



AUDITOR-GENERAL
SOUTH AFRICA

Presentation of the audit committee report to the Standing Committee on the Auditor-General

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12 November 2021



AGENDA

1. Introduction
2. Committee governance
3. Committee activities
 - 3.1 External audit and evaluation of annual financial statements
 - 3.2 Internal audit
 - 3.3 Risk management
 - 3.4 Assessment of financial function and chief financial officer
4. Key focus area
5. Conclusion



1. INTRODUCTION

The audit committee (committee) takes pleasure in presenting its report in respect of the 2020-21 financial year to the Standing Committee on the Auditor-General (Scoag) and all other stakeholders of the Auditor-General of South Africa (AGSA).

This period was denoted by immense changes; during which the organisation and the country lived – and continue to live – through a covid-19 pandemic and its unprecedented impact, necessitating the organisation to adjust its operations to ensure its sustainability. We have accordingly overseen the organisation's preparedness to respond to and mitigate associated risks, whilst maintaining continuity of operations.



1. INTRODUCTION *(continued)*

During this period, the organisation also lost a sitting auditor-general (AG), the late Mr Kimi Makwetu. We were saddened by the loss and remember him for his resolve, vision and contribution to the legacy of the supreme audit institution; may his soul continue to rest in peace.

Equally, Ms Tsakani Maluleke was appointed as the first female AG in the history of South Africa – a milestone that deserves celebration. We wish AG Maluleke much success in her role and commit ourselves to supporting her through the journey.

As the new deputy AG, Mr Vonani Chauke, assumes his responsibilities, we wish him well and look forward to forging a good working relationship with him as the accounting officer of the AGSA.



2. COMMITTEE GOVERNANCE

The committee is a statutory oversight structure, constituted in terms of section 40 of the Public Audit Act 25 of 2004 as amended (PAA). The committee is accountable to the AG and Scoag.

The composition and meetings of the committee are outlined in section 2 of the integrated annual report.

In line with the PAA, all members of the committee are independent of the AGSA and have, in accordance with their statutory responsibilities, attended all committee meetings. Furthermore, the members affirmed their independence at each meeting; and that they are free of any conflict of interest in discharging their statutory duties throughout the reporting period.



2. COMMITTEE GOVERNANCE *(continued)*

The committee's processes and responsibilities are outlined in its formal terms of reference, complemented by a work plan that drives its activities. The terms of reference are reviewed and updated annually as necessary in line with best practices.

The committee accordingly conducted its affairs and discharged its responsibilities to enable it to conclude whether, based on its activities outlined further on:

- The system of internal control over financial reporting was adequate and operated effectively.
- Risk management processes were adequate and effective.
- The organisation has the necessary resources and financial expertise to perform its duties.



3. COMMITTEE ACTIVITIES

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3.1 EXTERNAL AUDIT AND EVALUATION OF ANNUAL FINANCIAL STATEMENTS

The committee assessed the external auditor's independence as required by section 39(2) of the PAA and recommends their reappointment to Scoag, who appoints the external auditors annually. The committee is satisfied that Crowe JHB (Crowe) is independent and not conflicted in any way, and has conducted the external audit for the 2020-21 financial year under the direction of the engagement partner, Mr Raakesh Khandoo.

The committee:

- o Considered the audit approach and audit risks in approving the external audit plan.
- o Reviewed the financial statements and agreed with management that the AGSA is a going concern.
- o Considered the appropriateness of the accounting policies, accounting treatments, any significant unusual transactions and judgement areas; and reviewed compliance with International Financial Reporting Standards and the PAA.



3.1 EXTERNAL AUDIT AND EVALUATION OF ANNUAL FINANCIAL STATEMENTS (continued)

- o Considered the management report received from Crowe, which did not record any unadjusted audit differences.
- o Reviewed the audit report on the annual financial statements and the audit report on performance against predetermined objectives.
- o Ensured that non-audit services are not material in relation to the audit fees so as to not compromise the independence of the external auditor.
- o Met separately with the external auditors without management present, to ensure that the quality, credibility and effectiveness of the external audit process were maintained at all times; and received confirmation that no pressure was put on them to suppress any findings nor were there any scope restrictions placed on their work.
- o Considered all factors and risks that may impact on the integrity of information in the integrated annual report and that it presents the economic, social and environmental performance of the AGSA.



3.1 EXTERNAL AUDIT AND EVALUATION OF ANNUAL FINANCIAL STATEMENTS (continued)

After having reviewed the management representation letters addressed to Crowe, and providing input on the annual financial statements and the integrated annual report, the committee recommended to the DAG to sign the annual financial statements and the AG to sign off the integrated annual report and its individual components.

Even though the financial results were not what were planned for, the committee was pleased by the AGSA's efforts to reduce the deficit and improve the collection of debt as well as the initiatives undertaken to manage revenue, costs and cash flow, to secure the organisation's sustainability.

