

#### **4. Report of the Standing Committee on the Auditor-General on the Integrated Annual Report of the Auditor General of South Africa for the Financial Year 2017/18, dated 28 November 2018**

The Standing Committee on the Auditor-General (SCoAG), having considered the 2017/18 Integrated Annual Report of the Auditor-General of South Africa, reports as follows:

##### **1. Introduction**

- 1.1 The Auditor-General of South Africa (AGSA) is established in terms of Chapter 9 of the Constitution, and is a state institution supporting constitutional democracy. The Constitution guarantees the AGSA's independence, and requires that the institution operates in an impartial manner, and performs its functions without fear, favour or prejudice.
- 1.2 Section 10(3) of the Public Audit Act No 25 of 2004 (the Act) requires the National Assembly to provide for a mechanism to maintain oversight of the AGSA in terms of section 55(2)(b)(ii) of the Constitution. Accordingly, the Rules of the National Assembly provide for the establishment of the Standing Committee on the Auditor General (SCoAG). SCoAG is charged with assisting and protecting the AGSA in order for the latter to maintain its independence, impartiality, dignity and effectiveness.
- 1.3 According to section 10(1) and (2) of the Act, the AGSA must annually submit the following documents to the National Assembly: a report on the activities and performance; a report on overall control of the administration; and the AGSA's annual report, financial statements and the audit report on those statements. The AGSA tabled its 2017/18 Integrated Annual Report on 28 September 2018.

- 1.4 This report comprises four parts:
- Part A, dealing with performance information;
  - Part B, dealing with financial information;
  - Part C, dealing with the Audit Committee Report
  - Part D, containing SCoAG's observations and recommendations.

## **Part A**

### **2. Overview of non-financial performance**

The AGSA's commitments to Parliament are structured around four strategic goals: value-added auditing; viability; visibility; and vision and values.

#### **3.1 Value-Added Auditing**

3.1.1 Value-added auditing is aimed at providing audit-derived valuable insights to stakeholders regarding the status of their internal control and performance environment, accompanied by actionable recommendations which, if implemented, should result in visible improvement in public sector administration. The main purpose of value-adding auditing is to provide auditing that focuses on important areas of heightened risk.

3.1.2 In relation to its audit work, the AGSA reported that:

- 82 per cent of the 1 003 audits that were conducted were concluded within the legislated timeframes;
- 11 out of 21 Schedule 2 state-owned enterprises (SOE) were audited by AGSA, and that SOEs' audits were overseen to ensure consistency in the reporting to the National Assembly;
- it had achieved success in the integration of audit disciplines i.e. investigations staff conducted 259 audits; International Standards on Auditing (ISA) staff contributed at 298 risk

Level 2 and Level 3 auditees; regulatory auditors completed technology checks at 161 Level 1 auditees and 157 auditees benefited from performance auditing;

- the standalone report of the performance audit at the Eastern Cape Department of Human Settlements on sustainable human settlements was tabled, and raised a number of significant findings;
- the revised audit methodology was successfully implemented;
- a value chain approach for the health and education sector audits and some water infrastructure audits in the metropolitan municipalities was implemented; and
- the process of compiling the General Report was enhanced.

3.1.3 The AGSA reported an increase in auditees challenging its audit outcomes. In the period under review 56 audits were contested. The South African Revenue Service (SARS), and the Department of Water and Sanitation challenged their audit reports in court, but later abandoned those the litigation. The reasons for the contestations included disagreements about findings and technical consultations; concerns around the quality of the audit teams; and dissatisfaction about audits that were not clean.

3.1.4 With regard to continuously improving the technical quality of its audits, the AGSA reported that the Quality Assessment Committee, which is chaired by the Auditor-General has subjected 63 audit files to a post-issuance quality review. Subsequently, the AGSA obtained an 83 per cent compliance rate with quality standards against the set target of 80 to 90 per cent. Further, the AGSA has been selected to lead a peer review of Canada's Office of the Auditor-General. The experience the AGSA would gain from the review of that office's policies and practices would be used to benchmark its own practices.

