



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# Accounting Manual for Departments

## Accounting by Principals and Agents

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## 1 Overview

The purpose of this Chapter is to prescribe how to identify and account for principal-agent arrangements.

The Office of the Accountant-General has compiled a Modified Cash Standard (MCS) and this manual serves as an application guide to the MCS which should be used by departments in the preparation of their financial statements.

Any reference to a "Chapter" in this document refers to the relevant chapter in the MCS and / or the corresponding chapter of the Accounting Manual.

Explanation of images used in manual:

	Definition
	Take note
	Management process and decision making
	Example

## 2 Key Learning Objectives

- Understand how to identify an principal-agent arrangement
- Understand what needs to be disclosed for principal-agent arrangements


### 3 Identification of Principal-agent arrangements

Public sector entities are frequently required to perform activities and/or provide goods and services on behalf of others. In the public sector, the performance of these activities or provision of goods and services is most often governed by legislation or contracts concluded between the affected parties. Despite this, there are a number of practical accounting issues that arise from these arrangements. The foremost question is which department / entity, or to what extent a department / entity should account for the revenues, expenses, assets and or liabilities arising from such arrangements.

#### 3.1 Principal-agent arrangement

Departments may have certain activities executed by another entity, or undertake activities on behalf of other entities. Where these arrangements exist, it is important to identify which entity should account for the transactions arising from these activities, and what resulting revenue, expenditure, assets and/or liabilities should be recognised or recorded.

The question of whether a department acts as a principal or an agent in a particular context is best evaluated by breaking down the definition of a principal-agent arrangement.

	<p>A <b>principal-agent arrangement</b> results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).</p>
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The definition of a principal-agent arrangement is broken down and analysed in the following sub-headings:

- Binding arrangement
- Principal and agent
- Third party


#### 3.2 Binding arrangement

Existence of a binding arrangement is required for a principal-agent arrangement to exist. Where no binding arrangement exists, it is assumed that the entity is acting for itself, rather than on behalf of another entity. As a result, no principal-agent arrangement exists in the absence of a binding arrangement.

When analysing binding arrangements, it is necessary to consider the separate significant activities covered by the arrangement individually in assessing whether the activity is an agency-activity or an own-activity. A single arrangement between two parties might consist of both agency and own-activities that must be considered, and accounted for separately.

#### 3.3 Principal and agent

The assessment of whether a department is a principal or an agent is based on the terms outlined in the binding arrangement.

	<p>A <b>principal</b> is an entity that <b>directs</b> another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.</p> <p>An <b>agent</b> is an entity that has been <b>directed</b> by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.</p>
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When a department directs another entity to undertake an activity on its behalf in relation to transactions with third parties, or is directed by another to undertake an activity on its behalf in relation to transactions with third parties, it must consider whether it is a party to a principal-agent arrangement.

The Constitution of the Republic of South Africa, 1996, sets out the various responsibilities of government, and assigns activities to various spheres of government or to particular types of entities. Legislation sets out the mandate, authority, roles and responsibilities of specific entities in undertaking the activities outlined in the Constitution. In some cases, it may be more efficient and effective to utilise other public sector or private sector entities to undertake certain activities. As a result, entities (the principal) have certain activities executed by another entity (the agent), or undertake activities (the agent) on behalf of other entities (the principals). The ultimate responsibility, however, for the various activities still rests with the entities identified in legislation (the principals).


Not all transactions where department directs another entity to undertake an activity on its behalf or is directed by another entity to undertake an activity on its behalf meet the definition of a principal-agent arrangement. There has to be transactions with third parties as part of the arrangement. Absence of “transactions with third parties” excludes an arrangement from being a principal-agent arrangement.

### 3.4 Transactions with third parties

The definition of a principal-agent arrangement refers to an entity acting on behalf of another entity in relation to transactions with third parties. In the absence of transactions with third parties, the arrangement is not a principal-agent arrangement, and the entity then acts in a capacity as a principal rather than as an agent. Without a third party involved, one party is simply delivering goods / services to another party. Therefore most ordinary department-supplier arrangements will not end up being principal-agent arrangements.

The nature of the transactions with third parties is linked to the type of activities carried out by the agent in accordance with the binding arrangement. These activities could include the agent transacting with third parties for the procurement or disposal of resources, or the receipt resources from a third party on behalf of the principal.

