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MUSEUMS OF SOUTH AFRICA
an agency of the
Department of Arts and Culture

MATERIALITY AND SIGNIFICANCE FRAMEWORK 2019/2020

1. INTRODUCTION AND BACKGROUND

National Treasury Practice Note on applications under section 54 of the Public Finance Management Act (No. 1 of 1999 as amended) ("PFMA") by public entities states as follows:

"In terms of section 54(2) of the PFMA, 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:

(a) Establishment or participation in the establishment of a company;
(b) Participation in a significant partnership, trust, unincorporated joint venture or similar arrangement;
(c) Acquisition or disposal of a significant shareholding in a company;
(d) Acquisition or disposal of a significant asset;
(e) Commencement or cessation of a significant business activity; and
(f) A significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement

In addition, section 51(1)(g) of the PFMA requires the accounting authority for a public entity to promptly inform the National Treasury on any new entity it intends to establish or in the establishment of which it takes initiative, and allow the National Treasury a reasonable time to submit its decision prior to formal establishment.

Furthermore, in terms of Treasury Regulation 28.3.1 of the PFMA, a public entity must develop and agree a significance framework with that entity's Executive Authority".

SAAS 320.03 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."

Accordingly, the materiality framework for DMSA will be dealt with under two main categories, being quantitative and qualitative aspects.

In arriving at materiality for DMSA, the following factors have been taken into account:

- Guidelines issued by the National Treasury
- The nature of DMSA's business
- Statutory requirements affecting DMSA
- The inherent and control risks associated with DMSA; and
- Quantitative and qualitative issues

The following parameters (guidelines) for setting the rand value determination of materiality for DMSA have been derived from the National Treasury Practice note on applications under section 54 of the Public Finance Management Act no. 1 of 1999 (as amended) ("PFMA") by public entities.

Basis	Acceptable Percentage Range
Total revenue	0.5 – 1%
Total assets	1% - 2%
Profit after tax	2% – 5%

2. DEVELOPING MATERIALITY / SIGNIFICANCE FRAMEWORK FOR DMSA

2.1 In order to comply with Section 54(2) and Section 55(2) of the Public Finance Management Act (Act 1 of 1999, updated October 2012), DMSA will report on the following transactions and the reasons for choosing the materiality level:

PFMA Requirement	Specific level of Materiality / Significance
Section 54(2) of the PFMA states as follows: 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.	
a. Establishment or participation in the establishment of a company.	Any transaction to establish a company.
b. Participation in a significant partnership, trust, incorporated joint venture or similar management	Any transaction to participate in an equity transaction is material.
c. Acquisition or disposal of a significant shareholding in company.	Any transaction to acquire or dispose of a shareholding in a company
d. Acquisition or disposal of a significant asset.	The cost of the asset acquired is at least 1% of the total cost of the assets of DMSA.
e. Commencement or cessation of a significant business activity.	Any transaction where the income from the business activity is at least 0.5% of the total income of DMSA.
f. Significant change in the nature or extent of DMSA's interest in a significant partnership, Trust, unincorporated joint venture or similar arrangement	Where the change in the interest results in a change in the accounting treatment of the arrangement
In terms of section 55 (2), the Annual report and financial statements of the public entity 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 year concerned	Any misstatement to the financial statements where the size is the misstatement or error is at least equal to the thresholds in table 2.2 below.
(b) Include particulars of – • Any material loss through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year, • Any financial assistance received from the state and commitments made by the state on its behalf and • Any other matters that may be prescribed and • Include the financial statements	All losses relating to irregular and fruitless and wasteful expenditure are regarded as material due to the application of the nature of these losses (qualitative aspects) Qualitatively material Qualitatively material Qualitatively material

2.2 Qualitative Aspects

Below are the qualitative aspects which DMSA take into account in assessing qualitative materiality:

2.2.1 Any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure;

2.2.2 Any losses recovered or written-off;

2.2.3 Any matter the Accounting Authority deems material.

2.3 Quantitative Aspects

The DMSA has assessed the level of materiality for 2019/2020 financial year for the followings classes of transactions to be as follows. For classes of transactions in the statement of financial performance, the average of the past three years was used (audited results) and the 2017/18 audited statement of financial position was used for assets.

DMSA Materiality Levels

- Revenue R100 570 526 x 0.5% = R502 853 (rounded off)
- Assets R978 738 718 x 1% = R9 787 387 (rounded off)
- Surplus / deficit R2 392 835) x 2% = R47 857 (rounded off)

3. REVIEW

3.1 The materiality and significance framework must be reviewed and approved annually and included in the annual performance plan for the following year.

SUPPORTED BY

______________________ 29 January 2019

Ms. A Lebethe **Date**
CHIEF EXECTUIVE OFFICER

APPROVED BY

______________________ 29 January 2019

Ms K. Rapoo **Date**
CHAIRPERSON: DMSA Council