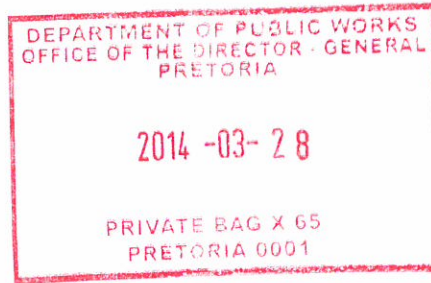
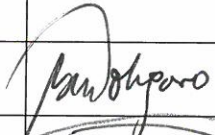
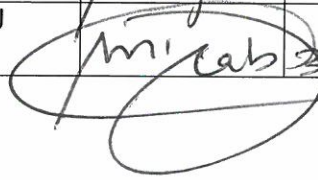


# Route Form

TO: DIRECTOR GENERAL



SUBJECT: MATERIALITY AND SIGNIFICANCE FRAMEWORK

RANK	INITIALS AND SURNAME	SIGNATURE	DATE REFERRED	DATE RETURNED
CHIEF FINANCIAL OFFICER	C. MOKGORO		27/3/2014	
DIRECTOR GENERAL	M. DLABANTU		31/03/2014	



**INTERNAL MEMORANDUM**

<b>To:</b>	<b>Director General Mr Mziwonke Dlabantu</b>	<b>Ref:</b>	<b>MSF 01</b>
<b>From:</b>	<b>Chief Financial Officer Mr Cox Mokgoro</b>	<b>Office:</b>	<b>B715 Annex CGO Building</b>
<b>Tel:</b>	<b>012 406 2165</b>		

<b>Subject:</b>	<b>MATERIALITY AND SIGNIFICANCE FRAMEWORK</b>
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**1. Purpose**

To request the Director General to acknowledge and approve the Materiality and Significance Framework for the Property Management Trading Entity (PMTE).

**2. Discussion**

The purpose of this framework is to:

- Provide guidance relating to considerations that should be taken into account to determine the materiality and significance of transactions during accounting and reporting.
- Responsibility relating to the communication of materiality thresholds.

The scope of the framework applies to all divisions and functions within the PMTE. The framework should be applied together with the financial accounting policies relative to the divisions and functions within the PMTE.

This framework is required to be approved before the end of the financial year (31 March 2014), in order to utilise it in the preparation of the annual financial statements.

**3. Financial Implications**

No financial implications.

**4. Recommendations**

It is recommended that the Director General acknowledge and approve the Materiality and Significance Framework for the Property Management Trading Entity.



## public works

Department:  
Public Works  
REPUBLIC OF SOUTH AFRICA

MR C MOKGORO  
CHIEF FINANCIAL OFFICER  
DATE: 28 MARCH 2014

Noted	Supported	Not Supported
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MR M DLABANTU  
DIRECTOR GENERAL  
DATE:

<del>Noted</del>	Supported	<del>Not Supported</del>
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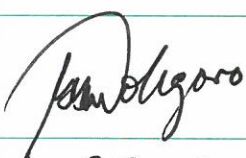


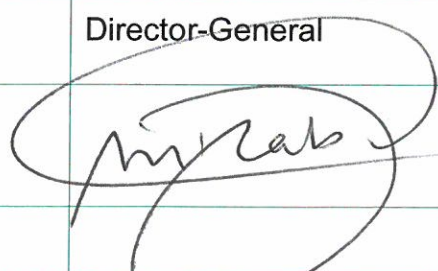
public works

Department:  
Public Works  
REPUBLIC OF SOUTH AFRICA

# PROPERTY MANAGEMENT TRADING ENTITY

## MATERIALITY AND SIGNIFICANCE FRAMEWORK

Prepared by:	Cox Mokgoro
Designation:	Chief Financial Officer
Signature:	
Date:	27-3-2014

Approved by:	Mr Mziwonke Dlabantu
Designation:	Director-General
Signature:	
Date:	

Effective date:	1 April 2014
Version	0.0

# PMTE Materiality and Significance Framework

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## Contents

1.	Purpose and objectives .....	2
2.	Scope .....	2
3.	Legislative framework .....	2
4.	Background.....	2
5.	Materiality and significance .....	2
6.	Quantitative materiality .....	3
7.	Qualitative materiality.....	3
8.	Responsibility and review of policy .....	4
9.	Acronyms.....	4



# PMTE Materiality and Significance Framework

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## **1. Purpose and objectives**

1.1. The purpose of this framework is to:

1.1.1. Provide guidance relating to considerations that should be taken into account to determine the materiality and significance of transactions during accounting and reporting.

