



AUDITOR-GENERAL
SOUTH AFRICA

AUDIT COMMITTEE REPORT

Presentation to the
Standing Committee on the Auditor-General

11 October 2019

AGENDA



- Purpose and mandate
- Audit committee composition and members
- Overview of activities
- Key focus areas:
 - Standing Committee of the Auditor-General (SCoAG)
 - Annual financial statements
 - Internal audit
 - External audit
 - Risk management
 - The adequacy and the effectiveness of internal controls
 - Assessment of the finance function and the chief financial officer
- Conclusion and recommendations



PURPOSE AND MANDATE



- Report required from audit committee:
 - In compliance with section 40(6) of the Public Audit Act (Act No. 25 of 2004) (PAA)
 - In compliance with the King Code of Governance (King IV)

- Mandate of the audit committee:
 - Fulfil duties as set out in the act and its terms of reference
 - Provide assistance to the DAG in fulfilling her responsibilities as the accounting officer of the organisation



COMPOSITION AND MEMBERS



- Composition of committee:
 - Four members, previously appointed in terms of section 40 of the PAA by the DAG
 - In terms of the PAA amendments, the AG will in future appoint the members

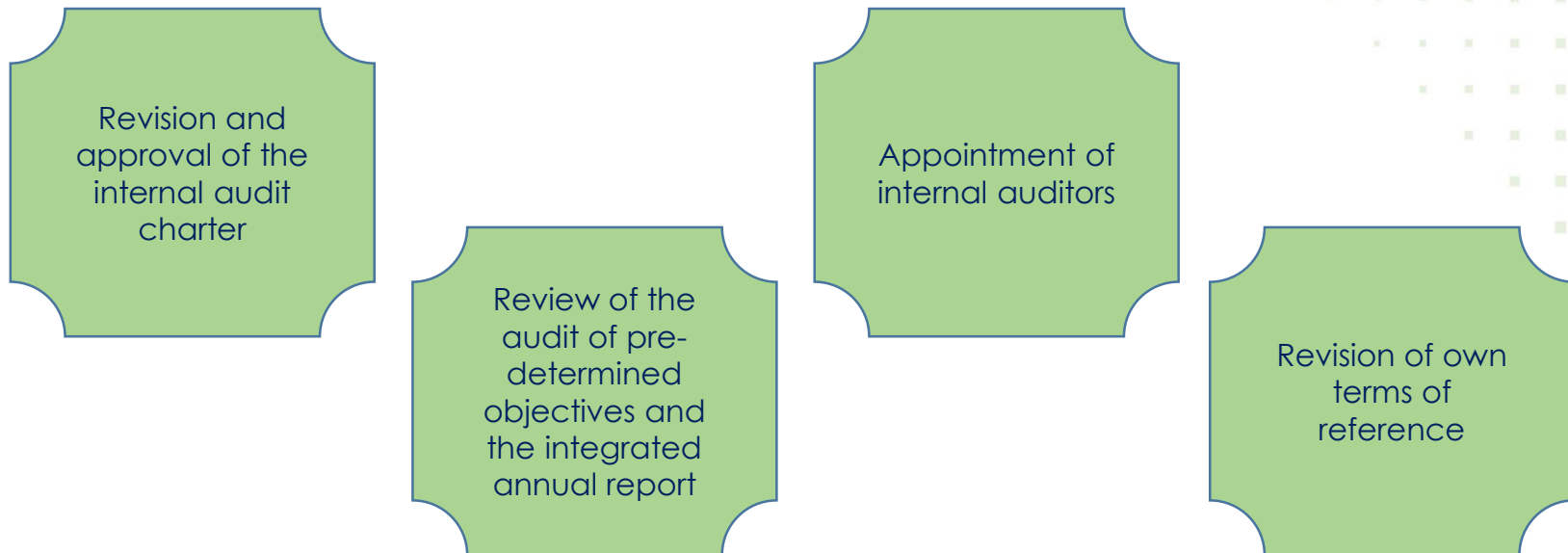
- Members:
 - Mr John Biesman-Simons, CA(SA), BCom, CTA, appointed chairperson on 1 November 2017
 - Ms Carol Roskrug-Cele, BSc Hons, MSc, MBL (Governance Leadership)
 - Ms Grathel Motau, CA(SA), BCompt, BCompt Hon, MPhil (Development Finance)
 - Mr Cedrick Mampuru, CA(SA) BCompt (Hons) / Certificate in Theory of Accounting (CTA), BCom (Acc), Higher Diploma in Taxation Law



OVERVIEW OF ACTIVITIES



Key audit committee activities undertaken during the performance period



OVERVIEW OF ACTIVITIES *(continued)*



Key audit committee activities undertaken during the performance period

Revision and
approval of the
strategic risk
profile

Examination
and review of
the annual
financial
statements

Guided the
establishment of
a whistle-
blowing
mechanism

KEY FOCUS AREAS



SCoAG

- Met with SCoAG to present the 2017-18 audit committee report
- Monitored progress of the appointed external auditors' (Crowe's) transformation journey. Their B-BBEE score improved from level 7 to level 4



