

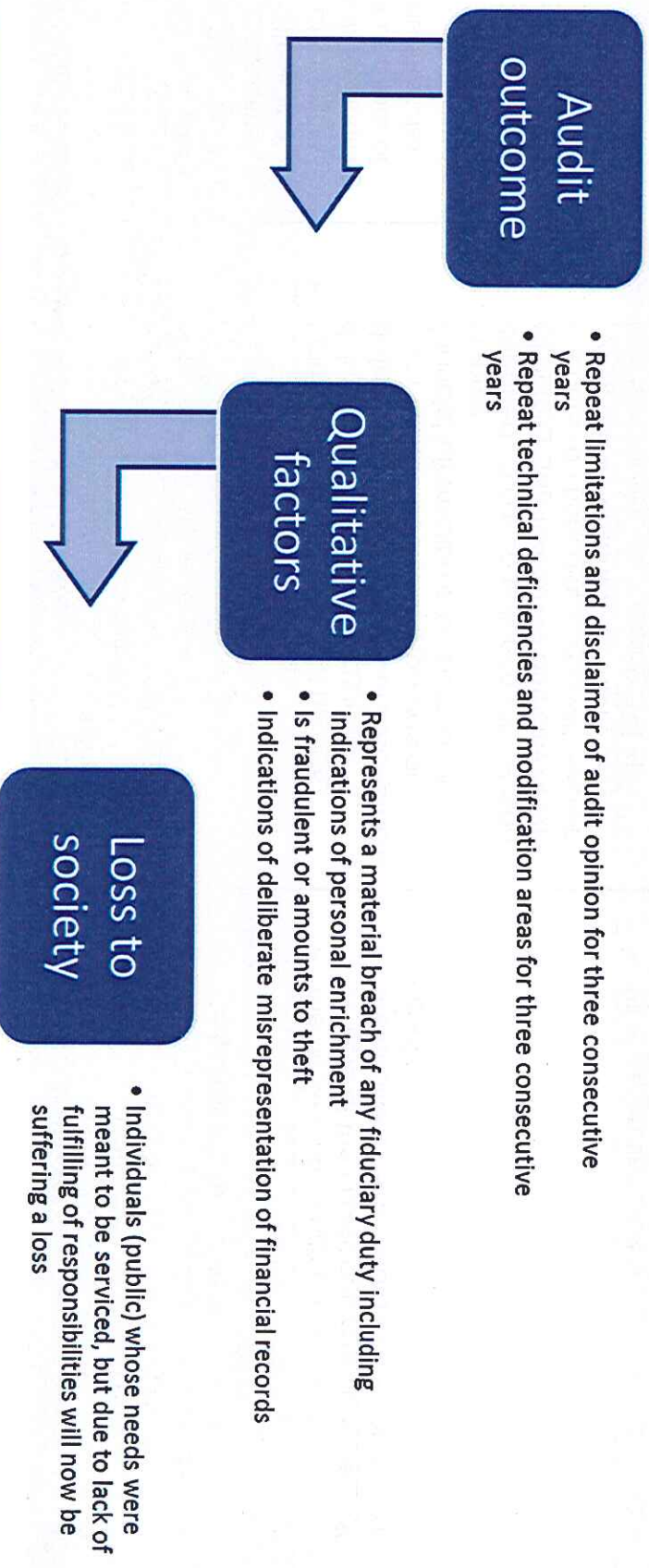


Criteria for the referral of undesirable audit outcomes for further investigation

Consideration of a standard definition

- Undesirable audit outcomes¹ mean any act or omission that causes, or is likely to cause, a loss of public resources or that redirects such resources away from its intended purpose or beneficiary.

Consideration of standard set of criteria



¹ Audit outcomes other than a clean audit



Auditing to build public confidence

Enhanced reporting triggers

Audit outcome	Qualitative factors	Loss to society
<p>1. The audit outcome in the <u>current</u> year and that of the <u>previous two</u> <u>audit cycles</u> were a <u>disclaimed</u> <u>audit</u> opinion on the <u>financial</u> statements <u>with</u> material findings on predetermined objectives and compliance with legislation.</p>	<ul style="list-style-type: none"> ➤ Reported on <u>financial misconduct</u> in terms of section 81 and 83 of the PFMA. ➤ Reported on <u>financial misconduct</u> in terms of section 171 of the MFMA. 	<ul style="list-style-type: none"> ➤ <u>UJFW expenditure</u> combined consists of <u>more</u> than <u>10%</u> of the auditee's total allocated budget for a particular financial year. ➤ There is an <u>increase</u> of UJFW expenditure from the previous financial year.
<p>2. The auditee <u>did not</u> submit its financial statements for auditing in the current year and that of the previous two audit cycles.</p>	<ul style="list-style-type: none"> ➤ Triggers should be <u>the lack of records, delays in the submission of financial statements</u> which becomes an acceptable norm, <u>lack of records or sabotage of</u> financial information in an intentional manner. ➤ Reported on <u>noncompliance</u> with section 65 of the PFMA (Executive authority duty). ➤ Reported on <u>noncompliance</u> with section 127 of MFMA (Executive authority duty). 	<ul style="list-style-type: none"> ➤ The auditee has a <u>primary</u> responsibility for one or more of the <u>priority</u> outcomes per the <u>MTSF</u>. ➤ The auditee is allocated a <u>DORA conditional grant</u>.
<p>3. The audit outcome in the current year and previous audit cycles were <u>modified</u> on the <u>completeness</u> of UJFW <u>expenditure</u> and had material <u>noncompliance</u> findings with legislation on the subject matters of expenditure management and procurement in the <u>last three</u> <u>audit cycles</u>.</p>	<ul style="list-style-type: none"> ➤ Reported <u>significant internal control</u> deficiencies in the procurement and <u>contract management unit</u> in the current and previous audit cycles. ➤ Reported <u>conflict of interest</u> findings on executive management, accounting officer or authority, mayor and councillor in the current and previous audit cycles. 	<ul style="list-style-type: none"> ➤ <u>UJFW expenditure</u> combined consists of <u>more</u> than <u>10%</u> of the auditee's total allocated budget for a particular financial year. ➤ <u>Monopolistic types of suppliers</u> that are linked and have sister companies providing an array of services, as the <u>risk of fraud is high</u>. (There is dependability on one/two suppliers who charge exorbitant rates).



