

## ANNEXURE A

### AUDIT PROCEDURES

#### Procedures to be performed

1. Re-compute the mathematical accuracy of the expenditure statement.
2. Confirm that any expenditure in foreign currencies was correctly converted at the budgeted exchange rate.
3. Verify that the following costs have been excluded from QSAPE or QSAPPE:
  - Deferred expenditure, profit participation and residual amounts payable.
  - Non-recoverable advances.
  - Costs of acquisition of Land and Buildings.
  - Errors and Omission insurance and gifts, entertainment and gratuities.
  - VAT.
4. Verify that the following expenditure has been deducted from the Gross QSAPE or QSAPPE:
  - All recoupments from sale of goods during production and at completion of production.
  - Value of goods retained after completion of production and that such a valuation was performed by an independent sworn valuator.
  - Other South African grants (funds), training or internship funding (excluding SETA funds).
  - Any funding received from National Film and Video Foundation (NFVF).
5. Re-compute the mathematical accuracy of the expenditure statement.
6. Confirm that any expenditure in foreign currencies was correctly converted at the budgeted exchange rate.
7. Verify that the following costs have been excluded from QSAPE or QSAPPE:
  - Deferred expenditure, profit participation and residual amounts payable.
  - Non-recoverable advances.
  - Costs of acquisition of Land and Buildings.
  - Errors and Omission insurance and gifts, entertainment and gratuities.
  - VAT.
8. Verify that the following expenditure has been deducted from the Gross QSAPE or QSAPPE:
  - All recoupments from sale of goods during production and at completion of production.
  - Value of goods retained after completion of production and that such a valuation was performed by an independent sworn valuator.
  - Other South African grants (funds), training or internship funding (excluding SETA funds).  
Any funding received from National Film and Video Foundation (NFVF).

whether:

- a. QSAPE is at least R12 m for Foreign Film and TV Production Incentive.

**OR**

QSAPE is at least R2.5 m for South African Film and Television Production and Co-production Incentive and agree that QSAPE is at least 75% of Total Production Expenditure.

- b. General business overheads claimed do not exceed 2% of Total Production Expenditure, as defined in the Guidelines, or R200.000.
  - c. South African Producer fees claimed do not exceed 10% of Total Production Expenditure, as defined in the guidelines, or R1.000.000.
  - d. Connected Party Fees claimed do not exceed 10% of Total Production Expenditure, as defined in the guidelines, or R1.000.000.
  - e. Expenditure by Prior Companies was actually incurred by the previous entity and complies with the guidelines.
  - f. Any allowances claimed in the expenditure statement as QSAPE have been calculated in terms of the guidelines.
  - g. QSAPPE minimum is R1,5 m and above for the Foreign Film Post- Production Incentive.
10. Inspect evidence that based on a sample [*insert actual sample size here, to be determined by auditor after assessment of the system of internal controls and the assessed risk of the engagement*] of transactions, substantiates the accuracy and validity of the QSAPE or QSAPPE claimed. Audit procedures to be undertaken include the following:
- a. Agree expenditure (excluding salaries and wages) to original invoices, made out in the applicant's name. (To the extent that items from this sample do not qualify as QSAPE or QSAPPE, inspect that this is correctly reflected as Non-QSAPE or Non-QSAPPE in the expenditure statement.)
  - b. Agree salaries and wages expenditure to the monthly pay slips and EMP 201 forms.
  - c. Inspect certified copies of ID documents and see that income tax reference numbers are recorded for employees and casual workers.
  - d. When expenditure is subject to a legal agreement, inspect the relevant legal agreement and evaluate whether the expenditure is in accordance with the terms and conditions of that legal agreement.
  - e. Agree cash payments to original bank statements and/or original 'paid cheques'. (Inspect that any unpaid items are reflected under the Non-QSAPE column of the expenditure statement.)
11. Determine if the receipt for the confirmation of commencement of principle photography and, if applicable, a receipt of the revised completion date are still applicable.
12. Perform a search for all transactions in the Expenditure Statement for those transactions with connected parties and agree such transactions to the analysed expenditure in the last column of the Expenditure Statement.