1.1.2. Responsibility relating to the communication of materiality thresholds.

## **2. Scope**

2.1. This framework applies to all divisions and functions within the PMTE. The framework should be applied together with the financial accounting policies relative to the divisions and functions within the PMTE

## **3. Legislative framework**

3.1. Section 38(1)(a)(i) of the PFMA requires that the accounting officer must ensure that the PMTE has and maintains effective, efficient and transparent systems of financial and risk management and internal control. Part of this system would include the documentation of and compliance to a Materiality and Significance Framework.

## **4. Background**

4.1. Management intends to improve its internal control systems to comply to Section 38(1)(a)(i) of the PFMA, including the documentation of and compliance to a Materiality and Significant Framework.

4.2. This Materiality and Significance Framework will be used to evaluate the aggregate of incorrect misstatements and the potential undetected misstatements both quantitative and qualitative on the fair presentation of financial statements.

## **5. Materiality and significance**

5.1. Materiality is an expression of the relative significance or importance of a particular amount, transaction or discrepancy in the context of the financial statements as a whole.

5.2. An item/transaction is considered to be material if the non-disclosure of this item, individually or in the aggregate, may reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

5.3. Judgements about materiality are made in light of surrounding circumstances, and are affected by the size or nature of the item, or a combination of both.

5.4. Both quantitative and qualitative aspects must be considered when materiality or significance is considered.

# PMTE Materiality and Significance Framework

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- 5.5. Quantitative materiality refers to the notion that a misstatement of information can be significant to users of financial statements due the size thereof.
- 5.6. Qualitative materiality refers to the notion that a misstatement of information can be significant to users of financial statements due the nature, rather than the size, thereof.

## 6. Quantitative materiality

- 6.1. The Head of Finance: PMTE shall communicate annually, as part of the audit preparation, the materiality thresholds for quantitative materiality after agreeing said thresholds with the Chief Financial Officer.
- 6.2. The following can be used as guidelines for determining the quantitative materiality thresholds before considering the qualitative factors:
- Equity/ Reserves: 1 % of equity/reserves
  - Assets: 1 % of total assets
  - Liabilities: 1 % of total liabilities
  - Revenue and expenses: 0.5% of total revenues
- 6.3. For the purpose of the PMTE, 0.5% of revenue will be used to determine the qualitative materiality to apply. The following factors were considered in determining the materiality basis:
- As a result of the transfer of function, the measurement process of asset and liabilities is not yet finalised. This also directly impacts the equity figure.
  - Revenue is a reflection of the services performed by the PMTE and a more stable figure which can be used as the basis for the materiality threshold.
- 6.4. The materiality basis to be used may be reviewed based on changes in the factors used to consider the materiality basis per 6.3 above.

## 7. Qualitative materiality

- 7.1. The following qualitative factors can be considered when determining the materiality or significance of a transaction/event:
- Possible indications of fraud;
  - Transactions related to recent significant economic, accounting or other developments and, therefore, requires specific attention;
  - The complexity of the transactions;
  - Transactions with related parties;
  - The degree of subjectivity in the measurement of financial information i.e. estimations;
  - Transactions that are outside the normal course of business for the PMTE, or that otherwise appear to be unusual;
  - A misstatement that changes a loss into profit or vice versa;

# PMTE Materiality and Significance Framework

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- Irregular, fruitless and wasteful or losses through criminal conduct;
- The existence of statutory or regulatory reporting requirements that affect materiality thresholds;
- A misstatement that has the effect of increasing management's compensation; and/or
- The likelihood that a misstatement that is currently immaterial may have a material effect in future periods because of a cumulative effect.

## 8. Responsibility and review of policy

- 8.1. The Head of Finance: PMTE is responsible for updating this framework. Any proposed changes to this framework must be communicated through the office of the Head of Finance: PMTE
- 8.2. The Chief Financial Officer is ultimately responsible for ensuring that users understand the framework and comply with the requirements.

## 9. Acronyms

PFMA	Public Finance Management Act, Act No. 1 of 1999, as amended
PMTE	Property Management Trading Entity