

**AUDIT
COMMITTEE
REPORT**

Presentation to the
Standing committee
on the Auditor-General

15 October 2020



AUDITOR-GENERAL
SOUTH AFRICA



AGENDA:

1. Purpose and mandate
2. Audit Committee composition and members
3. Overview of activities
4. Key focus areas:
 - 4.1 Internal audit
 - 4.2 External audit and evaluation of the annual financial statements
 - 4.3 External audit transformation plan
 - 4.4 Risk management
 - 4.5 Assessment of the finance function and the Chief Financial Officer
5. Key decisions
6. Conclusion



1. PURPOSE AND MANDATE:

Report required from audit committee:

- In compliance with section 40 of the Public Audit Act (Act No. 25 of 2004) (as amended PAA)
- In compliance with the King Code of Governance Principles (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



2. COMPOSITION AND MEMBERS:

Committee composition:

- Consists of three members, previously appointed in terms of section 40 of the PAA by the DAG; going forward, in terms of the PAA amendments, the AG will appoint members
- The fourth member, Grathel Motau, resigned in February 2020

Members:

- Mr John Biesman-Simons, CA(SA), BCom, CTA, appointed Chairman on 1 November 2017
- Ms Carol Roskruge-Cele, BSc Hons, MSc, MBL (Governance and Leadership)
- Mr Cedrick Mampuru, CA (SA) BCompt (Hons) / Certificate in Theory of Accounting (CTA), BCom (Acc), Higher Diploma in Taxation Law



3. OVERVIEW OF ACTIVITIES

Key Audit Committee activities undertaken during performance period

- Overview of Internal Audit
- Overview of External Audit and evaluation of the annual financial statements
- Review of External Audit transformation plan
- Review of the risk management process at AGSA
- Assessment of the finance function and the chief financial officer



4. KEY FOCUS AREAS:

4.1 Overview of Internal Audit

was reported in the prior year report of the Audit Committee, Ngubane & Co (“Ngubane”) were appointed as the internal auditors of AGSA for a period of three years with effect from the current financial year. The internal audit plan operates on a three-year rolling basis so that all functions of the organisation are covered at least once during a three year period, depending on their respective risk exposure.

The committee:

- reviewed and approved the internal audit strategy, annual internal audit plan and internal audit charter;
- received reports from Ngubane on the internal audit work performed and considered the reports and conclusions reached;



4. KEY FOCUS AREAS:

4.1 Overview of Internal Audit (cont.)

- engaged internal auditors without management present, to ensure that the quality, credibility and effectiveness of the internal audit process is maintained at all times. We also received assurance from Ngubane that no scope restrictions were placed on their work, nor was pressure brought to bear on them to suppress any findings.
- evaluated the independence, effectiveness and performance of the internal audit function and the Chief Audit Executive; and
- considered the annual written assessment from Ngubane which took into account work performed by other service providers and their follow up of matters reported in the prior year.

Their conclusion is that “the overall control environment and risk management processes is satisfactory which means the system of internal controls at AGSA is adequate and effective to provide reasonable assurance that business objectives will be met however, some control deficiencies were identified.” The deficiencies were largely of an administrative nature and were not considered high risk or critical.



4. KEY FOCUS AREAS:

4.2 Overview of External Audit and evaluation of the annual financial statements

Taking into consideration guidance received from the Audit Committee, SCoAG appoints the external auditors for a period of five years, which term may be extended for a further five years, and the appointment is confirmed each year. The Audit Committee is satisfied that Crowe JHB (“Crowe”) is independent and not conflicted in any way as required by section 39(2) of the PAA. SCoAG confirmed the appointment of Crowe JHB (“Crowe”) to conduct the external audit for the 2019-2020 financial year under the direction of the engagement partner, Raakesh Khandoo.

The committee:

- considered the audit approach, audit risks, key audit matters and fee budget as set out in the external audit plan and resolved to approve the plan and authorised the signature of the engagement letter;
- considered and agreed with management that the AGSA is a going concern;



4. KEY FOCUS AREAS:

4.2 Overview of External Audit and evaluation of the annual financial statements (cont)

- considered the appropriateness of the accounting policies, accounting treatments, any significant unusual transactions and judgment areas;
- reviewed compliance with International Financial Reporting Standards and the PAA;
- considered the management report received from Crowe;
- reviewed the audit report on the annual financial statements;
- reviewed the audit report on performance against predetermined objectives;
- ensured that non-audit services are not material and do not compromise the independence of the external auditor;
- engaged external auditors without management present, to ensure that the quality, credibility and effectiveness of the external audit process is maintained at all times. We also received assurance from Crowe that no scope restrictions were placed on their work, nor was pressure brought to bear on them to suppress any findings.