### **3.2 Visibility for Impact**

- 3.2.1 This objective structures the AGSA's engagement programmes to encourage and enable the required improvements in the public sector i.e. to encourage stakeholders to implement its recommendations.
- 3.2.2 In the period under review the AGSA held 2 783 meetings with various stakeholders. Interactions with portfolio committees were intensified to advocate for the incorporation of the AGSA's recommendations in committee resolutions, to share observations made during oversight visits and to assist SCOPA to use AGSA's information for oversight purposes. The Association of Public Accounts Committees (APAC) capacity-building sessions that were held focussed on sector reports, and unauthorised, irregular, and fruitless and wasteful expenditure.
- 3.2.3 Changes in leadership impacted negatively on the continuity and implementation of the commitments by auditees to address the root causes of poor audit outcomes, and stakeholder relationships.

#### *Status of Records Review*

- 3.2.3 The AGSA developed and piloted the status of records and commitments review programme in 2016/17. The Status of Records Review (SORR) is the AGSA's flagship engagement programme and assists accounting officers to improve or sustain audit outcomes. The SORR also empowers executive leadership to improve oversight of auditees. Implementation commenced in May 2017 and will be rolled out over 22 months.
- 3.2.4 At the end of March 2018, the AGSA had succeeded in achieving a 54 per cent implementation rate of the SORR. The project has allowed a deeper understanding of auditees, which has resulted in more focused and meaningful engagements with stakeholders.

3.2.5 Although the majority of stakeholders have welcomed the initiative, some—typically in those environments from which ‘pushbacks’ have indicated that the process was cumbersome. The AGSA will engage those auditees to find alternative ways of performing the reviews.

#### *Engagements with the public*

3.2.6 In the period under review the AGSA reintroduced provincial media briefings. Social media platforms were used to highlight engagements with universities, professional organisations and international programmes.

#### *Stakeholder Feedback*

3.2.7 The AGSA set out to have 70 to 80 per cent of its stakeholders view its audit work as adding value to the achievement of its mandate, and achieved 83 per cent.

3.2.8 The target for stakeholders who viewed the AGSA’s engagements as meaningful and of a high quality was set between 65 and 75 per cent. The AGSA achieved 83 per cent in terms of this target.

3.2.9 In terms of citizens’ opinion, the AGSA targeted that 70 to 80 per cent of citizens should have a favourable opinion of the institution. The target was measured in terms of non-constitutional stakeholders’ opinion in the following areas: understanding of the AGSA’s role and mandate; views on the AGSA’s relevance; views on the simplicity of audit reports; and understanding of the role of the public in holding government accountable. This target was exceeded by 8 per cent i.e. 88 per cent thought favourably of the AGSA.

3.2.10 More than 80 per cent of ministries, portfolio committees and public accounts committees highlighted the AGSA’s effectiveness as far as supporting them to deliver on their obligations, and considered the AGSA’s officials well-prepared and knowledgeable.

3.2.11 90 per cent of media, civil society organisations, government communicators, institutions of higher learning and professional bodies understood the role and mandate of the AGSA to the extent that they were able to reflect on its relevance. They agreed that the AGSA would not be able to contribute to better governance and accountability if it not did have the powers to enforce consequences.

#### *Public Audit Amendment project*

3.2.12 SCoAG informed the National Assembly of its intention to amend the Act in November 2017. The AGSA consulted broadly before and during the processing of the amendments. These consultations included meetings with the SCoAG, the Minister of Justice and Constitutional Development, and various professional bodies.

### **3.3 Viability**

3.3.1 This objective focusses on the AGSA's internal workings, and is aimed at ensuring that the organisation was well-resourced. It allowed for the creation of an enabling legal framework; independent financial resources; and the required skills, competencies and culture to execute its mandate economically, efficiently and effectively.

