> <p>The Auditor-General reported that RIM had not prepared its financial statements in Accordance with GRAP and cited the following weaknesses:</p> <ul style="list-style-type: none"> • Inadequate disclosure of accounting policies; • Terminology changes were not effected; and • Cash flow statement was prepared not using the prescribed method. <p>The Committee therefore recommends that the Accounting Officer ensures that an appropriate policy framework to ensure that the financial statements are prepared in accordance with the relevant regulations is urgently developed and implemented.</p>	<p>Steps were taken in conjunction with the Audit Committee and Internal Auditor to ensure that the 2007-08 financial statements are prepared in according with GRAP in regard to accounting policy disclosure, terminology and the preparation of the cash flow statement.</p>
<p>4. Cash Management policy (page 34, paragraph 6.2 of 2005/2006 Audit Report)</p> <p>The Auditor-General reported that no policies and procedures existed to ensure effective and efficient cash management.</p> <p>The Committee therefore recommends that the Accounting Officer ensures that:</p> <ul style="list-style-type: none"> (a) a cash management policy and related procedures are urgently developed, approved and implemented; (b) relevant staff is adequately trained to deal with cash management; and (c) compliance with the relevant policy should be monitored by management. 	<p>Action not taken by RIM senior management during 2007-08 financial year.</p>



RIM Statement of progress on the implementation of the recommendations of SCOPA.

SCOPA Recommendation	Statement of Progress
<p>5. Compliance with prescriptions (page34, paragraph 6.3 of 2005/2006 Audit Report)</p> <p>The Auditor-General reported on several weaknesses which led to non-compliance with the prescriptions. These include the following:</p> <ul style="list-style-type: none"> • Not reviewing the residual values and useful life of assets; • An entity should assess at balance sheet date whether an asset or group of financial assets are impaired. No evidence could be obtained that the amounts were impaired due to events that occurred after the initial recognition of debtors; • Not performing bank reconciliations on a weekly basis; • Inadequate collection procedures for revenue; and • Obtaining insufficient number of quotes in accordance with the Supply Chain Management policy. <p>The Committee therefore recommends that the Accounting Officer ensures that:</p> <p>(a) there are proper monitoring controls in place to ensure compliance with Treasury Regulations, RIM financial policies and procedures and the PFMA;</p> <p>(b) the staff is adequately trained; and</p> <p>(c) compliance with the relevant policies and procedures is monitored.</p>	<p>Action not taken by RIM senior management during 2007-08 financial year.</p>
<p>6. Internal audit (page34, paragraph 6.4 of 2005/2006 Audit Report)</p> <p>The Auditor-General reported that the internal audit function was ineffective for the 2005/2006 financial year.</p> <p>The committee therefore recommends that the Accounting Officer ensures that:</p> <p>(a) an internal audit plan, internal audit charter and fraud prevention plan is urgently developed, approved and implemented;</p> <p>(b) a rolling three-year strategic internal audit plan and risk assessment is urgently approved and implemented;</p> <p>(c) Internal Audit Unit adheres to the audit plan; and</p> <p>(d) Audit Committee carries out its oversight function.</p>	<p>Following the 2005-06 Audit Report mentioned, a tender for the co-sourcing of the internal audit function was issued.</p> <p>Ngubane & Co. (service provider) was subsequently appointed in November 2006. A service level agreement was entered into with the service provider with the service conditions captured in a revised Audit Committee Charter approved by the Audit Committee.</p> <p>A Strategic Risk Assessment was conducted in February 2007, out of which a three-year strategic internal audit plan and an annual operational plan were drafted.</p> <p>The Audit Plan and Audit Strategies were amended throughout the two-year period based on Audit Committee input and the results of Auditor-General findings. The Internal Audit function completed all areas in the amended plan approved by the Audit Committee for 2007-08.</p> <p>The Auditor-General has rated the internal audit function as effective for the 2007-08 financial year.</p>



RIM Statement of progress on the implementation of the recommendations of SCOPA.

SCOPA Recommendation	Statement of Progress
<p>7. Mayibuye collection (page 34, paragraph 6.5 of 2005/2006 Audit Report)</p> <p>The Auditor-General reported that the collection at the Mayibuye Centre is not recorded on the asset register and the catalogues are incomplete.</p> <p>The committee therefore recommends that the Accounting Officer ensures that the management implements proper control procedures to ensure that all assets, including the collections, are recorded in the asset register and applicable catalogues for safeguarding.</p>	<p>Action not taken by RIM senior management during 2007-08 financial year.</p>
<p>8. Ferries (page 18 of the 2005/2007 Annual Report)</p> <p>The Committee noted of that the Autshumato contract was not renewed and that RIM had entered into a contract with Far Ocean Marine to build a 300 pax catamaran that was supposed to be completed by February 2007 for R 25 million.</p> <p>The Committee therefore recommends that the Accounting Officer within 60 days after the tabling and adoption of this report by the National Assembly, submit to the Committee:</p> <p>(a) a report detailing the stage of completion of the new ferry and when it will be put to use; and</p> <p>(b) all minutes and documentation relating to the Autshumato contract including the dates when the contract commenced and when it was due to be terminated.</p>	<p>Action not taken by RIM senior management during 2007-08 financial year. However, the ferry was completed and delivered on 29 February 2008.</p>

9. Conclusion

The Committee requests the Accounting Officer provide Parliament with a progress report on all the abovementioned issues within 60 days after adoption of this report by the National Assembly.