KEY FOCUS AREAS *(continued)*



Evaluation of the annual financial statements and integrated annual report

- The committee considered and reviewed the following:
 - Going concern
 - Accounting treatments, significant unusual transactions and accounting judgements
 - Appropriateness of accounting policies adopted and any changes
 - Internal financial controls
 - Compliance with the IFRS and PAA
 - Fair representation of the annual financial statements
 - Considered the overs/unders schedule of uncorrected misstatements presented by the external auditors attached to the management representation letter, which is signed by the DAG on the recommendation of the audit committee



KEY FOCUS AREAS *(continued)*



Evaluation of the annual financial statements and integrated annual report (continued)

- The committee considered and reviewed the following:
 - Management's representation letter
 - Considered the overs/unders schedule of uncorrected misstatements presented by the external auditors attached to the management representation letter that is signed by the DAG on the recommendation of the audit committee
 - Reviewed the report of the external auditor and considered the accounting policies, key audits, if any, and the summary of uncorrected misstatements

- **Concluded by recommending to the DAG that she sign the integrated annual report and the accompanying financial statements of the AGSA's financial performance for the year ended 31 March 2019**



KEY FOCUS AREAS *(continued)*



Internal audit

- The audit committee --
 - reviewed and approved the internal audit strategy
 - reviewed and approved the annual internal audit plan, budgeted fee and terms of engagement
 - reviewed and approved the revised internal audit charter
 - evaluated the independence, effectiveness and performance of the internal audit function and the chief audit executive
 - received assurance that adequate and effective system of internal control and risk management is being maintained
 - reviewed and approved the organisation's information technology environment
- **The internal auditors concluded that while certain control procedures need improvement, particularly in the area of information technology controls, the internal controls in place are largely adequate and effective with a risk rating of “medium”**



KEY FOCUS AREAS *(continued)*



Internal audit

- Met separately with the internal auditors, without management present, to ensure that the quality, credibility and effectiveness of the internal audit process is maintained at all times and that no pressure was put on them to suppress audit findings.
- The tenure of the current internal auditors (SNG-GrantThornton) comes to an end with the presentation of this report.



KEY FOCUS AREAS *(continued)*



Internal audit

- The committee initiated a procurement process that led to the appointment of Ngubane & Co. as the outsourced internal auditors for a period of 3 years, commencing with the year ending 31 March 2020.
- Ngubane & Co. is a black-owned multi-disciplinary professional services firm. The firm was established in 1995 as an accounting and auditing firm and has evolved into its current form over the years.

INTRODUCING NGUBANE & CO.



Highlights about Ngubane & Co.

- In existence for 24 years
- JSE-accredited firm
- Over 300 professional staff members
- Extensive external and internal audit, forensic audit and consulting experience
- 16 directors with strong audit, consulting, asset management and forensics skills
- Offices in 6 of the 9 provinces

Participation in professional bodies



- Gauteng
- KwaZulu-Natal
- North West
- Limpopo
- Mpumalanga
- Northern Cape



AUDITOR-GENERAL
SOUTH AFRICA

INTRODUCING NGUBANE & CO. *(continued)*



Ngubane & Co. is a black-owned multi-disciplinary professional services firm. The firm was established in 1995 as an accounting and auditing firm and has evolved into its current form over the years.

The company is a level 1 B-BBEE, and 100% of its directors are Black with 60% black female owned.

Ngubane & Co. has 16 directors and more than 300 employees. The directors and professional staff members have diverse skills, competencies and qualifications, and include Certified Internal Auditors, Chartered Accountants, Registered Auditors, Certified Ethics Officers, etc. The directors and employees participate in the following professional membership bodies: Institute of Internal Auditors (IIA), Institute of Risk Management of South Africa (IRMSA), Institute of Directors in South African Institute of Chartered Accountants (Saica), Institute of Directors in South Africa (IoDSA), Association of Certified Fraud Examiners (ACFE) and Ethics Institute of South Africa (EISA).