#### *Financial viability*

3.3.2 The organisation's financial viability is based on sound financial principles, strict cash flow management and strong internal controls. In the period under review, the AGSA increased its actual revenue by R3.2 million or 9 per cent. However, slow economic growth and ratings downgrades in 2017/18 impacted negatively on the receipt of audit fees.

- 3.3.2 The AGSA had set-out to accumulate a surplus of between 1.0 to 4.0 per cent. At the end of the financial year they had succeeded in accumulating a net surplus of 2.7 per cent. The target for debt collection was set at between 98 to 100 per cent of national business units, but was not met: business units only succeeded in collecting 97 per cent. Provincially, business units set out to collect 75 to 90 per cent of outstanding debt and succeeded in collecting 86 per cent.
- 3.3.3 At the end of the financial year the AGSA's cash balance stood at R664 million, R111 million more than at the end of 2016/17. Although the safety margin of 2,14 months to which this cash balance translates is less than the organisation's risk tolerance level. The AGSA is confident that the various measures they have introduced will narrow that gap even more.

#### *Human Capital Performance*

- 3.3.4 At the end of the financial year the AGSA's staff complement stood at 3 459, including trainee auditors and short term contracts. The 0,69 per cent reduction was evidence that efforts to control and manage the staff establishment have borne fruit.
- 3.3.5 Of the 1 085 appointments made in 2017/18, 541 were internal. Of the 544 external appointments, 371 were SAICA trainee auditors, SAICA academic trainees and IT trainees. These statistics demonstrate the AGSA's commitment to growing internal resources as part of its talent management process and succession planning.
- 3.3.6 The number of AGSA officials who were members of professional bodies grew from 980 in 2015 to 1 184 in 2018. Of this number, 622 were members of the Institute of Chartered Accountants.
- 3.3.7 The AGSA appointed 20 academic trainees through its Trainee Auditor Scheme i.e. 65 per cent more than in the previous year. In addition, the Thuthuka project sponsored 75 students and placed 67 CTA (Certificate in the Theory of Accounting) students. The AGSA awarded external bursaries to the amount of R11,2 million in support of 130 students.

3.3.8 The AGSA further reported that:

- 218 of the 382 candidates who wrote ITC (Initial Test of Competence) exams were successful;
- 150 of the 224 candidates who wrote APC (Assessment of Professional Competence) exam were successful; and
- The CTA 1 pass rate improved from 6 to 21 per cent; while the CTA 2 pass rate stayed stable at 15 per cent.

#### *Culture and Engagement benchmarks*

3.3.9 At the time of reporting, the AGSA's employment engagement score was 46 per cent, 13 per cent lower than the continental benchmark. The culture survey results revealed that the AGSA was at 477 versus the desired optimum culture of 778.

#### *Systems and Tools*

3.3.10 The AGSA reports that the general development of new applications has been slow as a result of insufficient skills. Although most of the ICT-related projects were implemented, all targets were not met:

- the TeamMate upgrade was successful, and no significant loss of audit time and revenue occurred during the upgrade; and
- the ERP upgrade was fairly successful, and Phase 2 was in progress at the time of reporting.

### **3.4 Vision and values**

3.4.1 The AGSA aims to, through its work and behaviour, continually demonstrate that clean administration and transformation are achievable. The AGSA maintained its clean audit in 2017/18.

*Trainee Auditor Scheme*

3.4.2 To achieve the above, the AGSA believes in developing its human capital. It has the largest trainee auditor scheme (TAS) in the country. The scheme focuses on professionalism and assisting qualifying black chartered accountants thereby supporting transformation. Selected universities and the Thuthuka Bursary feed into its trainee auditor scheme. The TAS is central to the AGSA's business model, and it is increasing the number of trainee auditors who are Certified Accountant Technician (CAT) trainee auditors. In the period under review 371 trainee auditors were recruited, 59 per cent were CAT-qualified.

