



AUDITOR-GENERAL
SOUTH AFRICA

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



3 November 2023



INTRODUCTION

- This report of the audit committee (the committee) is based on the requirements of section 40(6)(a) of the Public Audit Act 25 of 2004 (PAA), as well as its terms of reference, which are reviewed and approved on an annual basis.
- According to principle 15 of the King IV code of governance, the governing body should ensure that assurance services enable an effective internal control environment, and that these internal controls support the integrity of information for internal decision making and external reporting.
- The committee is pleased to present its report for the 2022-23 performance year to the Standing Committee on the Auditor-General (Scoag) and all other stakeholders of the Auditor-General of South Africa (AGSA) in a period where the AGSA is embarking on the implementation of its new strategy – #cultureshift2030.



COMMITTEE GOVERNANCE

- The committee is a statutory oversight structure, constituted in terms of section 40 of the PAA.
- The committee is accountable to the auditor-general (AG) and Scoag.
- The committee members, in line with the PAA, are all independent of the AGSA and have attended all committee meetings. Furthermore, the members have periodically declared their independence and that they are free of any conflict of interest in discharging their statutory duties throughout the reporting period.
- The members are:
 - J Biesman-Simons – chairperson until October 2022 (retired)
 - G Motau – chairperson from November 2022
 - C Roskruge
 - C Mampuru



COMMITTEE GOVERNANCE (cont.)

- The committee's terms of reference, which are developed in line with best practices and outline its processes and responsibilities, are reviewed annually and approved by the AG, as necessary. The committee also develops an annual work plan that directs its activities.
- The committee conducted its affairs and discharged its responsibilities to enable it to conclude, as outlined in its activities below, that for the reporting period:
 - The systems of internal control over financial reporting was adequate and operated effectively
 - Risk management processes were adequate and effective
 - The organisation has the appropriate resources and financial expertise to perform its duties



ACTIVITIES OF THE COMMITTEE



EXTERNAL AUDIT AND EVALUATION OF ANNUAL FINANCIAL STATEMENTS

As required by its terms of reference, the committee:

- considered the audit approach and audit risks in approving the external audit plan
- reviewed the annual financial statements and agreed with management that the AGSA is a going concern
- considered the appropriateness of the accounting policies, accounting treatments, and any significant unusual transactions and judgement areas, and reviewed compliance with International Financial Reporting Standards (IFRS) and the PAA
- considered and reviewed the management reports and the summary of unadjusted differences (none were recorded for the 2022-23 FY)
- reviewed the audit report on the annual financial statements and the performance against predetermined objectives



EXTERNAL AUDIT AND EVALUATION OF ANNUAL FINANCIAL STATEMENTS (cont.)

- regularly monitored non-audit services to ensure they are not significant in relation to the audit fees, to ensure the external auditor's independence is not compromised
- engaged with the external auditors, without management present, to ensure that the quality, credibility and effectiveness of the external audit process were maintained, and received confirmation that no pressure was exerted on the auditors to suppress any findings nor were there any scope limitations placed on their work
- considered all factors and risks that may affect the integrity of information in the integrated annual report (IAR) and that it presents the economic, social and environmental performance of the AGSA
- After reviewing the management representation letters addressed to Crowe, the committee recommended that the deputy auditor-general (DAG) sign the annual financial statements and that the AG and DAG sign the IAR.



INTERNAL AUDIT

- The 2022-23 financial year was out internal auditors first year of audit. The internal audit plan operates on a 3-year rolling basis; on a risk basis, key finance functions of the organisation are covered annually 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 the internal auditors on the internal audit work performed throughout the year, and its annual written assessment, which concluded that the internal controls in the areas tested are adequate and effective
 - engaged separately with the internal auditors, without management present, to ensure that the independence, quality, credibility and effectiveness of the internal audit process was maintained; and received confirmation that no restrictions or pressure were put on them to suppress audit findings.



INTERNAL AUDIT (cont.)

