APPENDIX
Materiality and Significance Framework
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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.” [Section 28.1.5]

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, guidance was sought from, inter-alia “Framework for the Preparation and Presentation of Financial Statements” (issued by the International Accounting Standards Board) which defines “Materiality” in the following terms:

“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 the International Standard on Auditing (ISA) 320, “Audit Materiality” (issued by the International Auditing and Assurance Standards Board) on the Public Sector Perspective:

“In assessing materiality, the public sector auditor must, in addition to exercising professional judgment, consider any legislation or regulation which may impact that assessment. In the public sector, materiality is also based on the “context and nature” of an item and includes, for example, sensitivity as well as value. Sensitivity covers a variety of matters such as compliance with authorities, legislative concern or public interest.”

The reference to “economic” decisions in the “Framework for the Preparation and Presentation of Financial Statements” is therefore assessed as not being conclusive or wholly appropriate to a public entity such as the Robben Island Museum.

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 a basis for calculating materiality.

<table>
<thead>
<tr>
<th>General Basis used in accounting profession</th>
<th>Acceptable Percentage range</th>
<th>RIM Applicability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Revenue</td>
<td>0.25% - 1%</td>
<td>Applicable; being Grants received, ticket sales and interest income</td>
</tr>
<tr>
<td>Gross Surplus</td>
<td>1% - 2%</td>
<td>Applicable; being excess of grants over operating and capital expenditure</td>
</tr>
<tr>
<td>Net Surplus</td>
<td>2.5% - 5%</td>
<td>Applicable; being construction funding not applied during financial year</td>
</tr>
<tr>
<td>Equity</td>
<td>2% - 5%</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>Total assets</td>
<td>0.5% - 2%</td>
<td>Applicable; being construction cost (plus capitalised research and development cost and office infrastructure)</td>
</tr>
</tbody>
</table>
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 R225 000; being 0.25% of estimated gross budgeted expenditure.

Motivation
It is recognised 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 0.25% 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) 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 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 0.25% of expenditure is appropriate and prudent. This assessment is based on the fact that a sound control environment is being maintained. In this regard cognisance was given to, amongst other matters:

- Proper and appropriate governance structures have been established that include a Management Committee, CEO, CFO, COO, and the position of a Company Secretary;
- COO & CFO 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 outsourced to a firm of professional internal auditors; and,
- A three-year Internal Audit Coverage Plan, based on annual risk assessments being performed. This is annually reviewed and agreed to by the audit committee.
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 recognises that misstatements that are large, either individually or in the aggregate, may affect a “reasonable” user’s judgement. Further, misstatements may also be material on qualitative grounds. These qualitative grounds include, amongst others:

- 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 due to knowledge 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 behaviour of an officer or staff of RIM.
- Any infringement of 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 (see 4 Annexure) below. 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


Treasury Regulations: Public Finance Management Act, 1999: amendment of Treasury Regulations in Terms of Section 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

<table>
<thead>
<tr>
<th>Further/Specific Requirements (PFMA sections 5a)</th>
<th>RIM Response: Quantitative</th>
<th>RIM Response: Qualitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>Any fact discovered of which the amount exceeds the determined materiality figure as calculated under par 2.1</td>
<td>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 that legislature.</td>
</tr>
</tbody>
</table>
### 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:

<table>
<thead>
<tr>
<th>Further/Specific Requirements (PFMA sections 5a)</th>
<th>RIM Response: Quantitative</th>
<th>RIM Response: Qualitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) include particulars of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year:</td>
<td>1. Losses through criminal conduct: any loss identified. 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.</td>
<td>All identified losses through criminal conduct will be disclosed.</td>
</tr>
<tr>
<td>(ii) any criminal or disciplinary steps taken consequence of such losses or irregular expenditure or fruitless and wasteful expenditure;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii) any losses recovered or written off;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iv) any financial assistance received from the state and commitments made by the state on its behalf; and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(v) any other matters that may be prescribed.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

**General/Principal Requirements (PFMA section 54)**
Before a public entity concludes any of the following transactions, the accounting authority for the public entity must promptly and in writing inform the relevant treasury of the transaction and submit relevant particulars of the transaction to its executive authority for approval of the transaction:

<table>
<thead>
<tr>
<th>Further/Specific Requirements (PFMA sections 5a)</th>
<th>RIM Response: Quantitative</th>
<th>RIM Response: Qualitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b) participation in a <strong>significant</strong> partnership, trust, unincorporated joint venture or similar arrangement.</td>
<td>A cut-off figure of R10000 as this will be consistent with asset management policy of writing off assets which are less than R5000, in full.</td>
<td>Any participation, outside of the approved strategic plan and budget.</td>
</tr>
<tr>
<td>(c) acquisition or disposal of a <strong>significant</strong> shareholding in a company.</td>
<td>Qualitative aspect is more relevant</td>
<td>Any acquisition or disposal, outside of the approved strategic plan and budget.</td>
</tr>
<tr>
<td>(d) acquisition or disposal of a <strong>significant</strong> asset.</td>
<td>Qualitative aspect is more relevant</td>
<td>1. Any asset that would increase or decrease the overall operational functions of the Museum outside of the approved strategic plan and budget. 2. Disposal of the major part of the assets of the Museum.</td>
</tr>
<tr>
<td>(e) Commencement or cessation of a <strong>significant</strong> business activity.</td>
<td>Qualitative aspect is more relevant</td>
<td>Any business activity that would increase or decrease the overall Operational functions of the Museum, outside of the approved strategic plan and budget.</td>
</tr>
</tbody>
</table>