

PROVINSIALE TESOURIE • PROVINCIAL TREASURY •  
UNONDYEBO WEPHONDO



Verwysing  
Reference  
Isalathiso

PT 7/1/1

Navrae  
Enquiries  
Imibuzo

N Schippers

TREASURY CIRCULAR NO. 25/2008

THE PREMIER

THE MINISTER OF AGRICULTURE  
THE MINISTER OF COMMUNITY SAFETY  
THE MINISTER OF CULTURAL AFFAIRS, SPORT AND RECREATION  
THE MINISTER OF EDUCATION  
THE MINISTER OF ENVIRONMENT, PLANNING AND ECONOMIC DEVELOPMENT  
THE MINISTER OF FINANCE AND TOURISM  
THE MINISTER OF HEALTH  
THE MINISTER OF LOCAL GOVERNMENT AND HOUSING  
THE MINISTER OF SOCIAL SERVICES AND POVERTY ALLEVIATION  
THE MINISTER OF TRANSPORT AND PUBLIC WORKS

THE SPEAKER: PROVINCIAL PARLIAMENT  
THE DEPUTY SPEAKER: PROVINCIAL PARLIAMENT

ALL OTHER MEMBERS OF PARLIAMENT

THE ACCOUNTING OFFICER: VOTE 1: PREMIER (MS V PETERSEN)  
THE ACCOUNTING OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (MR P WILLIAMS)  
THE ACCOUNTING OFFICER: VOTE 3: PROVINCIAL TREASURY (DR JC STEGMANN)  
THE ACCOUNTING OFFICER: VOTE 4: COMMUNITY SAFETY (DR GA LAWRENCE)  
THE ACCOUNTING OFFICER: VOTE 5: EDUCATION (MR RB SWARTZ)  
THE ACCOUNTING OFFICER: VOTE 6: HEALTH (PROF KG HOUSEHAM)  
THE ACCOUNTING OFFICER: VOTE 7: SOCIAL DEVELOPMENT (MS S FOLLENTINE) (ACTING)  
THE ACCOUNTING OFFICER: VOTE 8: LOCAL GOVERNMENT AND HOUSING (MS S MAJLET)  
THE ACCOUNTING OFFICER: VOTE 9: ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING (MR R ELLIS) (ACTING)  
THE ACCOUNTING OFFICER: VOTE 10: TRANSPORT AND PUBLIC WORKS (MR T MANYATHI)  
THE ACCOUNTING OFFICER: VOTE 11: AGRICULTURE (MS J ISAACS)  
THE ACCOUNTING OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (MS J JOHNSTON) (ACTING)  
THE ACCOUNTING OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MR MN LINDIE)

THE CHIEF FINANCIAL OFFICER: VOTE 1: PREMIER (MR H ARENDSE)  
THE CHIEF FINANCIAL OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (MS A SMIT)  
THE CHIEF FINANCIAL OFFICER: VOTE 3: PROVINCIAL TREASURY (MR A GILDENHUYS)  
THE CHIEF FINANCIAL OFFICER: VOTE 4: COMMUNITY SAFETY (MR M FRIZLAR)  
THE CHIEF FINANCIAL OFFICER: VOTE 5: EDUCATION (MR L ELY)  
THE CHIEF FINANCIAL OFFICER: VOTE 6: HEALTH (MR A VAN NIEKERK)  
THE CHIEF FINANCIAL OFFICER: VOTE 7: SOCIAL DEVELOPMENT (MR JO SMITH)  
THE CHIEF FINANCIAL OFFICER: VOTE 8: LOCAL GOVERNMENT AND HOUSING (MR D BASSON)  
THE CHIEF FINANCIAL OFFICER: VOTE 9: ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING (MR AA GAFFOOR)  
THE CHIEF FINANCIAL OFFICER: VOTE 10: TRANSPORT AND PUBLIC WORKS (MR CR ISMAY)  
THE CHIEF FINANCIAL OFFICER: VOTE 11: AGRICULTURE (MR F HUYSAMER)  
THE CHIEF FINANCIAL OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (MS M ABRAHAMS)  
THE CHIEF FINANCIAL OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MR S BOWES) (ACTING)