Audit outcome	Qualitative factors	Loss to society
<p>4. The audit outcome in the current year and two previous audit cycles indicated an increase in <u>limitations of the same account balances over this period</u> and <u>UJFW expenditure which resulted in a modified audit opinion.</u></p>	<ul style="list-style-type: none"> ➤ Reported <u>investigations performed or in progress in the current and previous audit report which involves executive management and allegations of management override of controls in relation to the assets of the auditee and/or procurement and contract management.</u> 	<ul style="list-style-type: none"> ➤ Reported on <u>material losses due to instances where inventory or assets were destroyed, written off or misappropriated.</u> ➤ The <u>reported achievement of the auditee's predetermined objectives in the current and previous financial year were on average below 50%.</u>
<p>5. The audit outcome in the current year and two previous audit cycles indicated <u>material uncertainties of the financial sustainability/going concern of the auditee and reported material limitations on the reliability of the reported performance report.</u></p>	<ul style="list-style-type: none"> ➤ Reported <u>noncompliance with section 39 of the PFMA regarding the accounting officer's fiduciary duty around budget management.</u> ➤ Reported <u>noncompliance with section 51 of the PFMA regarding the accounting authority's fiduciary duty around evaluating all major capital projects and managing available working capital effectively and economically.</u> ➤ Reported <u>noncompliance with section 62 of the MFMA regarding the accounting officer's fiduciary duty around using the municipality's resources effectively, efficiently and economically.</u> 	<ul style="list-style-type: none"> ➤ The <u>financial sustainability of the auditee was dependent on additional transfer payments outside the normal MTEF allocations.</u> ➤ The <u>going concern was dependent on a government guarantee.</u> ➤ The <u>financial viability assessment concluded on an overall assessment of red meaning intervention required in the current and previous audit cycle.</u> ➤ The <u>reported achievement of the auditee's predetermined objectives in the current and previous financial year were on average below 50%.</u>
<p>6. Reported on <u>noncompliance on consequence management in the current and two previous audit reports.</u></p>	<ul style="list-style-type: none"> ➤ Reported <u>significant internal control deficiencies in the procurement and contract management unit in the current and previous audit cycles.</u> ➤ Reported <u>conflict of interest findings on executive management, accounting officer or authority, mayor and councillor in the current and previous audit cycles.</u> 	<ul style="list-style-type: none"> ➤ <u>UJFW expenditure combined consists of more than 10% of the auditee's total allocated budget for a particular financial year.</u> ➤ There is an <u>increase of UJFW expenditure from the previous financial year.</u>



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Audit outcome	Qualitative factors	Loss to society
<p>7. The general report concluded that a <u>technical deficiency</u> exist in <u>legislation or financial reporting frameworks</u> applicable to the public sector.</p>	<p>➤ The assessment of assurance by oversight structures are assessed as "<u>Provides limited or no assurance</u>" as a <u>result of the technical deficiency</u> reported.</p>	<p>➤ Reporting on <u>significant internal control</u> deficiencies on <u>key programmes</u> resulting in <u>loss/lack of service delivery impact</u>. The <u>significant internal control deficiency</u> should also be considered in the context of possible <u>cross-government impact</u>.</p>

Other points

- The referral of matters particularly in our political landscape will mean greater consequence management, but will also create stakeholder tension which needs to be tactfully managed. We cannot resign from engagements like the case in private practice where RIs are referred.
- The application of a referral type of approach will serve as a deterrent, but we need to caution as we could be open to legal battles in the future.
- ARD is working on a project to look into a reporting mechanism similar as a reportable irregularity as required by section 45 of the Auditing Profession Act, 2005 (Act 26 of 2005) (the APA).
- Triggers identified in NOCLAR should be considered for referral as well. Alternatively, one could provide for a general inclusion of matters determined by standards of auditing and ethics.
- The enhanced reporting triggers to be included as part of the regulations to the PAA and can therefore be amended from time to time.