4. KEY FOCUS AREAS:

4.2 Overview of External Audit and evaluation of the annual financial statements (cont.)

- reviewed the management representation letters addressed to Crowe and recommended to the Deputy Auditor-General (“DAG”) that the letters be signed;
- reviewed and satisfied ourselves with the summary of unadjusted differences;
- reviewed and provided input on the annual financial statements and recommended to the DAG that the financial statements be signed; and
- Considered all factors and risks that may impact on the integrity of information in the integrated annual report (“IAR”) and that it presents the economic, social and environmental performance of the AGSA and recommended to the AG and DAG that they sign the IAR.

Concluded by recommending to the DAG that she may sign the integrated annual report and the accompanying financial statements of the AGSA’s financial performance for the year ended 31 March 2020



4. KEY FOCUS AREAS:

4.3 Review of External Audit transformation plan

In terms of B-BBEE Crowe started off as a Level 8 contributor in 2017 and progressed to a Level 7 in 2018. For the 2019 year they progressed to a Level 4 contributor and have maintained the Level 4 in the 2020 year. This demonstrates close commitment to transformation in the accounting and auditing profession. The significant improvement can be attributed to initiatives in improving executive management and skills development.

The target per the original strategy submitted is a Level 3 contributor for the year 2021.



4. KEY FOCUS AREAS:

4.3 External Audit transformation plan (journey map)

		Historic	Year 1 Level	Year 2 Level	Year 3 Level
Objective	Highest achievable points	Feb-18	Feb-19	Feb-20	Feb-21
Ownership	25.00	12.90	12.90	12.90	21.40
Other Executive Management	7.00	0.77	3.46	3.46	5.70
Employment Equity	8.00	8.00	8.00	8.00	8.00
Skills Development	25.00	23.88	30.00	30.00	30.00
Preferential Procurement	20.00	19.92	21.00	21.00	21.00
Enterprise and Supplier Development	10.00	-	-	-	-
Socio Economic Development	5.00	0.80	5.00	5.00	5.00
Total		66.27	80.36	80.36	91.1
B-BBEE Level		7	4	4	3



4. KEY FOCUS AREAS:

4.3 External Audit transformation plan (journey map)

B-BBEE LEVEL	YEAR 1	YEAR 2	YEAR 3
Target for each year	4	4	3
Target Achieved	4	4	TBD



4. KEY FOCUS AREAS:

4.4 Review of the risk management process at AGSA

The Audit Committee had oversight of:

- 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 performance period,
- The assurance received from the internal auditors on the risk management function, its adequacy and effectiveness to support the organisation fulfil its desired objectives.



4. KEY FOCUS AREAS:

4.4 Review of the risk management process at AGSA (cont.)

The Audit Committee:

- Reviewed and approved the risk appetite statement and monitored the organisation's performance in relation to the appetite measures defined. The committee also approved the risk appetite statement for the 2020 - 21 performance period,
- Reviewed and approved the combined assurance matrix to ensure that the assurance is obtained for all material risk areas, and that assurance received by the different assurance providers is adequate. Acting upon guidance from Risk and Ethics, the Audit Committee agreed to bring in a fourth level of assurance, being assurance gained from the independent audit committee. Furthermore, the committee approved the combined assurance model and matrix for application in the 2020 - 21 performance period, and
- Reviewed issues raised by the internal audit function and the corrective action committed to and undertaken by management to address the associated exposure.

The committee considered the information presented to it and nothing came to its attention that would impact 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”



4. KEY FOCUS AREAS:

4.5 Assessment of the finance function and the 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 Chief Financial Officer and is satisfied they were appropriate to fulfil their responsibilities. We have been informed that appropriate succession planning is in place as a key member of the finance team approaches retirement age."



5. KEY DECISIONS:

- The Audit Committee recommends the re-appointment of external auditors as recommended to SCoAG in the letter dated 18 September 2020.
- Audit Committee recommends the transfer of R4 964 000 for the special audit service reserve to the general reserve and be utilised to liquidate some of the AGSA old debt. There has not been any movement in the amount in this reserve since the Audit Committee was created in late 2005.



6. 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 recommended to the Deputy Auditor-General that the integrated annual report and the accompanying annual financial statements be signed-off

In closing, this is the last IAR during the term of the current AG, Mr Kimi Makwetu. The committee thanks him for the role he played with the committee during his tenure, initially as the DAG but really wants to acknowledge the most significant contribution he has made to the AGSA as AG. He carried on the sterling work of his predecessor and leaves the organisation in a far stronger position than the one he inherited seven years ago. We wish him good health and much success in the future.



Questions