THE HEAD OFFICIAL: PROVINCIAL TREASURY (DR JC STEGMANN)  
THE HEAD: SUSTAINABLE RESOURCE MANAGEMENT (MR A PHILLIPS) (ACTING)  
THE HEAD: ASSET MANAGEMENT (MR TD PILLAY)  
THE HEAD: FINANCIAL GOVERNANCE (MR TC ARENDSE)  
THE HEAD: PUBLIC FINANCE (MR H MALILA)  
THE CHIEF FINANCIAL OFFICER (MR A GILDENHUYS)  
THE SENIOR MANAGER: HUMAN RESOURCE MANAGEMENT (MS PG PIEDT)  
THE SENIOR MANAGER: ACCOUNTING (MR A REDDY)  
THE SENIOR MANAGER: NORMATIVE FINANCIAL MANAGEMENT (MR F JACOBS) (ACTING)  
THE SENIOR MANAGER: ENTERPRISE RISK MANAGEMENT AND GOVERNANCE SYSTEMS (MR B VINK) (ACTING)  
THE CHIEF AUDIT EXECUTIVE (MS H ROBSON) (ACTING)  
THE SENIOR MANAGER: INTERNAL AUDIT (MS B CAIRNCROSS)  
THE SENIOR MANAGER: ECONOMIC ANALYSIS (MS W MAPIRA) (ACTING)  
THE SENIOR MANAGER: FISCAL POLICY: PROVINCIAL GOVERNMENT (MS A PICK) (PRO TEM)  
THE SENIOR MANAGER: FISCAL POLICY: LOCAL GOVERNMENT (MR G PAULSE) (PRO TEM)  
THE SENIOR MANAGER: BUDGET MANAGEMENT (MR PP PIENAAR) (ACTING)  
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT FINANCE (MS A PICK)  
THE SENIOR MANAGER: LOCAL GOVERNMENT FINANCE (MR G PAULSE)  
THE SENIOR MANAGER: IMMOVEABLE ASSET MANAGEMENT (MR NB LANGENHOVEN)  
THE SENIOR MANAGER: MOVEABLE ASSET MANAGEMENT (MS N EBRAHIM)  
THE SENIOR MANAGER: SUPPORTING AND INTERLINKED FINANCIAL SYSTEMS (MR A BASTIAANSE)  
THE HEAD: OFFICE OF THE MINISTRY (MR G GESWINDT)

For information

THE ACCOUNTING AUTHORITY: WESTERN CAPE PROVINCIAL DEVELOPMENT COUNCIL (MR A SAYERS)  
 THE ACCOUNTING AUTHORITY: WESTERN CAPE GAMBLING AND RACING BOARD (MR GGR LUBBE)  
 THE ACCOUNTING AUTHORITY: WESTERN CAPE NATURE CONSERVATION BOARD (MR S BEKKER)  
 THE ACCOUNTING AUTHORITY: WESTERN CAPE INVESTMENTS & TRADE PROMOTION AGENCY (MR I DOCKRAT)  
 THE ACCOUNTING AUTHORITY: CAPE TOWN ROUTES UNLIMITED (DMO) (MR C GILFELLAN) (ACTING)  
 THE ACCOUNTING AUTHORITY: WESTERN CAPE CULTURAL COMMISSION (MR H VENTER) (ACTING)  
 THE ACCOUNTING AUTHORITY: WESTERN CAPE LANGUAGE COMMISSION (MR H VENTER) (ACTING)  
 THE ACCOUNTING AUTHORITY: WESTERN CAPE HERITAGE COMMISSION (MR S TOWNSEND)  
 THE ACCOUNTING AUTHORITY: CAPE MEDICAL DEPOT (CMD) (PROF KG HOUSEHAM)  
 THE ACCOUNTING AUTHORITY: GOVERNMENT MOTOR TRANSPORT (GMT) (MR T MANYATHI)  
 THE ACCOUNTING AUTHORITY: CASIDRA (MR TH DE WET)  
 THE ACCOUNTING AUTHORITY: LIQUOR BOARD (MS J JOHNSTON) (ACTING)  
 THE ACCOUNTING AUTHORITY: YOUTH COMMISSION (MS V PETERSEN) (ACTING)

THE CHIEF FINANCIAL OFFICER: WESTERN CAPE PROVINCIAL DEVELOPMENT COUNCIL (MR H ARENDSE)  
 THE CHIEF FINANCIAL OFFICER: WESTERN CAPE GAMBLING AND RACING BOARD (MR P ABRAHAMS)  
 THE CHIEF FINANCIAL OFFICER: WESTERN CAPE HOUSING DEVELOPMENT BOARD (MR D BASSON)  
 THE CHIEF FINANCIAL OFFICER: WESTERN CAPE NATURE CONSERVATION BOARD (MS S FLORIS) (ACTING)  
 THE CHIEF FINANCIAL OFFICER: WESTERN CAPE INVESTMENTS & TRADE PROMOTION AGENCY (MR A PRESTON)  
 THE CHIEF FINANCIAL OFFICER: CAPE TOWN ROUTES UNLIMITED (DMO) (MR C GILFELLAN) (ACTING)  
 THE CHIEF FINANCIAL OFFICER: WESTERN CAPE CULTURAL COMMISSION (MR A ASSIM)  
 THE CHIEF FINANCIAL OFFICER: WESTERN CAPE LANGUAGE COMMISSION (MR A ASSIM)  
 THE CHIEF FINANCIAL OFFICER: WESTERN CAPE HERITAGE COMMISSION (MR A ASSIM)  
 THE CHIEF FINANCIAL OFFICER: CAPE MEDICAL DEPOT (CMD) (MR A VAN NIEKERK)  
 THE CHIEF FINANCIAL OFFICER: GOVERNMENT MOTOR TRANSPORT (GMT) (MR C ISMAY)  
 THE CHIEF FINANCIAL OFFICER: CASIDRA (MR F VAN ZYL)  
 THE CHIEF FINANCIAL OFFICER: LIQUOR BOARD (MS M ABRAHAMS)  
 THE CHIEF FINANCIAL OFFICER: YOUTH COMMISSION (MS F MGXAJI)