Activities, in this context, would consist of events, tasks or processes that give rise to a flow of economic benefits or service potential between the department and other parties.

	<p><b>Example: Examples of activities</b></p> <p>Examples of typical arrangements where one entity undertakes activities on behalf of another entity in the public sector may include:</p> <ul style="list-style-type: none"> <li>• The collection of revenue, including taxes, fees and other charges from specific parties, e.g. motor vehicle license fees collected by municipalities for the provincial government, and taxes collected by the Revenue Authority for the national government.</li> <li>• The construction of assets, e.g. houses built for beneficiaries of the reconstruction and development programme, for national and/or provincial housing departments and organisations.</li> <li>• Property management services, which may include the maintenance of properties and collection of revenue, for the department of Public Works.</li> </ul>
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## 4 Criteria to be applied by a potential agent

Criteria for assessing if an entity is an agent are stated in paragraph .25 of the MCS Chapter on *Accounting by Principals and Agents* as follows:


A department is an agent when, in relation to transactions with third parties, all three of the following criteria are present, except as outlined in paragraph .26 of the MCS:

- (a) It does not have the power to determine the significant terms and conditions of the transaction.
- (b) It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- (c) It is not exposed to variability in the results of the transaction.

MCS paragraph .26 states that criterion (a) does not need to be applied by a department has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions.

A decision tree was developed to clarify the criteria and their indicators. Refer to Annexure 1.

A checklist was also developed as a tool that a department can utilise when assessing whether it is a principal or an agent. Refer to Annexure 2.

	<p><b>Identifying an agent</b></p> <p>In some instances, service providers are loosely called agents. This does not mean they are agents as defined in the MCS Chapter on <i>Accounting by Principals and Agents</i>. The department should still determine if the service provider to the arrangement meets the definition of an agent in accordance with the MCS Chapter on <i>Accounting by Principals and Agents</i> before concluding that a principal-agent arrangement exists.</p>
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## 5 Accounting by a principal and agent

Once the department has established that they are a principal or an agent in a principal-agent arrangement, they should disclose the necessary amounts in the financial statements and related notes.

### 5.1 Typical items disclosed by a principal or an agent

The following are typical items disclosed by a principal or an agent in a principal-agent arrangement:

#### Revenue, Expenditure, Assets and Liabilities Disclosure in Primary, Secondary Financial Information and Annexures

	Disclosure	Examples (not exhaustive)
Principal Revenue and Expenses	Principal accounts for <i>revenue and expenses</i> arising from the transactions with third parties in its statement of financial performance.	Revenue - Amount received from the agent for the fees collected from third parties on behalf of the principal. Expense: Amount transferred to agent to construct property on the principal's behalf such as fee paid as compensation to the agent
Principal Assets and Liabilities	Refer to other MCS chapters in determining whether <i>assets and liabilities</i> arising from principal-agent arrangement.	Asset: Capital asset constructed by the agent Liability: Fee owing to the agent
Agent Revenue and Expenses	Agent accounts for the <i>revenue and expenses</i> associated with undertaking the transactions on behalf of the principal.	Revenue: Fee received as compensation from the principal Expenditure: Costs incurred in providing

		administration service such as employee costs
Agent Assets and Liabilities	<p>Refer to other MCS chapters in determining whether <i>assets and liabilities</i> arising from principal-agent arrangement.</p> <p>Assets and Liabilities relating to resources held on behalf of the principal in order to undertake transactions with the relevant third parties.</p> <p>Assets and liabilities as a result of rights and obligations arising from principal-agent arrangements.</p>	<p>Asset: Cash held in agent's bank account for amounts to be remitted to the principal.</p> <p>Liability: Cash held in agent's bank account for amounts to be remitted to the principal. This amount is owed to the principal</p>

## 5.2 Reporting on money collected

The PFMA states:

*s11 (a) "all money received by the national government must be paid into the Fund, except money reasonably excluded by this Act or another act of Parliament".*

*s 21(a) "all money received by the provincial government must promptly be paid into the Fund, except money reasonably excluded by this Act or another Parliament".*

PFMA requires that all money received by the national and provincial departments be surrendered to the relevant revenue fund. A question raised is whether money collected by a department and surrendered to the revenue fund meets the definition of a principal-agent arrangement.