*Developing human capital*

3.4.3 The AGSA delivered learning and development programmes to build capacity to implement the revised audit methodology and training initiatives which were aimed at building soft skills and competencies. The personal improvement target was set between 80 and 90 per cent, and the AGSA succeeded in achieving 83 per cent.

*Transformation*

3.4.4 The AGSA retained Level 2 status in terms of its Broad-Based Black Economic Empowerment (B-BBEE) contribution. It has maintained this status over the last four financial years.

3.4.5 The policies that were reviewed in 2017/18 were strengthened towards transformation and therefore resulted in a positive impact as far as the implementation of B-BBEE. The AGSA's business units achieved varying B-BBEE levels:

- six business units achieved Level 1 i.e. 100 per cent of the B-BBEE contribution;
- sixteen business units achieved Level 2 status i.e. between 95 and 99.9 per cent of the B-BBEE contribution;

- seven business units partially achieved Level 3 status i.e. between 90 and 94.99 per cent of the B-BBEE contribution; and
- two business units under-achieved, only reaching Level 4 status i.e. between 75 and 89.99 per cent of the B-BBEE contribution.

3.4.6 The AGSA's outsourced audit work to the amount of R575 million. Of that amount, R402 million or 70 per cent was outsourced to firms with B-BBEE levels 1 and 2 ratings. In the previous year firms with that rating received 78 per cent of the outsourced audit work. Of the amount spent on outsourced work, 44 per cent or R255 million went to firms that were 51 per cent black-owned. This represented an 8 per cent increase on the previous year. R109 million went towards firms that were owned by black women i.e. a 10 per cent increase on the previous year.

#### *Internal control environment*

3.4.7 The AGSA's internal control environment remained adequate and partially effective. The partial effectiveness conclusion is based largely on the outcome of the annual written assessment provided by the internal auditors. The internal auditors identified weaknesses within the IT environment, especially relating to security controls. The follow-up review that was performed at the end of the financial year concluded that based on corrective actions taken the risk rating improved from high to medium.

#### *Ethics*

3.4.8 The Ethics Register, is the AGSA's conflict of interest system. It is a proactive mechanism for employees to declare their interests, and also allows for the annual declaration to confirm their individual compliance with the ethical and the fundamental principles of the organisation.

- 3.4.9 The AGSA amended its ethics policy in the period under review. The most significant changes included the implementation of a cooling-off period for former AGSA's employees who join auditees, as well as more explicit pronouncements on prohibited and permitted activities in relation to maintaining political neutrality.

## **Part B**

### **4. Financial Information**

#### **4.1 Highlights**

- 4.1.1 For the 2017/18 financial year, the AGSA recorded revenue of R3 247 million. This represents an approximately 9 percent increase compared to the previous financial year.
- 4.1.2 The R15 million deficit reported at the end of 2016/17 was driven by the investment costs arising from Audit Methodology Programme (AMP) coupled with catch-up projects. In 2017/18 however the AGSA has managed to consolidate its resources and achieved a surplus of R67 million. This was achieved as a result of a concerted effort to utilise resources efficiently, cost optimisation tactics and stringent management of working capital.
- 4.1.3 The AGSA's productivity rate of 60 per cent should be noted. This was considered a major milestone, especially in light of the full implementation of the revised audit methodology which brought about savings in hours. The revised audit methodology and 'pooling' tactics resulted in the AGSA 'taking back' some of its audits thereby reducing the contract work creditors by 2 per cent to 18 per cent. This resulted in a year-on-year increase in revenue of 9 per cent.
- 4.1.4 The AGSA contributed R72 million to the fiscus because auditees' budgetary constraints led to unbilled hours.