THE PROVINCIAL AUDITOR

MASTER RECORDS OFFICIAL: FINANCIAL MANAGEMENT

## **DISCLOSURE OF RELATED PARTY TRANSACTIONS IN THE ANNUAL FINANCIAL STATEMENTS OF PROVINCIAL PUBLIC AND TRADING ENTITIES**

### **PURPOSE**

1. The purpose of this document is to inform public and trading entities of their reporting responsibilities on Related Party Transactions in the annual financial statements (AFS) by ensuring that the AFS contain the necessary disclosure to indicate that the reported financial position may have been affected by related party transactions.

### **BACKGROUND**

2. During discussions between the Auditor-General and the Provincial Treasury, pertaining to the 2007/08 AFS, held on 12 June 2008, it became evident that public and trading entities were not consistent in reporting their related party transactions in the AFS. It was agreed at this meeting that the Provincial Treasury would issue standard procedures in this regard. On the advice of National Treasury the guidance as prescribed for provincial departments must be followed. In terms of the National Treasury "Guide for the Preparation of Annual Reports for the year ended 31 March 2008" for provincial departments (Chapter 8 – Disclosure Notes), a Related Party Transaction is defined as a transfer of resources or obligations between related parties, regardless of whether a price is charged.
3. The Preparation Guide defines a "Related Party" as parties which are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

For purposes of disclosure Related Parties include:

- (a) entities that directly, or indirectly through one or more intermediaries, control or are controlled by the reporting entity;
  - (b) associates and joint ventures;
  - (c) individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;
  - (d) key management personnel, and close members of the family of key management personnel; and
  - (e) entities in which a substantial ownership interest is held, directly or indirectly, by any person described in (c) or (d), or over which such a person is able to exercise significant influence.
4. Disclosure of information about related party transactions is required for accountability purposes and to assist in better understanding of the financial position and performance of the entity. The principle issues in disclosing information about Related Parties is identifying which parties control or significantly influence the entity and determining what information should be disclosed about transactions with those parties.

The disclosure of information includes:

- The types of the related party relationship;
  - The types of transactions that have occurred;
  - The elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the AFS to provide relevant and reliable information for decision-making and accountability purposes.
5. As a general rule, an entity should disclose all transactions with its related parties other than those undertaken at arm's length (i.e. where the transactions are consistent with a normal supplier or client/recipient relationship and are undertaken on terms and conditions that are normal for such transactions in the circumstances). For the 2007/08 financial year the following applies:
- (a) an entity need to disclose those related party transactions that in terms of the above qualify for disclosure, between itself, the department and other public entities falling under its Minister/MEC's portfolio; but
  - (b) where a entity transacts with another party other than those under (a) above and these transactions were not at arms length then the relationship and the transaction must be disclosed.

#### **ACTION REQUIRED**

6. Public and trading entities are required to comply with the disclosure requirements in their AFS, for Related Party Transactions, where applicable. Reporting on Related Party Transactions is provided for in the prescribed National Treasury AFS Excel Template for the year ending 31 March 2008, as follows:
- The "Cash Flow Statement" under "Net Cash Flows from Investing Activities";
  - Note 63: "Net Cash Flows from Investing Activities"; and
  - The AFS "Checklist".

A disclosure note should be included in the AFS submitted to the Auditor-General, i.e. the AFS that will be included in the Annual Report (normally compiled in Word).

7. The National Treasury "Guide for the Preparation of Annual Reports for the year ended 31 March 2008" can be downloaded from National Treasury's (Office of the Accountant-General) web site <http://oag.treasury.gov.za/> by following the following links:

- Publications;
- Annual Financial Statements;
- For Prov. And Nat. Departments;
- For fin year ending 31/03/2008;
- Preparation Guide;
- Disclosure Notes.

The Preparation Guide (pages 36 to 43) deals extensively with "Related Party Transactions" and includes practical examples to assist entities with the disclosure requirements.

8. Thank you for your co-operation.

*AJ Bedda*  
**SENIOR MANAGER: ACCOUNTING**  
DATE: *24/06/2008*