If the department collects money as part of its mandate, it should treat it as its own revenue when received in line with the MCS Chapter on *Revenue* even though ultimately the department must surrender money collected to the revenue fund as required by the PFMA.

There may be instances where money is collected by the department's entity then is required to be transferred to the department that will in turn transfer the money to the Revenue Fund.


Whether this is a principal-agent arrangement depends on legislation that governs the entity and who is the principal. If, according to the mandate, the public entity is the principal then the department will not account for a principal-agent arrangement as the department is merely a "conduit". In a "conduit" arrangement the department receives the money from its entities and simply passes it on to the revenue fund without playing other roles such as monitoring, oversight, etc.

If the legislation gives the department the overarching mandate pertaining to collection of money, then the department should account for the money as departmental revenue and this is potentially a principal-agent arrangement. All the criteria of a principal-agent arrangement should be met before the department accounts for the arrangement as a principal-agent arrangement.

## 5.3 Reporting on Cash or Other Monetary Assets vs Non-monetary assets


	<p><b>Reporting on Cash or Other Monetary Assets vs Non-monetary assets</b></p> <p>Paragraphs .54 and .55 of the MCS state:</p> <p><i>Where an agent holds cash or other monetary assets on behalf of its principal, it is necessary to assess whether this should be recognised as an asset by the agent, with a corresponding liability in respect of the obligation to transfer the amounts to the principal. In making this assessment, the agent considers whether it controls (even if</i></p>
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	<p><i>this control is temporary) the cash or other asset it holds, and consequently whether it meets the definition of an asset in accordance with the Concepts and Principles Chapter.</i></p> <p><i>Where an agent is required to collect amounts owing to a principal or another entity, consideration should be given to whether or not it is appropriate for the agent to record the amounts to be collected as a receivable, along with the corresponding liability to pay over the amounts still-to-be collected to the principal. Similarly, an agent may need to consider whether it should record a payable, along with a corresponding receivable, for amounts which it is obligated to settle on behalf of the principal.</i></p> <p>The MCS paragraph .54 is the same as the GRAP paragraph. It relates to cash or monetary transactions, which are recognised in both environments. However, paragraph .55 differs to the GRAP because it makes reference to “recording amounts to be collected”. This is because in a MCS environment amounts owing for collection on behalf of another entity are non-cash in nature. Therefore they are recorded in the secondary financial information rather than the primary financial information.</p>
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	<p><b>Should a contingent liability that arises from a principal-agent arrangement be accounted for by the agent or the principal?</b></p> <p>Determining which party should account for the contingent liability will depend on the terms of the contract. In most instances the principal will account for the contingent liability. For example, where the agent's role is only to manage the project, then the principal will account for the contingent liability. Where a contract specifies that all the risks such as credit risk are borne by the agent, then the agent will account for the contingent liability – the department should assess if the agent is indeed an agent as defined or is actually a principal (see Annexure 2 for Checklist). The same guidance applies for other items such as commitments.</p>
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## 6 Principal-agent disclosures

The following is an example of principal-agent disclosures.

	<p><b>Example: Principal-agent disclosures</b></p> <p><b>Scenario 1: Department is the principal</b></p> <p>Public entity MNO entered into an arrangement with Department ABC to collect all the tourism fees on behalf of the department. A fixed monthly agency fee of R20 000 will be paid to the public entity for collecting the revenue.</p> <p>For the 20x1 financial year, Department ABC has paid over R240 000 as an agency fee to public entity MNO.</p> <p><b>Disclosure as the principal (Department ABC):</b></p> <table border="1"> <thead> <tr> <th>Extract from <i>Notes to the financial statements</i></th><th>20x1</th></tr> </thead> <tbody> <tr> <td><b>Department acting as the principal</b></td><td><b>R'000</b></td></tr> <tr> <td>Public entity MNO</td><td>240</td></tr> <tr> <td>...</td><td></td></tr> <tr> <td><b>Total</b></td><td><b>xxx</b></td></tr> </tbody> </table>	Extract from <i>Notes to the financial statements</i>	20x1	<b>Department acting as the principal</b>	<b>R'000</b>	Public entity MNO	240	...		<b>Total</b>	<b>xxx</b>
Extract from <i>Notes to the financial statements</i>	20x1										
<b>Department acting as the principal</b>	<b>R'000</b>										
Public entity MNO	240										
...											
<b>Total</b>	<b>xxx</b>										



Public entity MNO entered into an arrangement with Department ABC to collect all the tourism fees on behalf of the department. The significant terms and conditions are ..... The significant risks and rewards are ..... A fixed monthly agency fee of R20,000 will be paid to the public entity for collecting the revenue.

