EDUCATION LABOUR RELATIONS COUNCIL

# POLICY ON MATERIALITY AND SIGNIFICANCE FRAMEWORK

| | | |
|---|---|---|
| elrc EDUCATION LABOUR RELATIONS COUNCIL | **EDUCATION LABOUR RELATIONS COUNCIL** | **Doc No. ES/MSF/001**<br>**Date: MAR** — **Rev 0**<br>**Page: 2 of 6** |
| **Title: POLICY ON MATERIALITY AND SIGNIFICANCE FRAMEWORK** | | **Document type: POLICY** |
| **This document has been seen and accepted by the following:**<br>**GENERAL SECRETARY**<br>**AUDIT COMMITTEE**<br>**EXECUTIVE COMMITTEE OF THE COUNCIL** | | **COMPILED/ REVIEWED BY:**<br>**N SHADUNG**<br>**CFO** |
| **RECOMMENDED BY:**<br><br>**NTHABISENG SHADUNG**<br>**CHIEF FINANCIAL OFFICER** | **APPROVED BY:**<br><br>**NOLUSINDISO FOCA**<br>**GENERAL SECRETARY** | **AUTHORISED BY:**<br><br>**LUVUYO BONO**<br>**CHAIRPERSON OF THE COUNCIL** |
| **DATE OF LAST REVIEW: MARCH 2017** | | |
| **DATE OF NEXT REVIEW: MARCH 2018**<br>*NOTE: - This document may be changed before the stipulated period as and when a need arises as guided by the Policy on Policy development.* | | |

**Table of Contents** **Page**

## 1. DEFINITIONS

**EXCO:** the ELRC Executive Committee

**Material:** 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

**Commented [NS1]:** Definition augmented

## 2. INTRODUCTION

2.1. EXCO has to maintain an agreed framework of acceptable levels of Materiality and Significance.

2.2. These procedures serve to guide ELRC in maintaining an agreed framework of acceptable levels of Materiality and Significance with the EXCO, in accordance with this Policy.

2.3. Materiality and significance (updated annually), is any amount which results from criminal conduct, or the value of R10 000 and above which results from irregular, fruitless or wasteful expenditure caused by gross negligence.

**Commented [NS2]:** New paragraph

## 3. MATERIALITY

3.1. In arriving at the materiality of an item or information the following factors have to be taken into account:

- The nature of the business of the ELRC,
- Statutory and legal requirements affecting the ELRC,
- The inherent and control risks associated with ELRC, and
- Quantitative and qualitative issues.

## 4. SIGNIFICANCE

4.1. EXCO will report of the items considered significant:

- The acquisition and disposal of major (part of) assets,
- The beginning of significant business activities, and
- Major investments (changes) of funds.

## 5. ROLES AND RESPONSIBILITY

5.1. The Chief Financial Officer (CFO) will be responsible for conducting an annual review and making a recommendation to the EXCO, regarding the Materiality and Significance Framework.

5.2. The General Secretary is responsible for ensuring that the Materiality and Significance framework is included in the Strategic Plan and Budget for the ensuing financial year.

5.3. The CFO should ensure that ELRC's Annual Report reports on the framework and any matters of Materiality or Significance.

5.4. The CFO is the custodian of this policy and framework.

## 6. MATERIALITY AND SIGNIFICANCE OF FRAMEWORK

The following guidelines will apply;

Revenue and Expenditure are the best indicators that the ELRC is a non- capital-intensive business activity.

**Materiality**

EXCO has assessed the level of materiality to be:

- 0.5% of budgeted expenditure
- Every amount in respect of criminal conduct
- An amount >R10 000 individually or in aggregate for irregular, fruitless and wasteful expenditure involving gross negligence

**Significance**

EXCO has assessed that any transaction that is ≥R2 million will be reported on as been significant in relation to;

- The acquisition or disposal of major (part of) assets
- The beginning of significant business
- Major investments (changes) of funds

## 7. MATERIALITY AND CONTROLS

Commented [NB3]: New section

7.1. To meet the audit objectives, auditors shall identify the relevant control objectives and, based on the risk tolerance level, determine what should be examined. With respect to a specific control objective, a control or group of controls is material if the absence of the control results in failure to provide reasonable assurance that the control objective will be met.

7.2. Auditors shall consider materiality when determining the nature, timing and extent of the audit procedures to be applied to test a control or group of controls. Material controls shall be tested more thoroughly, frequently and extensively compared to non-material controls to reduce the audit risk.

7.3. While assessing materiality, auditors shall consider:

- The level of error acceptable to management, the professionals, appropriate regulatory agencies and other stakeholders.
- The potential for the cumulative effect of multiple small errors or weaknesses to become material.

7.4. Before the start of the audit engagement field work, auditors shall consider obtaining sign-off from appropriate auditees acknowledging that any existing material weakness that the auditee is aware of in the enterprise has been disclosed.

7.5. When auditors discover control deficiencies, they shall evaluate the effect on the overall audit opinion or conclusion. When evaluating the effect, auditors shall take into account different aspects of the occurrence of the control deficiencies, including:

- Size
- Nature
- Particular circumstances.

7.6. When testing material controls, auditors shall evaluate the effect of compensating controls in mitigating risk associated with a discovered control deficiency. The control deficiency should be classified as:

- A material weakness, when the compensating controls are ineffective.
- A significant deficiency, when the compensating controls are partially effective.
- An inconsequential deficiency, when the compensating controls reduce the risk to an acceptable level.

7.7. Auditors shall note that failure to remediate a deficiency could become material, e.g., after management and those charged with governance have been alerted to the deficiency.

7.8. Control deficiencies are always material in areas where they have been overridden resulting in fraud or illegal acts.

## 8. DEVIATIONS

8.1. No deviation from this policy shall be allowed without the prior written approval of the General Secretary of the ELRC.

## 9. REVIEW

9.1. The materiality and significance must be reviewed annually and included in the Annual Performance Plans of each ensuing financial year.

9.2. Any changes to the framework must be agreed with the EXCO.

9.3. Once agreement with the EXCO has been reached, the Materiality and Significance Framework will be amended for the applicable financial year.