INTRODUCING NGUBANE & CO. *(continued)*



KEY FOCUS AREAS



External audit

- The audit committee--
 - reviewed and approved the annual audit plan, including the proposed audit approach, audit risks, budgeted fee and terms of engagement
 - considered whether non-audit services (none this year) are evaluated and do not compromise the independence of the external auditor
 - met separately with the external auditors, without management present, to ensure that the quality, credibility and effectiveness of the external audit process is maintained at all times



KEY FOCUS AREAS *(continued)*



External audit

- The audit committee is satisfied that the external auditor, Crowe, is independent and not conflicted, as required by section 39(2)(c) of the PAA
- Recommendation by the audit committee to SCoAG:

In accordance with its terms of reference, the audit committee recommends that SCoAG reappoints Crowe as the external auditor in accordance with section 39(1) of the PAA, for the next performance year

KEY FOCUS AREAS



Risk management and the effectiveness of internal controls

- The audit committee had oversight of--
 - the strategic risks of the organisation
 - risk management function and the risk log
 - risk appetite statement and monitoring of the AGSA's performance in relation to the appetite measures defined
 - combined assurance model and matrix
 - issues raised and corrective action committed to by management to address the inherent risks identified
- **The committee considered the information presented to it. Nothing came to its attention that would alter the conclusion that, while certain control procedures need improvement, the internal controls in place are largely adequate and effective, with an overall risk rating of “medium”.**



KEY FOCUS AREAS



Assessment of the chief financial officer (CFO) and the finance function

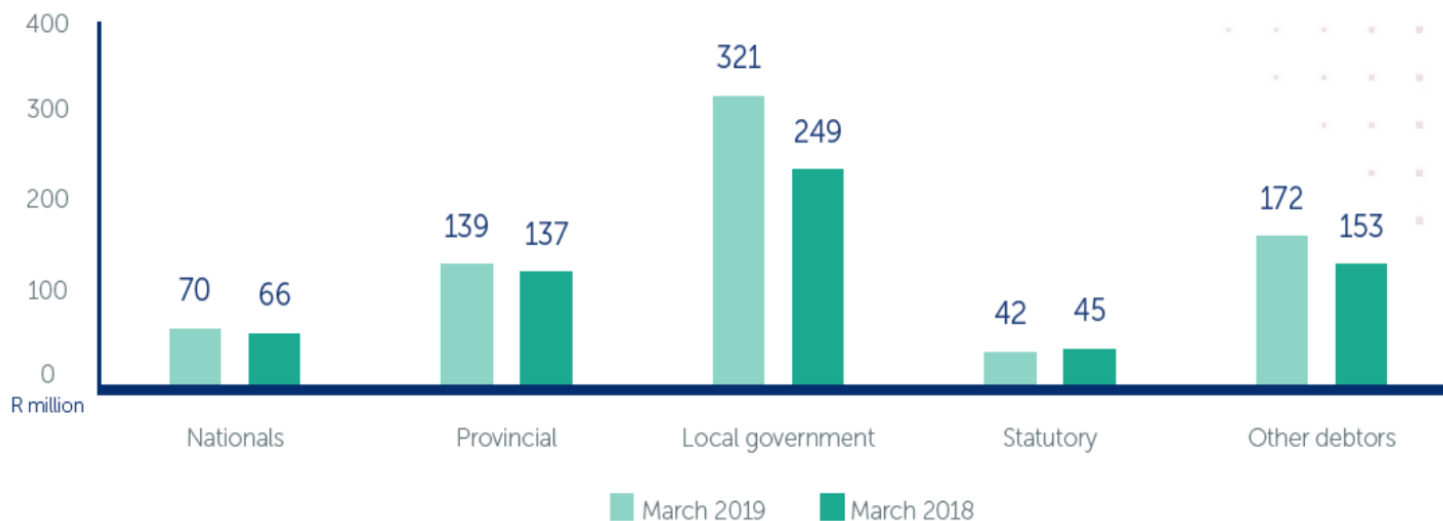
- The committee considered and reviewed the performance and expertise of the CFO and the finance function
- The committee is satisfied that the CFO, together with the resources and expertise within the finance function, are suitably qualified and have the requisite skills and experience to fulfil their roles in the AGSA

CONCLUSION

Having received, evaluated and overseen the work of both the internal and external auditors, as well as considered reports presented by management, **the committee recommends that the DAG sign the integrated annual report and the accompanying annual financial statements.**



LOCAL GOVERNMENT DEBT



Debtors balance as at 31 March 2019 by category

The continued increase in local government indebtedness to the AGSA is of concern to the audit committee. SCoAG is requested to provide further support to the AGSA in its negotiations with the National Treasury, in this regard."

FINANCIAL PERFORMANCE HIGHLIGHTS: 2018-19



Favourable cash balance of R723 million (2018: R664 million), including short-term investments, with a margin of safety of 2,7 months. This is the highest since this measure was introduced and is close to the AGSA's target of 3 months.



The President's assent to the Public Audit Excess Fee Act, 2019 is another step closer to funding excess fees of financially distressed auditees as a direct charge against the National Revenue Fund. The AGSA will be able to charge the NRF from 1 April 2020, as proclaimed by the Minister of Finance.

RECOMMENDATIONS:



- The audit committee recommends to SCoAG:
 - that they take note of the integrated annual report (including the annual financial statements), as tabled
 - approve the re-appointment of the external auditor, Crowe Jhb



Questions