### Scenario 2: Department is the agent

Department ABC entered into an agreement with Department MNO where the department will collect all the tourism fees on behalf of Department MNO. A fixed monthly agency fee of R20 000 is paid to the department to collect the fees.

For the 20x1 financial year, Department ABC received R240 000 as an agency fee from Department MNO.

It collected R6 million tourism fees and paid over R4 million for the collection and administration regarding the collection of the fees in the 20x1 financial year.

### Disclosure as the agent (Department ABC)

Extract from <i>Notes to the financial statements</i>		20x1
<b>Department acting as the agent</b>		<b>R'000</b>
<b>Revenue received for agency activities</b>		
Department MNO		240
...		
<b>Total</b>		<b>xxx</b>

Department ABC entered into an agreement with Department MNO where the department will collect all the tourism fees on behalf of Department MNO. A fixed monthly agency fee of R20 000 is paid to the department to collect the fees.

Extract from <i>Notes to the financial statements</i>				
Name of principal entity	Total agency funds received	Amount remitted to the principal	Variance between amounts received and amounts remitted	Explanation of variance
<b>Department acting as the agent</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	
<b>Reconciliation of agency funds and disbursements – 20x1</b>				
Department MNO	6 000	(4 000)	2 000	xxx
...				
<b>Total</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	

No assets belonging to other entities are held in the custody of the department.

If the purpose and type of information required for principal-agent arrangement note are the same as another note, then only the other note should disclose the required information. The principal-agent arrangement should be mentioned in the other note's narrative. For example, in the event that the purpose and type of information required for a PPP arrangement that also meets the definition of a principal-agent arrangement are the same, only the PPP note should be completed. The principal-agent arrangement should be mentioned in the PPP note narrative.

Should the purpose and type of information required for principal-agent arrangement and another note be different, then both the PPP and principal-agent arrangement notes should be completed. For example, should the purpose and type of information required for a PPP arrangement that also meets the definition of a principal-agent arrangement be different, then both the PPP and principal-agent arrangement notes should be completed. Similarly, a principal-agent arrangement that is also a related party relationship should be disclosed in both notes to the financial statements as the purpose and type of information required for each note are different. Departments provide details that are useful to appraise the related party transactions in the relevant note and principal-agent arrangement in the relevant note.

## **7 Transitional provisions**

In the MCS environment, a department shall apply the requirements of this Chapter prospectively for annual financial statements covering periods beginning on or after 1 April 2015. The proposed effective date of the GRAP on *Accounting by Principal and Agents*, (approved but not yet effective when this AMD was published), is for annual financial statements covering periods beginning on or after 1 April 2015.

The MCS's prospective application with regards to *Accounting by Principal and Agents* may be different to that proposed in the GRAP. However, considerations were made in reaching the decision for prospective application.

Accordingly, comparative information shall be provided to the extent that

- (a) such information was previously disclosed in the financial statements; and
- (b) nature of the arrangement and the role of the department (as a principal or agent) has not changed due to the application of the requirements of this Chapter.

Comparative information is not required in instances other than those specified in (a) and (b) above.

For example, the information furnished in Note 42 for the 2014/15 financial year can be populated as comparative information in the 2015/16 financial year, if the nature and the role of the department (as a principal or agent) has not changed. If additional work has to be done to populate the comparative information then comparative information should not be provided. For transparency, the department may provide a narrative stating the reasons for not furnishing comparative information.

## **8 Management of principal-agent arrangement**

Although this chapter deals with accounting matters, some matters pertaining to management of principal-agent arrangements are included here to achieve a certain degree of uniformity when managing principal-agent arrangements.

### **8.1 Principal-agent arrangement document management**

Substantiating documents should be retained. There may be uncertainty pertaining to which entity in a principal-agent arrangement should retain the substantiating documents.

