



AUDITOR-GENERAL
SOUTH AFRICA



Auditing to build public confidence

Audit report – Notes to the presentation

Understanding of the Briefing Process of audit outcomes

3 September 2014

Reputation promise/mission

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by **enabling oversight, accountability and governance** in the public sector through auditing, thereby **building public confidence**.



Notes on the audit report

1. Addressee

The following indicates the appropriate addressee per auditee where PFMA or MFMA is applicable:

- a. For national departments, public entities, constitutional institutions, trading entities and Parliament
– **Parliament;**
- b. For provincial departments, public entities, trading entities and provincial legislatures
– **The [Name of province] provincial legislature;**
- c. For local government municipalities and municipal entities
– **The [Name of province] provincial legislature and the council**

2. Emphasis of matters/Additional matters

Why?

To draw the users of financial statements' attention to a matter
TO HIGHLIGHT ONLY!

Difference?

Emphasis of matter	Additional matter
Merely to draw users' attention to a matter presented or disclosed in the financial statements which is of such importance that it is fundamental to their understanding of the financial statements	To draw users' attention to any matter other than those presented or disclosed in the financial statements which is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report

Impact on Opinion?

No impact on audit opinion hence wording:
"My opinion is not modified in respect of these matter(s)"

3. Audit report coverage wrt Annual report

Entities are required to produce annual reports to the PFMA /MFMA, **however the entire annual report is not audited.**

Audit report refers to pages which are covered as part of the annual audit and on which the financial opinion, report on significant matters noted on compliance and predetermined objectives is based on.

1. Where differences are noted between the audited financial statements and other sections of the annual report, this is highlighted to the users via an "Additional Matter" paragraph.
2. Where the financial statements contain supplementary schedules which were not audited, this is also highlighted to the users via an "Additional Matter" paragraph.

4. Predetermined objectives reporting

An audit opinion on Predetermined objectives reporting is not yet included in the audit report. Only material/significant findings noted on predetermined objectives are reported in the audit report. Management are however provided with a conclusion in the Management report of each entity.

5. Achievements of targets

An audit report paragraph is included under "Additional matters" when an entity has not achieved on more than 20% of its planned targets. This is highlighted to the users as clean administration does not necessarily imply service delivery.
Spending (Budget) of the entity should also be able to be directly linked to the performance of the entity.



Notes on the audit report

6. Audit committee report

Specific responsibilities regarding the annual report and AFS are set out in TR3.1.5, 3.1.9, and 3.1.13 and must disclose:

- membership of the committee in the annual report;
- whether or not a formal terms of reference (as defined in TR3.1.8) has been adopted and if so, whether the committee satisfied its responsibilities during the reporting period in terms thereof; □
- comment on the effectiveness of internal control; □
- comment the quality of in-year management and monthly/quarterly reports submitted in terms of the PFMA and the DoRA; and □
- comment on its evaluation of the annual financial statements.

Report of the Audit Committee - Structure

1. Introduction

The committee must provide commentary about submitting the report.

For example: "We are pleased to present our report for the financial year ended 31 March 2013."

2. Audit Committee Members and Attendance

Must state the number of times committee should meet and the number of meetings actually held during the year and should further state: The name of each member (incl. appointed or resigned) and the number of meetings attended by each member

3. Audit Committee Responsibility

Address the following with additional commentary:

- Its compliance/ non-compliance with section 38(1)(a) of the PFMA and Treasury Regulation 3.1;
- Adoption/non-adoption of the audit committee charter, and
- Its compliance/non-compliance with the audit committee charter

4. The effectiveness of internal control

Address the following with additional commentary:

- Efficiency and effectiveness of the system of internal control applied by the department,
- risk management is effectiveness, efficiency and transparency, King III Report on Corporate Governance requirements,

Report of the Audit Committee - Structure

4. The effectiveness of internal control (cont.)

- the Annual Financial Statements ,
- the management report of the Auditor-General, and
- the quality of in year management and monthly/quarterly reports submitted in terms of the PFMA and the Division of Revenue Act.

5. Evaluation of Financial Statements

Address the following with additional commentary:

- review and discussion of the audited / unaudited annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer,
- review of the Auditor-General's management report and management's response thereto,
- review of any changes in accounting policies and practices,
- review of the departments compliance with legal and regulatory provisions;
- review of the information on predetermined objectives to be included in the annual report; and
- review of any significant adjustments resulting from the audit,
- the quality and timeliness of the financial information availed to the audit committee for oversight purposes during the year such as interim financial statements.

Concurrence and non-concurrence of the Audit Committee with the Auditor-General's conclusions on the annual financial statements,

6. Internal audit

The Audit Committee to conclude on the effectiveness of the internal audit function and whether or not the internal audit function has addressed the risks pertinent to the department in its audit.

7. Auditor-General South Africa

Commentary on whether or not the Audit Committee has met with the AGSA to ensure that there are no unresolved issues.



Notes on the audit report

7. Internal control deficiencies

Significant findings relevant to the audit of the financial statements, annual performance report and compliance with laws and regulations are as a result of internal control deficiencies linked to an entity not having implemented the key controls below under the fundamentals of internal control.

Fundamentals of Internal Controls

Leadership

- Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity
- Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls
- Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored
- Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities
- Develop and monitor the implementation of action plans to address internal control deficiencies
- Establish an IT governance framework that supports and enables the business, delivers value and improves performance.

Financial and performance management

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
- Implement controls over daily and monthly processing and reconciling of transactions
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Fundamentals of Internal Controls

- Review and monitor compliance with applicable laws and regulations
- Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

- Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored
- Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively
- Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

8. SMART criteria

The following descriptions explain the SMART criterion:

- | | |
|--------------------|---|
| Specific: | The nature and required level of performance can be clearly identified. |
| Measurable: | The required performance can be measured. |
| Achievable: | The recommendation/action is realistic given existing capacity and timelines required for implementation. |
| Relevant: | The required performance (what needs to be done) is linked to the achievement of a goal which is in line with the mandate/objective |
| Time-bound: | The time period or deadline for delivery is specified |