- The committee is assured that, considering the work done in the current year by the internal auditors, the systems of internal control in place at the AGSA are adequate and operating effectively. A notable improvement in the control environment has also been observed.
- Although the IT Security controls were found to be adequate, they are only partially effective because new vulnerabilities were identified based on an environment review conducted during the year. These ongoing IT Security reviews, together with a heightened awareness of the cybersecurity threat and more robust risk identification, facilitate much-needed focus in this area.
- The risk posed by the weaknesses in the IT Security environment is receiving further attention through the ongoing closure of audit findings and initiatives in the new enterprise architecture work.



RISK MANAGEMENT

- Under the stewardship of a chief risk officer, the Risk and Ethics business unit (R&E) is responsible for coordinating the risk management function in the AGSA. The chief risk officer concludes that the systems of internal controls, risk management process, as well as compliance with laws and regulations that the organisation employed throughout the financial year are adequate and effective to manage risks to an acceptable level.



RISK MANAGEMENT (cont.)

- In accordance with its terms of reference, the committee was kept abreast of organisational strategic and other key business risks, as well as those posed by the introduction of the International Standard of Quality Management (ISQM).
- The committee exercised oversight on:
 - identification of the organisation's strategic risks, where it monitored implementation of the mitigations agreed with management to manage the risks to an acceptable level
 - review and approval of the strategic risk profile and risk appetite statement for the 2022-23 financial period and monitored the organisation's performance in relation to the appetite measures defined
 - received assurance, in line with the 2022-23 combined assurance matrix, ensuring that assurance is obtained for all material risk areas and that assurance from the different assurance providers is adequate
 - the assurance received from the internal auditors on the risk management function, and financial and internal control environment, including fraud risk and compliance management systems
- The committee also approved the combined assurance matrix to be applied in the 2023-24 performance period.



RISK MANAGEMENT (cont.)

- The committee is satisfied with its oversight over the adequacy and effectiveness of risk management processes that the organisation employed throughout the financial year to manage risks to an acceptable level.
- Given the quality of the risk management and oversight processes in place, we confirm there is a robust risk management system in place.
- We believe that key material risks have been identified with clear management actions, and we are confident that the risk management system is functioning adequately and continues to mature.



ASSESSMENT OF FINANCE FUNCTION AND CHIEF FINANCIAL OFFICER

- The committee considered the composition, experience and skills set of the finance function as well as the performance and expertise of the chief financial officer, and is satisfied that the function has the requisite capacity and appropriate skills to fulfil their responsibilities.



KEY FOCUS AREAS

- During the 2022-23 performance period, the committee's focus was on supporting the executive committee in implementing the #cultureshift2030 strategy, and continued to focus on the organisation's information technology (IT) function due to persistent audit outcomes within this area.
- During the year under review, the committee also focused on reviewing the recommendations arising from various reports following the unfortunate event involving the allegations by the former chief people officer (CPO) against the AG and ensuring they are appropriately addressed. The committee provided guidance and support in this regard and is satisfied with the DAG's progress to date. The committee remains available to provide the necessary support until all items have been remediated.
- For the 2023-24 performance period, the committee intends to capacitate itself with IT knowledge and capabilities. It will also continue to pay attention to the implementation of strategic initiatives, given the ongoing implementation of the #cultureshift2030 strategy.



EXTERNAL AUDIT AND EVALUATION OF ANNUAL FINANCIAL STATEMENTS

- The committee assessed the external auditor's independence as required by section 39(2)(c) of the PAA and confirm that Crowe JHB ("Crowe") is independent and not conflicted in any way.
- The committee is satisfied that the 2022-23 financial year audit was effectively conducted by Crowe.
- As such, the committee recommends that Crowe be reappointed as external auditors for the 2023-24 financial year as their transformation has significantly improved and they have achieved a B-BBEE level 2 contributor status. According to section 39(1) of the PAA, Scoag has the authority to appoint the external auditor and does so on an annual basis.



CONCLUSION

- The committee concludes that the systems of internal control over financial reporting, as well as the risk management processes, for the AGSA are adequate and operating effectively. Key focus areas outlined above remain our guide in terms of optimising the internal control environment.
- The committee recommended that the DAG sign the annual financial statements and that the DAG and the AG sign the 2022-23 integrated annual report.
- Finally, 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?