The binding arrangement may specify document management requirements pertaining to the arrangement and such requirements should be adhered to. Where the binding arrangement is silent

about document management requirements, it is advised that the agent avails copies of the supporting documents after considering the practicality of sending documents to the principal and cost implications. Where the agent has not sent source documents to the principal, the agent should ensure that the source documents can be availed for inspection.

## 8.2 SCM processes to be used in a principal-agent arrangement

Uncertainty may exist regarding which entity's supply chain management (SCM) processes should be used in a principal-agent arrangement.

Various types of arrangements will require various types of SCM processes. The requirements stipulated by legislation with regards to the relevant SCM processes to be applied by the parties in an arrangement should be adhered to. SCM processes to be applied by the agent should be stated in the terms of the binding arrangement. These should not contradict legislation. If the binding arrangement is silent, the NT can be consulted to obtain clarity on the most appropriate SCM processes to be followed.

## 8.3 Two "principals" in the same inter-government arrangement

Entities should consider the criteria in determining if they are a principal or an agent in an arrangement. Should two government entities each reach the conclusion that they are both principals whereas a principal-agent arrangement exists, it is suggested that discussions are held between the two entities and minutes kept of the deliberations. If the two entities are still not in agreement after the deliberations, OAG's Accounting Support and Reporting (ASR) can be contacted to assist the entities in making a determination on which entity is the principal and which an agent.

# 9 Summary of Key Principles

This chapter prescribes how to identify and account for principal-agent arrangements.

## 9.1 Identification

An **agent** is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal. By default if a department is not an agent then it is a **principal**

Existence of a **binding arrangement** is required for a principal-agent arrangement to exist. Where no binding arrangement exists, it is assumed that the entity is acting for itself, rather than on behalf of another entity. As a result, no principal-agent arrangement exists in the absence of a binding arrangement.

## 9.2 Accounting treatment

Accounting by a **principal** applying MCS:

- Recognises or records revenue (for example fees collected for principal by agent) and expenditure (for example assets constructed for principal by agent) that arise from transactions and third parties in a principal-agent arrangement
- Recognises and/or records assets and liabilities in accordance with the requirements of other chapters of the MCS

Accounting by an agent applying MCS

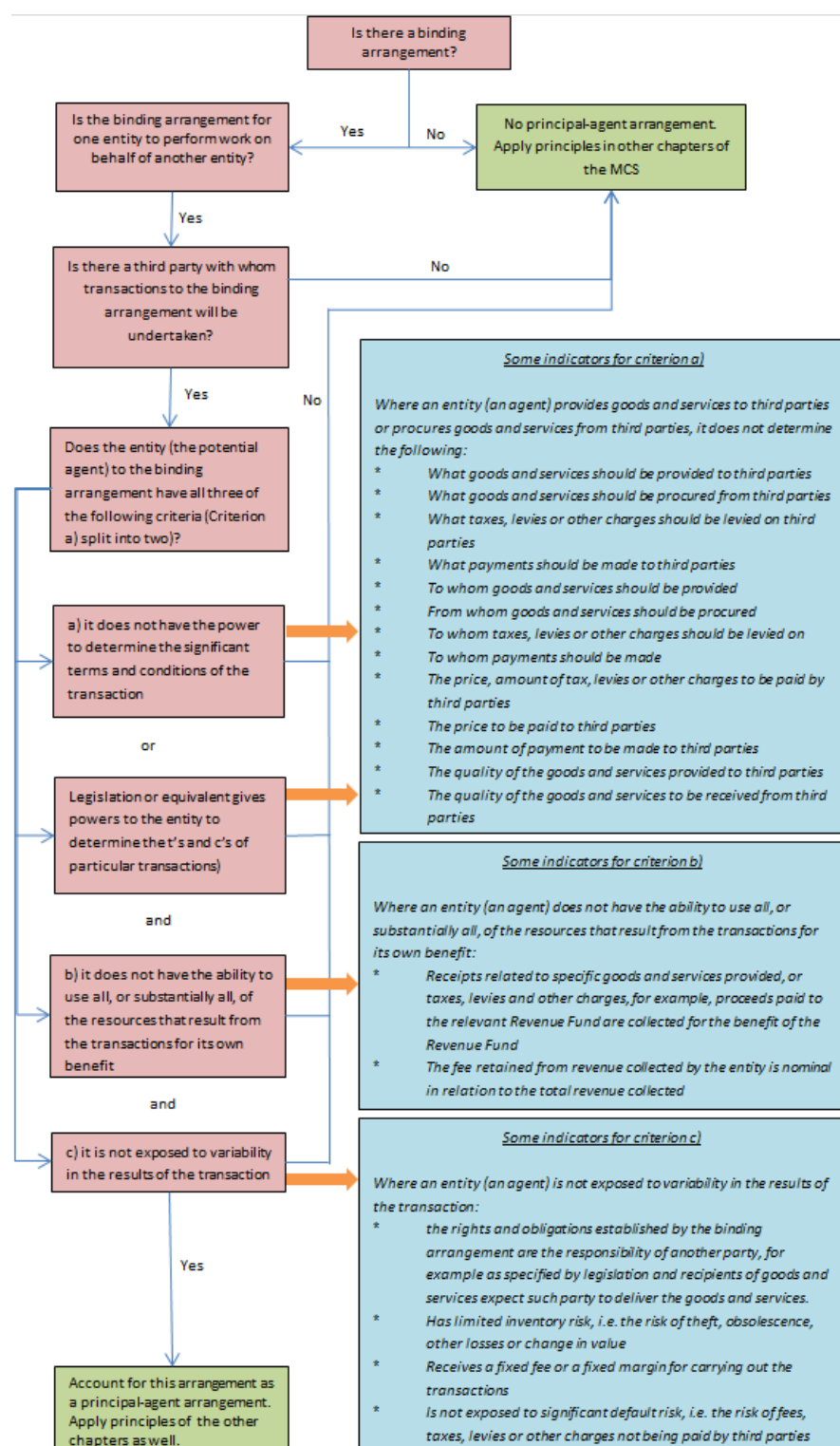
- Recognises only that portion of the revenue (for example administrative fee charged to the principal) and expenses (salaries paid to agent's employees involved with doing work on behalf