## **4.2 Balance sheet**

- 4.2.1 The balance sheet reveals that due to an increase in its assets and reserves, and a reduction in its long and short-term liabilities, the AGSA was able to meet its long and short-term obligations. This means that the AGSA had a healthy financial position.
- 4.2.2 The AGSA's total assets (both non-current and current) amounted to R1.413 billion, increasing by R54 million. The AGSA's total liabilities amounted to R560 million in 2018, decreasing by R16.2 million.
- 4.2.3 The reserves comprise general reserves, special and audit services reserves, and accumulated surplus or deficit. The reserves came to a favourable balance of R853.4 million in 2018, increasing by R67.4 million. According to the balance sheet the general reserves showed an increase at 31 March 2018 despite the fact that the AGSA reported a deficit at the end of the previous financial year.

## **4.3 Debt book**

- 4.3.1 The AGSA's debt book continued to perform well, mainly driven by the R150 million settlement agreement with the National Treasury, as well as enhanced collection strategies. The year-end provision for impairment decreased from R177 million to R87 million. The National Treasury provided R150 million to liquidate the long-outstanding debts owed by the *1 per cent* and financially distressed municipalities.
- 4.3.2 As at 31 March 2018 the debt book stood at R650 million, R156 million less than the previous year. In addition, local government debt of decreased by R142 million to R249 million at the end of the financial year.
- 4.3.3 Altogether the AGSA has collected R274 million through ring-fencing agreements, R91 million of which was collected in the period under review. The AGSA would continue to use ring-fencing and litigation to ensure the payment of outstanding debt.

#### **4.4 Cash balance**

4.4.1 The AGSA's cash balance increased from R553 million in 2016/17 to R664 million in 2017/18. The encouraging results are attributed to concerted efforts to manage financial performance, collections and working capital.

4.4.2 The AGSA succeeded in collection R73 million through litigation, R10 million more than in the previous year. The litigation strategy has to date resulted in the collection of R244 million. The cost of litigation has amounted to R1,4 million.

### **Part C**

#### **5. Audit Committee Report**

##### **5.1 Purpose and mandate**

5.1.1 Section 40(6) of the Act requires the AGSA's audit committee to:

- comment on the effectiveness of internal control; and its evaluation of the AGSA's annual financial statements; and
- communicate any concerns it may have to the Auditor-General, the external auditor and the oversight mechanism.

##### **5.2 Overview of activities**

###### *Internal Audit*

5.2.1 In terms of the AGSA's internal audit, the audit committee reviewed:

- the purpose, position and independence of the internal audit function, resulting in amendment to the AGSA's internal audit charter;
- internal audit reports with findings, including noting areas requiring improvement and mitigations by management, and tracked clearance report items;

- the annual internal audit plan and approved it and the internal audit fee; and
- quality assurance done by the Institute of Internal Auditors, including action plans for improvement.

*IT environment*

5.2.2 The audit committee has concluded that the AGSA's internal control was adequate and partially effective. This conclusion was based largely on the outcome of the annual written assessment provided by the internal auditors. The internal auditors identified weaknesses in the IT environment, especially in relation to security controls which resulted in a high risk rating. The follow-up review that was conducted at the end of the financial year concluded that the corrective measures had borne fruit. Consequently, the risk rating had improved to the medium by the end of the financial year.

5.2.3 IT security risks exposed the AGSA to attacks on its computer and network systems by cybercriminals. To manage the risk, the AGSA will appoint a Senior Manager: IT Security as of 1 December 2018. In addition, the AGSA was in the process of sourcing a supplier to provide a security information event monitoring solution, and to develop and implement formal security standards for all servers. The solution should result in the AGSA being able to detect, prioritise and remediate vulnerabilities and misconfigurations. At the time of reporting these interventions were near completion.

5.2.4 Weaknesses in 'IT General Controls', 'Human Capital (Application controls)' and 'Payroll (Application controls)' could potentially result in the misalignment of IT objectives against business objectives, and inefficiencies within business processes. In response to these challenges the AGSA has developed an IT strategy which, at the time of reporting, was under consideration and awaiting approval. Once implemented, it should result in an IT function that better supports the AGSA's business. At the time of reporting the interventions were in the early stages of completion.