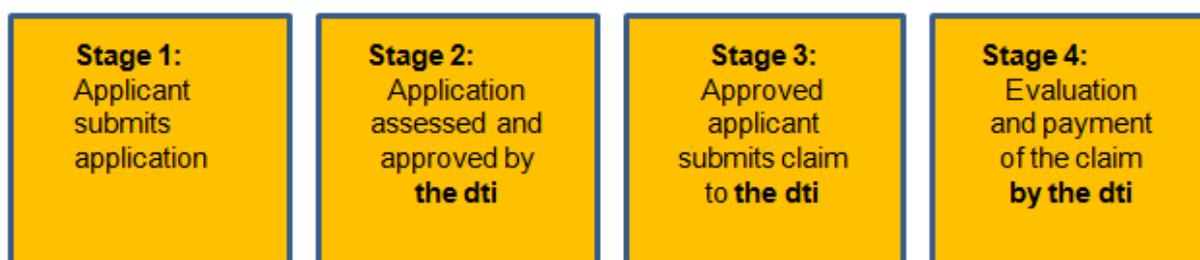
13. Enquire and obtain written representations from the Directors to support the enquiries of the auditor, at least in respect of the following:
  - a. The date on which principle photography commenced. Agree this date to the principle photography schedule;
  - b. At least 50 % (fifty percent) of the principal photography schedule was filmed in South Africa and a minimum of four weeks of the principle photography was filmed in South Africa by examining the principal photography schedule.
  - c. The identified film is in one of the Eligible formats as prescribed in the guidelines.
  - d. The applicant meets the Entity Status requirements prescribed in the guidelines.
  - e. The production is a 'Qualifying South African Production' as prescribed in the guidelines {not applicable to the Foreign Film and Television Production Incentive}.
  - f. The QSAPE or QSAPPE as disclosed in the Expenditure Statement was at arms-length and is commercially reasonable and justified.

## **Guideline for Independent Auditors Independent Auditor’s Report on Application for Payment of a Film and Television Incentive**

### **Introduction**

The South African Government offers a package of incentives to promote its film production and post-production industry. The incentives consist of the Foreign Film and Television Production and Post-Production incentive to attract foreign-based film productions to shoot on location in South Africa and conduct post-production activities, and the South African Film and Television Production and Co-Production incentive, which aims to assist local film producers in the production of local content.

The Department of Trade and Industry (**the dti**) accordingly issued application forms and programme guidelines for both incentive schemes to clarify and explain the four main Film and Television Incentive Programme stages:



The guidelines are available at [www.thedti.gov.za](http://www.thedti.gov.za) and it is recommended that the audit team familiarise themselves with the content thereof prior to the start of the review.

### **2. The role of the Independent Auditor**

During stage 3 of the process indicated above, the successful applicant has to submit a claim form to **the dti** for evaluation. Prior to submission, the Independent Auditor has to perform certain procedures of an audit nature to provide **the dti** with the required assurance that the information contained in the Claim Form and the Expenditure Statement, (Production Expenditure, as set out in Part 6 of the Claim Form) complies with the Programme Guidelines.

### **3. Performing the audit procedures**

The Independent Auditor should take note that the audit procedures proposed in this document are generic and based on the information that one would expect to find at the successful applicant. In cases where the proposed audit procedures cannot be performed, the independent auditor is required to define and undertake the additional procedures necessary to achieve the stated audit objectives.

#### 4. Proposed Audit Procedures

The following audit procedures are to be undertaken:

<b>A.</b>	<b>Audit Objective:</b>
	To confirm: <ul style="list-style-type: none"> <li>• The mathematical accuracy of the detailed expenditure statement; and that</li> <li>• The Qualifying South African Production Expenditure (QSAPE) or Qualifying South African Post-Production Expenditure (QSAPPE) claimed (as per the expenditure statement) complies with the ‘Costs of Services Embodied in Goods’ as per the programme guidelines.</li> </ul>
	<b>Information to be obtained and reviewed:</b>
	<ul style="list-style-type: none"> <li>• Detailed expenditure statement prepared by management which includes all costs claimed as Qualifying South African Production Expenditure (QSAPE) or Qualifying South African Post –Production Expenditure (QSAPPE).</li> <li>• Film and Television Incentive Programme Guidelines.</li> </ul>
	<b>Procedures to be performed</b>
<ol style="list-style-type: none"> <li>9. Re-compute the mathematical accuracy of the expenditure statement.</li> <li>10. Confirm that any expenditure in foreign currencies was correctly converted at the budgeted exchange rate.</li> <li>11. Verify that the following costs have been excluded from QSAPE or QSAPPE: <ul style="list-style-type: none"> <li>• Deferred expenditure, profit participation and residual amounts payable.</li> <li>• Non-recoverable advances.</li> <li>• Costs of acquisition of Land and Buildings.</li> <li>• Errors and Omission insurance and gifts, entertainment and gratuities.</li> <li>• VAT.</li> </ul> </li> <li>12. Verify that the following expenditure has been deducted from the Gross QSAPE or QSAPPE: <ul style="list-style-type: none"> <li>• All recoupments from sale of goods during production and at completion of production.</li> <li>• Value of goods retained after completion of production and that such a valuation was performed by an independent sworn valuator.</li> <li>• Other South African grants (funds), training or internship funding (excluding SETA funds).</li> <li>• Any funding received from National Film and Video Foundation (NFVF).</li> </ul> </li> </ol>	