- of principal) it receives or incurs in executing the transactions on behalf of the principal
- Recognises and/or records assets and liabilities in accordance with the requirements of other chapters of the MCS

### **9.3 Disclosures**

Specific disclosures are required for principal-agent arrangements entered into by the department.

## ANNEXURE 1: Decision Tree for Principal-agent arrangements



## ANNEXURE 2: Checklist for assessing whether a department is a principal or an agent

<b>Are all the following criteria met? (Indicators are situations that individually or in combination could assist in determining if a criterion is met and indicators listed under item 4 below are not exhaustive)</b>		<b>Y</b>	<b>N</b>
<b>1. Is there a binding arrangement?</b>			
<b>2. Is the binding arrangement for one entity to perform work on behalf of another entity?</b>			
<b>3. Is there a third party with whom transactions to the binding arrangement will be undertaken?</b>			
<b>4. Does the entity (the potential agent) to the binding arrangement meet all three of the following criteria:</b>			
a) It does not have the power to determine the significant terms and conditions of the transaction (criterion not relevant where legislation or equivalent gives powers to the entity to determine the t's and c's of particular transactions)			
Where an entity (a potential agent) provides goods and services to third parties or procures goods and services from third parties, it does not determine the following (list not exhaustive):			
i. What goods and services should be provided to third parties			
ii. What goods and services should be procured from third parties			
iii. What taxes, levies or other charges should be levied on third parties			
iv. What payments should be made to third parties			
v. To whom goods and services should be provided			
vi. From whom goods and services should be procured			
vii. To whom taxes, levies or other charges should be levied on			
viii. To whom payments should be made			
ix. The price, amount of tax, levies or other charges to be paid by third parties			
x. The price to be paid to third parties			
xi. The amount of payment to be made to third parties			
xii. The quality of the goods and services provided to third parties			
xiii. The quality of the goods and services to be received from third parties			
b) It does not have the ability to use all, or substantially all, of the resources that result from the transactions for its own benefit,			
Indicators (list not exhaustive) :			
i. Receipts related to specific goods and services provided, or taxes, levies and other charges, for example, proceeds paid to the relevant Revenue Fund are collected for the benefit of the Revenue Fund			
ii. The fee retained from revenue collected by the entity is nominal in relation to the total revenue collected.			
c) It is not exposed to variability in the results of the transaction.			
Indicators(list not exhaustive):			
i. The rights and obligations established by the binding arrangement are the responsibility of another party, for example as specified by legislation and recipients of goods and services expect such party to deliver the goods and services.			
ii. Has limited inventory risk, i.e. the risk of theft, obsolescence, other losses or change in value			
iii. Receives a fixed fee or a fixed margin for carrying out the transactions			