*Risk management*

5.2.5 In the period under review the audit committee:

- reviewed and approved the revised Risk Management Framework, including the risk log, risk appetite and combined assurance report;
- reviewed and approved the strategic risk profile, and monitored the organisation's performance in relation to the assessed strategic risks; and
- deliberated on the inherent risks, mitigations put in place and actions undertaken by the AGSA to manage the risks to a level where the residual risks were considered acceptable

*Annual Financial Statements*

5.2.6 In the period under review the Audit Committee:

- reviewed the management representation letter relating to financial statements;
- satisfied itself that the AGSA will maintain the ability to trade as a going concern for the 2018/19 financial year;
- considered the appropriateness of the accounting policies and whether the annual financial statements fairly present the financial position, the result of operations, changes in equity and cash flow of the organisation in all material respects; and
- reviewed the external auditor's audit report on the financial statements, key performance indicators and predetermined objectives.

*Assessment of the CFO and the Finance Function*

5.2.7 The Audit Committee considered and reviewed the performance and expertise of the Chief Financial Officer and finance function, and was satisfied that the resources and expertise within the financial function were adequate and appropriate to fulfill its requirements.

*Appointment of the External Auditor*

5.2.8 Section 39(1) of the Act requires that the oversight mechanism must annually appoint an independent external auditor to audit the accounts, financial statements and financial management and performance information of the AGSA. The Audit Committee facilitates the external auditor's appointment through a fair, equitable, transparent and cost effective process that is in line with the AGSA's transformation agenda.

5.2.9 Accordingly, *Crowe Jhb* (formerly known as *Horwath Leveton Boner*) was appointed in January 2018 for a period of five years, and subject to SCoAG's annual confirmation of the appointment; and the tabling of a transformation plan between the firm and the Audit Committee by no later than 30 June 2018.

5.2.10 The Audit Committee reviewed and approved:

- the statement and presentations on the external auditor's independence at all stages of the audit;
- the external audit plan, proposed audit approach based on audit risks identified and the proposed materiality level;
- the budgeted external audit fee for the reporting period, including any non-audit work; and
- the performance of the external auditor and the quality of the external audit process.

Based on the outcome of the above-mentioned review, the Audit Committee recommended that SCoAG approve the re-appointment of the external auditor.

## **Part D**

### **6.1 Observations**

#### *Weaknesses in the IT environment*

6.1.1 SCoAG notes that the AGSA has begun to make progress in addressing the shortcomings the internal audit has identified in its IT environment and referred to in paragraphs 5.2.2. to 5.2.4. We note that several other interventions were underway to fully address the weaknesses.

#### *Contestation of audit findings*

6.1.2 SCoAG notes with concern that there were 56 instances in which the AGSA's findings were contested by auditees. Of particular concern is the resources consumed when the AGSA is forced to defend its findings in challenges that are almost always frivolous. In addition, the contestations have the potential to damage the AGSA's reputation in the public.

#### *Status of Records Reviews*

6.1.3 SCoAG commends the AGSA for the SORR project, which aims to assist accounting officers to achieve improved audit outcomes. Every effort should be made to encourage accounting officers to take full advantage of these reviews.

#### *Impact of the termination of contracts with certain audit firms*

6.1.4 SCoAG notes that the AGSA's workload has increased since it terminated its contracts with *KPMG* and *Nkonki Inc* towards the end of 2017. The termination resulted in the AGSA having to take on board the auditees such as Denel and the Development Bank of South Africa (DBSA). SCoAG notes that short to medium term interventions have been put in place to manage the situation, and that

the AGSA will have to increase its resources, especially in light of the demands the audits of state-owned enterprises will place on them.