The deficit would have been much higher had the leadership team not been proactive in introducing new strategies and tactics to lead the organisation during these difficult times. The establishment of the central nerve centre is one of the strategies employed to efficiently manage and rapidly respond to the operational and financial impact of the covid-19 pandemic.



3.2 INTERNAL AUDIT

Ngubane are the internal auditors of the AGSA and completed the second year of their contract period. The internal audit plan operates on a 3-year rolling basis; and all key finance functions of the organisation are covered at least once during the 3-year cycle.

In accordance with its terms of reference and the internal audit charter, the committee:

- Reviewed and approved the annual internal audit plan and the internal audit charter.
- Considered reports from Ngubane on the internal audit work performed throughout the year, and their annual written assessment, which concluded that the internal controls in the areas tested, are satisfactory, which means that they are adequate and effective. They did, however, highlight that while manual processes are both adequate and effective, the controls around information technology (IT) processes need improvement and that while they may be adequate, they can only be assessed as partially effective.



3.2 INTERNAL AUDIT (*continued*)

The committee responded to this by:

- ✓ Requesting the AGSA to re-look its IT strategic plans and structure in the IT environment. This was presented to the committee at a special meeting held on 15 June 2021. Given the specialist skills required, current resource constraints and challenging economic environment, the target completion date to address all aspects of the plan is March 2023 while tactical plans continue to be applied to mitigate the identified risk exposures.
 - ✓ Requesting a follow-up on the IT security audit review on items reported, the results of which were presented to the committee on 4 October 2021. Nine of the 12 critical findings were resolved but further work is required on the unresolved findings.
- Met separately with the internal auditors without management present to ensure that the independence, quality, credibility and effectiveness of the internal audit process were maintained at all times; and received confirmation that no restrictions nor pressure was put on them to suppress audit findings.



3.2 INTERNAL AUDIT (*continued*)

The committee is assured that, considering the work done in the current year by Ngubane, the overall governance, risk management and control environment in place at the AGSA is adequate and is operating effectively, while recognising that there is room for improvement in controls around IT, as referred to earlier.



3.3 RISK MANAGEMENT

The Risk and Ethics business unit is responsible for coordinating the risk management function in the AGSA. In accordance with its terms of reference, the committee was kept abreast of organisational strategic and business risks, as well as those posed by the impact of covid-19 and the PAA implementation.

The committee exercised oversight of:

- o The strategic risks of the organisation, where it monitored implementation of the mitigations agreed with management to manage the risks to an acceptable level; as well as approved the strategic risk profile for the 2020-21 financial period.
- o The assurance received from the internal auditors on the risk management function.



3.3 RISK MANAGEMENT *(continued)*

- Reviewed and approved the risk appetite statement for the reporting period and monitored the organisation's performance in relation to the appetite measures defined, as well as approved the organisation's risk appetite statement for the 2021-22 performance period.
- Reviewed and approved the combined assurance matrix for the 2020-21 performance year to ensure that assurance was obtained for all material risk areas, and that assurance received by the different assurance providers is adequate. Furthermore, the committee approved the combined assurance model and matrix for application in the 2021-22 performance period.

The committee is satisfied with its oversight of the adequacy and effectiveness of risk management processes employed throughout the financial year by the organisation to manage risks to an acceptable level.



3.4 ASSESSMENT OF FINANCE FUNCTION AND CHIEF FINANCIAL OFFICER (CFO)

The committee considered the composition, experience and skills set of the finance function as well as the performance and expertise of the CFO and is satisfied that those were appropriate to fulfil their responsibilities.

The committee also noted that the CFO has recently moved to a new role within the organisation. The committee thanks her for her commitment to her role and responsibilities and wishes her all the best as the head of audit: national, whilst still acting as CFO.

It was further noted that the CFO had received the public sector CFO of the year award from the African Women Chartered Accountants (demonstrating the wealth of talent and once again raising the bar of excellence for the AGSA with this prestigious award).



4. KEY FOCUS AREA

Due to the observations of various assurance providers and the related reports presented to the committee, the committee resolved to identify the IT environment in which the organisation operates as a key focus area considering the significant influence and impact the function has on the overall internal control environment.

After having received representations from management and allocating two special audit committee meetings to focus on the strategic direction and operations of the function, the committee is satisfied that comprehensive and executable plans exist within the organisation to enable improvements within this key focus area.

The committee will continue to pay attention to this area to ensure that it positively and constructively contributes to an improvement in the system of internal control of the organisation, while being responsive to the ever-changing environment in which the organisation operates.



5. CONCLUSION

The system of internal control over financial reporting, as well as the risk management processes, is adequate and operating effectively.

The committee will continue to exercise oversight of the commitments made by management in response to the organisational risks and improvements in the control environment, with particular focus on the IT control environment.

The committee is satisfied that it has adequately discharged its responsibilities as outlined in various statutory and other governance documents during the current financial year.



QUESTIONS?

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