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<i>Are all the following criteria met? (Indicators are situations that individually or in combination could assist in determining if a criterion is met and indicators listed under item 4 below are not exhaustive)</i>			Y	N
iv.	<i>Is not exposed to significant default risk, i.e. the risk of fees, taxes, levies or other charges not being paid by third parties</i>			

## ANNEXURE 3: Examples on Assessing an arrangement

### Disclaimer

The following examples are added for illustrative purposes only. Where the analysis indicates that the arrangement is a principal agent arrangement, for illustrative purposes, it can be assumed that all other criteria and indicators were met. Departments should consider their own circumstances when assessing whether an arrangement is a principal-agent arrangement.

### Example 1

*Department Y, as part of their mandate, identifies unemployed graduates in the province and assist them to set up businesses. The department then through SCM procurement processes appoints Swox Ltd to perform the following activities on their behalf:*

- *assist individuals to set the business in the province;*
- *provide training to the beneficiaries, and*
- *ensure that the beneficiaries are capacitated to run the business*

*Swox Ltd opened a dedicated account for this project and the department transfers the money required for the project including the fee payable to Swox Ltd in that dedicated account. The department sets conditions on how the money should be used. At the end of the project unspent money is transferred back to the department.*

**Analysis:** In this arrangement, principal agent relationship exists. Department Y has the performance obligation to equip the beneficiaries with funding and skills and the department has beneficial control over this activity. Swox LTD does not have control over the activity as the activity is directed by the department and the entity is the department's authorised representative in effecting the departments legal relationships with third parties.

### Example 2

*Department A has a mandate, through its Trading Entity, to manage state-owned properties and leases of private property by government departments, in terms of the Government Immovable Asset Management Act. One of the key functions of the Department A is to provide office accommodation to Client Departments. The Department A, through its Trading Entity, enters into lease agreement with private parties (landlord) to lease the office buildings which will be utilised by client departments. The lease agreement entered into is between the landlord and Department A. The department further sign the client departments to govern all aspects of the relationship between Department A and the client departments.*

*As stipulated in the SLA, client departments are required to make rental payments on a monthly basis to Department A which would in turn pay the amounts to the landlord.*

**Analysis:** In this scenario, Department A enters into agreement with the landlord in its capacity and Department A does not conduct itself as a representative of client departments in its dealings with the landlord as it is fulfilling its mandated responsibility. The relationship between Department A and client department should not be seen as Principal-Agent relationship.

### Example 3

*The department enters into a 10 year PPP agreement with a private party in terms of which the private party is required to construct a building from which a service will be delivered. A monthly*



*unitary payment is made by the entity of R800 000, which includes a service element and an asset element.*

**Analysis:** There is no principal agent relationship as the private party assumes substantial financial, technical and operational risk in the design, financing, building and operation of a project. The private party do not act on behalf of the department. The transaction should be disclosed only in the PPP note.

#### **Example 4**

*On the 15 April 20X1, the Department K transferred an amount of R98 000 to Department N for conducting surveys for Department K.*

**Analysis:** This arrangement is not a principal-agent arrangement as there is no third party involved. The Department N is delivering goods/services to Department K.

#### **Example 5**

*In terms of legislation, Department X is mandated to issue licenses to companies who wish to undertake Activity Y. It establishes Public Entity A and grants it the necessary powers and responsibilities to regulate Activity Y and to issue the relevant licenses. In terms of legislation, Public Entity Y is required to develop Regulations governing the issuing of the licenses, including determining the licensing conditions, which companies are required to acquire licenses and, on an annual basis, determining the license fees payable.*

*Legislation requires that any fees collected to undertake Activity Y are direct receipts of the relevant Revenue Fund. Public Entity A is required to pay over any cash collected to the Revenue Fund. Public Entity A receives a transfer payment from Department Y to fund the activities that it undertakes on its behalf.*

**Analysis:** Public Entity A has been established for the function of issuing the licenses to companies and in performing their duties does not do it in the name of and on behalf of Department Y, having been given and assumed some degree of authority to do so.