#### *External Auditor*

- 6.1.5 SCoAG notes the Audit Committee's recommendation that the re-appointment of the External Auditor, *Crowe Jhb*, should be approved. In December 2017 we recommended that the external auditors be appointed on condition that they present us with a transformation plan by 30 June 2018. The Audit Committee did not meet that deadline and submitted the plan—which did not provide a clear implementation strategy—in July only.
- 6.1.6 The Audit Committee has since tabled the external auditor's detailed implementation plan, according to which the firm will reach a Level 4 B-BBEE rating by the end of February 2019, and a Level 3 rating by the end of February 2021.

#### *Surplus*

- 6.1.7 For the financial year ending 31 March 2017, the AGSA recorded a surplus of R67,3 million, against the R67.6 million that was budgeted for in this financial period. The surplus generated in the period under review represents 2.7 per cent of the total audit income generated for this period, against a budgeted percentage total audit income of 2,06 per cent. This shows a stark contrast to the deficit recorded in the previous financial year. This significant improvement was due cost containment measures adopted by AGSA as well as the institution's good performance in trading.
- 6.1.8 Importantly, section 38(4) of the Act empowers the AGSA to retain any surplus or a portion thereof, following consultation with the National Treasury and after approval by SCoAG. If approved, such surplus is used for working capital and general reserve requirements. The portion of a surplus not retained is paid back into the National Revenue Fund.

6.1.9 In the previous financial years, SCoAG in its consideration of the Integrated Annual Report, recommended that the AGSA should retain the surplus generated in those years as General Reserves, provided the AGSA provided definitive plans, with timeframes, as to how the net surplus would be utilised. SCoAG has noted the AGSA's submission of the plans with regard to how the surplus accumulated by the end of 2017/18 would be utilised.

### *Performance Audits*

6.1.10 In 2016/17 the AGSA reported that it had employed 24 permanent experts, including experts in health, education and infrastructure. In 2017/18, the AGSA succeeded in tabling outcomes of the performance audit at the Eastern Cape Department of Human Settlements.

6.1.11 The Public Audit Amendment Act 25 of 2018 mandates the Auditor-General to conduct performance audits. The AGSA should therefore continue to build its capacity to perform performance audits.

## **6.2 Recommendations**

6.2.1 SCoAG should be provided with quarterly updates on progress made in addressing the IT weaknesses referred to in paragraphs 5.2.2. to 5.2.4 above.

6.2.2 SCoAG believes that the contestation of the AGSA's audit findings which appear to have taken an increasingly violent turn, requires the intervention of the ministers of Cooperative Governance and Traditional Affairs, Police and Finance, and the Auditor-General. Therefore, SCoAG recommends that the relevant authorities develop security and other interventions that will ensure that officials, especially at local government level, understand and appreciate the role of the AGSA. In addition, any interference with the AGSA's audit teams should be met with decisive action from the relevant authorities.

- 6.2.3 SCoAG notes that auditees who have typically contested the AGSA's findings, have also registered dissatisfaction with the SORRs. The Auditor-General should at the finalisation of the SORR project present us with a full report detailing the outcome, and in particular the details of those auditees who have rejected the intervention.
- 6.2.4 SCoAG notes that the termination of the contracts with *KPMG* and *Nkonki Inc* has placed greater strain on the AGSA's resources. The Auditor-General should keep us abreast of developments in this regard.
- 6.2.5 SCoAG notes the external auditor's implementation strategy and recommends that the contract be renewed for a further 12 months, on condition that the Audit Committee, as of 31 January 2019, provide quarterly progress reports in this regard.
- 6.2.6 While the AGSA's efforts to create capacity for performance auditing are laudable, the SCoAG believes that much more capacity is required to ensure that performance audits take place across all government institutions. To this end, SCoAG recommends that all available, and legal avenues should be explored to ensure that the AGSA is provided with financial resources to allow for expansion in this regard.
- 6.2.7 The SCoAG recommends that the AGSA retains the R67,3 million surplus generated in the 2017/18 financial year.

### **Report to be considered**