

BRIEFING ON AUDIT REPORT

Government Communication and Information System 2010/11

Portfolio Committee on Communication
11 October 2011
Parliament



Auditing to build public confidence



AUDITOR-GENERAL
SOUTH AFRICA

Reputation promise/mission



The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



Agenda



1. **Legislative requirements**
2. **Opinions**
3. **Summary of audit outcomes**
4. **Audit report structure**
5. **Audit outcomes achieved 2010/11**
6. **Emphasis of matters**
7. **Predetermined objectives**
8. **Compliance**
9. **Internal controls**
10. **Other matters**



1. Legislative requirements



Legislative requirements

1. Public Finance Management Act (Act No.1 of 1999)

Accounting Officer:

Section 40(1)(a) & (b) – Record keeping responsibilities by accounting officer and preparing financial statements for audit

Section 40(1)(c) – Submission of financial statements to Auditor-General for audit

Auditor-General:

Section 40(2) – Audit financial statements and submit report to accounting officer

2. Constitution of the Republic of South Africa (1996)

Section 188 – must audit and report on accounts, financial statements and financial management of government institutions

3. Public Audit Act (Act No.25 of 2004)

Sections 20 – Auditor-General must prepare audit report containing opinion/conclusion on:

- Financial statements and financial position
- Compliance and financial management
- Predetermined objectives



2. Opinions

Different audit opinions:

– Unqualified (unmodified) 

– Qualified 

– Disclaimer 

– Adverse 



2. Opinions

Overall summary description per opinion:

Audit Opinion	Description
Unmodified	An unqualified opinion is expressed when the auditor concludes that the financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with the applicable financial reporting framework.
Unmodified (with emphasis of matter)	The addition of such an emphasis of matter paragraph(s) does not affect the auditor's opinion on whether the financial statements are fairly presented.
Modified (Qualified)	A qualified opinion is expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management regarding departures from financial reporting framework, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion.



2. Opinions

Overall summary description per opinion:

Audit Opinion	Description
Disclaimer	A disclaimer of opinion is expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence to form an opinion and accordingly is unable to express an opinion on the financial statements.
Adverse	An adverse opinion is expressed when the effect of a disagreement with management regarding departures from the financial reporting framework is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.



3. Summary of audit outcomes



History of audit opinions:

Opinion	2010-11	2009-10	2008-9	2007-8
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Disclaimer

Adverse

Qualified

Unqualified with other matters

X

X

Unqualified with no other matters

X

X

Goal:

Unqualified opinion with no other matters or findings on predetermined objectives and compliance with laws and regulations



4. Audit report structure

Index:

- **Report on the financial statements**
 - Introduction
 - Accounting officer/authority's responsibility
 - Auditor-General's responsibility
 - Opinion**
 - Emphasis of matters**
 - Additional matters**
- **Report on other legal and regulatory requirements**
 - Predetermined objectives
 - Compliance with laws and regulations
- **Internal control**
 - Leadership
 - Financial and performance management
 - Governance
- **Internal control**
 - Investigations
 - Performance audits
 - Agreed up procedures

Now please refer to handout for actual audit report of GCIS



4. Audit report structure



Emphasis of matter/Additional matter

Why?

To draw the users of financial statements' attention to a matter

HIGHLIGHT!

Difference?

Emphasis of matter	Additional matter
to draw users' attention to a matter presented or disclosed in the financial statements which is of such importance that it is fundamental to their understanding of the financial statements	to draw users' attention to any matter other than those presented or disclosed in the financial statements which is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report

Opinion?

“My opinion is not modified in respect of these matter(s)”



4. Audit report structure

Matters highlighted

- **Emphasis of matter:**
 - Financial reporting framework
 - Significant uncertainties
 - Revision of previously issued AFS
 - Restatements of corresponding figures
 - Material underspending
 - Accruals
 - Going concern/funding/financial sustainability

- **Additional matter:**
 - Prior year audited by predecessor auditor
 - Material inconsistencies included in annual report
 - Unaudited supplementary schedules
 - Revision of previously issued AFS
 - Financial reporting framework



5. Audit outcomes achieved 2010/11



- Actual audit report of GCIS: refer to annexure
 1. Opinion:
Unqualified audit opinion
 2. Other matters highlighted:
Emphasis of matters
 - Significant uncertainties



5. Audit outcomes achieved 2010/11

- Actual audit report of GCIS: refer to annexure

3. Compliance

- PFMA
- National Treasury Regulations
- Other legislation: PSA

4. Internal control

Summary of control deficiencies in 3 Fundamentals:

- Leadership
- Financial and performance management
- Governance



6. Emphasis of matters

NB!

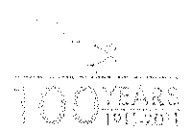
Audit only highlight if matter is disclosed in the financial statements of the entity

1. Significant Uncertainties

Contingent liability due to claims from third parties of R20 million of which the outcome could not be determined at date of audit report.



7. Compliance



Summary of compliance findings

Category of finding	Act	Description
Procurement and contract management	TR 16A6.1 & 16A6.4	Certain goods and services with a transaction value of over R500 000 were not procured by means of competitive bidding process.
	PFMA 76(4)(c) PSA	Employees were identified who performed remunerative work outside their employment in the department without written permission from the relevant authority.
Expenditure management	PFMA38 (1)(c)(ii)	Although the accounting officer did detect and disclose irregular and fruitless and wasteful expenditure, preventative controls were not totally effective.
Revenue management	TR 9.1.1 TR 7.3.1	The annual tariff structure for revenue was not approved by the relevant treasury.



7. Compliance

Recommendation

- Processes should be put in place to prevent and detect irregular expenditure. This can be achieved through staff and management training as well as constant communication and reinforcement by line managers to all staff.
- Management should follow up on money due to GCIS timeously and regularly to ensure money is recovered.
- The formal code of ethics and ethical values should be communicated to all staff members, and strict ongoing monitoring should be undertaken by the accounting officer throughout the year.
- All employees performing remunerative work outside their employment must obtain prior written approval from the Executive Authority of the department or an office authorised by the said Authority.
- The budget must be prepared and approved in accordance with legislated requirements.
- The accounting officer must review all fees, charges and tariffs that relate to revenue on an annual basis and obtain approval from National Treasury for the proposed tariff structure.



8. Internal controls



Internal control deficiency	Leadership	Financial and performance management	Governance
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The preventative monitoring controls in place at the GCIS were breached in certain instances which indicates that the monitoring controls were not totally effective.

X



9. Other reports

Investigations

- With reference to the contingent liability, an investigation is being conducted on request of GCIS. The investigation was initiated to establish whether the procurement and approval processes were followed prior to payments being made to a service provider.



10. Other matters

Going forward

- GCIS must develop an action plan to address all audit findings. This action plan will be monitored regularly at audit steering committees and feedback will be provided at audit committee meetings.
- Greater focus on compliance matters.



100 YEARS
1907-2007

QUESTIONS???



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