

# AUDIT COMMITTEE'S REPORT

## INTRODUCTION

The audit committee (the committee) presents its report for the 2020-21 performance year. This was a period denoted by immense changes during which the organisation, and the country, lived through the unprecedented impact of the covid-19 pandemic, which necessitated the organisation adjusting its operations to ensure its sustainability. We have accordingly overseen the organisation's preparedness to respond to and mitigate associated risks while maintaining the continuity of its operations.

This is a period where the organisation lost a sitting auditor-general, 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 auditor-general in the history of South Africa – a milestone that deserves celebration. We wish auditor-general Maluleke much success in her role and commit ourselves to supporting her through the journey.

As the new deputy auditor-general, 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.

The audit 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).

## 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 auditor-general and Scoag.

The composition and meetings of the audit committee are outlined in section 2 of this 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, at each meeting the members affirmed their independence and that they are free of any conflict of interest in discharging their statutory duties throughout the reporting period.

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

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

- 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.

## Activities of the committee

### External audit and evaluation of the annual financial statements

The committee assesses the external auditor's independence as required by section 39(2) of the PAA and makes recommendation on 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:

- considered the audit approach and audit risks in approving the external audit plan
- reviewed the financial statements and agreed with management that the AGSA is a going concern
- considered the appropriateness of the accounting policies, accounting treatments, any significant unusual transactions and judgement areas, and reviewed compliance with the International Financial Reporting Standards and the PAA
- considered the management report received from Crowe, which did not record any unadjusted differences
- reviewed the audit report on the annual financial statements and the audit report on performance against predetermined objectives
- ensured that non-audit services are not material so as to 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 was 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
- considered all factors and risks that may impact the integrity of information in the integrated annual report (IAR) and that it presents the economic, social and environmental performance of the AGSA.

After having reviewed the management representation letters addressed to Crowe, provided input on the annual financial statements and the IAR, the committee recommended that the deputy auditor-general sign the annual financial statements and the auditor-general sign off the IAR and its individual components.

### 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 three-year rolling basis; all key finance functions of the organisation are covered at least once during the three-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 they are adequate and effective. They did, however, highlight that while manual processes are both adequate and effective, the controls around IT processes need improvement and that while they may be adequate, they can only be assessed as partially effective. The AGSA has responded to this by re-looking 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 and current resource constraints, 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
- met separately with the internal auditors without management present to ensure that the independence, quality, credibility and effectiveness of the internal audit process was maintained at all times, and received confirmation that no restrictions nor pressure was put on them to suppress audit findings.

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 information technology, as referred to above.

### **Risk management**

The Risk and Ethics business unit (R&E) is responsible for coordinating the risk management function at 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:

- 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
- the assurance received from the internal auditors on the risk management function
- the risk appetite statement, reviewing and approving it for the reporting period, monitored the organisation's performance in relation to the appetite measures defined and approved the organisation's risk appetite statement for the 2021-22 performance period
- the combined assurance matrix, reviewing and approving it for the 2020-21 performance year to ensure that assurance is 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 over the adequacy and effectiveness of risk management processes employed throughout the financial year by the organisation to manage risks to an acceptable level.

### **Assessment of the finance function and the 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 those were appropriate to fulfil their responsibilities. The committee has also noted that the chief financial officer has recently moved to a new role within the institution. The committee thanks her for her commitment to her role and responsibilities and wish her all the best as the head of audit: national.

### **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 information technology environment as a key focus area considering the significant influence and impact the function has on the overall internal control environment.

After receiving representations from management and allocating a special meeting to focus on its 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. For that reason, 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.

## **CONCLUSION**

Consequently, notwithstanding the key focus area as noted above, the committee concludes that the system of internal control over financial reporting, as well as the risk management processes, are 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.

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.