<b>B.</b>	<b>Audit Objective:</b>
	To confirm that the QSAPE claimed meets the criteria set in the Film and Television Incentive Programme Guidelines.
	<b>Information to be obtained and reviewed:</b>
	<ul style="list-style-type: none"> <li>• Detailed expenditure statement prepared by management which includes all costs claimed as Qualifying South African Production Expenditure (QSAPE).</li> <li>• Film and Television Incentive Programme Guidelines.</li> </ul>
	<b>Procedures to be performed</b>
	<p>2. Evaluate whether:</p> <p>a. QSAPE is at least R12 m for Foreign Film and TV Production Incentive.</p> <p style="text-align: center;"><b>OR</b></p> <p>QSAPE is at least R2.5 m for South African Film and Television Production and Co-production Incentive and agree that QSAPE is at least 75% of Total Production Expenditure.</p> <p>b. General business overheads claimed do not exceed 2% of Total Production Expenditure, as defined in the Guidelines, or R200.000.</p> <p>c. South African Producer fees claimed do not exceed 10% of Total Production Expenditure, as defined in the guidelines, or R1.000.000.</p> <p>d. Connected Party Fees claimed do not exceed 10% of Total Production Expenditure, as defined in the guidelines, or R1.000.000.</p> <p>e. Expenditure by Prior Companies was actually incurred by the previous entity and complies with the guidelines.</p> <p>f. Any allowances claimed in the expenditure statement as QSAPE have been calculated in terms of the guidelines.</p> <p>g. QSAPPE minimum is R1,5 m and above for the Foreign Film Post- Production Incentive.</p>
<b>C.</b>	<b>Audit Objective:</b>
	To confirm that the costs claimed as Qualifying South African Production Expenditure (QSAPE) or Qualifying South African Post-Production Expenditure (QSAPPE) are valid and agree to the accounting records of the applicant.
	<b>Information to be obtained and reviewed:</b>
	<ul style="list-style-type: none"> <li>• Detailed expenditure statement prepared by management which includes all costs claimed as Qualifying South African Production Expenditure (QSAPE) or Qualifying South African Post-Production Expenditure (QSAPPE)</li> <li>• Applicant's general ledger.</li> </ul>

<b>Procedures to be performed</b>	
<p>f. Inspect evidence that based on a sample [<i>insert actual sample size here, to be determined by auditor after assessment of the system of internal controls and the assessed risk of the engagement</i>] of transactions, substantiates the accuracy and validity of the QSAPE or QSAPPE claimed. Audit procedures to be undertaken include the following:</p> <p>a. Agree expenditure (excluding salaries and wages) to original invoices, made out in the applicant's name. (To the extent that items from this sample do not qualify as QSAPE or QSAPPE, inspect that this is correctly reflected as Non-QSAPE or Non-QSAPPE in the expenditure statement.)</p> <p>b. Agree salaries and wages expenditure to the monthly pay slips and EMP 201 forms.</p> <p>c. Inspect certified copies of ID documents and see that income tax reference numbers are recorded for employees and casual workers.</p> <p>d. When expenditure is subject to a legal agreement, inspect the relevant legal agreement and evaluate whether the expenditure is in accordance with the terms and conditions of that legal agreement.</p> <p>e. Agree cash payments to original bank statements and/or original 'paid cheques'. (Inspect that any unpaid items are reflected under the Non-QSAPE column of the expenditure statement.)</p>	
<b>D. Audit Objective:</b>	
<p>To confirm:</p> <ul style="list-style-type: none"> <li>• The correct disclosure of connected party transactions in the expenditure statement;</li> <li>• The validity of the connected party transactions.</li> </ul>	
<b>Information to be reviewed:</b>	
<ul style="list-style-type: none"> <li>• Detailed expenditure statement prepared by management which includes all costs claimed as Qualifying South African Production Expenditure (QSAPE) or Qualifying South African Post-Production Expenditure (QSAPPE)</li> <li>• Provisional certificate of eligibility.</li> <li>• A receipt for the confirmation of commencement of principal photography and, if applicable, a receipt of the revised completion date.</li> <li>• Principal photography schedule.</li> </ul>	
<b>Procedures to be performed</b>	
<ol style="list-style-type: none"> <li>1. Determine if the receipt for the confirmation of commencement of principal photography and, if applicable, a receipt of the revised completion date are still applicable.</li> <li>2. Perform a search for all transactions in the Expenditure Statement for those transactions with connected parties and agree such transactions to the analysed</li> </ol>	

expenditure in the last column of the Expenditure Statement.

3. Enquire and obtain written representations from the Directors to support the enquiries of the auditor, at least in respect of the following:
  - a. The date on which principal photography commenced. Agree this date to the principle photography schedule;
  - b. At least 50 % (fifty percent) of the principal photography schedule was filmed in South Africa and a minimum of four weeks of the principle photography was filmed in South Africa by examining the principal photography schedule.
  - c. The identified film is in one of the Eligible formats as prescribed in the guidelines.
  - d. The applicant meets the Entity Status requirements prescribed in the guidelines.
  - e. The production is a 'Qualifying South African Production' as prescribed in the guidelines {not applicable to the Foreign Film and Television Production Incentive}.
  - f. The QSAPE or QSAPPE as disclosed in the Expenditure Statement was at arms-length and is commercially reasonable and justified.