



*We communicate audit outcomes and the root causes of audit findings, and provide recommendations to address them in our general reports.*

## STRATEGIC GOAL 1: VALUE-ADDING AUDITING (V1)

Our principal legislation requires that we annually audit and report on the quality of our auditees' financial statements, performance reports and compliance with key legislation.

This year, the covid-19 pandemic had an impact not only on our staff wellbeing but also on our ability to conduct and complete audits. We had to adapt to working remotely, using technology to provide new ways of working with our auditees.

The pandemic restricted access to our auditees' premises and documents, and affected their readiness for audit. Their poor ICT systems and facility closures meant that we had to find new ways of performing our data analytics procedures. One of these initiatives was to receive data downloads from the auditees' IT teams, giving us direct access to their databases. This real-time access also gave us the ability to report our findings more frequently.

Most importantly, we increased our relevance as a supreme audit institution by conducting special audits (real-time audits) in support of the government's relief programmes.

Real-time audits require multi-disciplinary teams of various specialists. While our capacity and the initiatives to integrate these specialists into our annual audits stood us in good stead, these additional real-time audits strained our capacity as they were done in parallel with our annual audits. Our audit teams had already been affected by the legislated delays in submitting the annual financial statements and the constraints of working in a covid-19 environment. To complete all our audits, we had to revise the scope of the 2019-20 national, provincial and local government audit cycles.

Despite all the challenges, we delivered consolidated general reports on the annual audits and issued three special audit reports on the real-time audits of covid-19 initiatives.

Government priorities and relevant public spending guide the audit focus of our annual audits. These audits therefore focused on the infrastructure, education, health, water and sanitation, and roads infrastructure sectors to bring to light deficiencies in specific service delivery programmes in our audit reports.



Over the past two years, we strengthened our message that government should invest in controls that prevent mistakes, transgressions, fraud, abuse and financial losses. We also launched a set of guides on preventative controls in September 2020 to make the concept more accessible to the various oversight bodies.

We have had some success and we appreciate those auditees that have responded to our recommendations, status of record review initiatives and the insight we shared during our engagements. It is sobering to note that these improvements are not widespread yet and we remain concerned that the improvements at some auditees are not sustainable. We acknowledge that more needs to be done to entrench and enhance these improvements.

## OUR AUDIT OF GOVERNMENT'S PANDEMIC RELIEF SPENDING

### Value adding auditing objective 1: Demonstrate value-adding auditing

#### PERFORMANCE MEASURE

Tabling a special report on real-time audits conducted during the state of disaster in 2020-21

#### 2020-21 TARGET

The special report is tabled on the date specified by the auditor-general

#### 2020-21 ACTUAL

Tabled as at June 2021

3  
reports

The South African government's approach to the pandemic and national lockdown included a multipronged fiscal package, which expanded during the year to mitigate the lockdown extension and its effects on the country's citizens and economy.

Our status as a supreme audit institution perfectly positioned us to play an independent role in assessing the risks to the programmes launched and in proactively detecting and exposing practices that could ultimately result in wasting public money.

In September and December 2020, and June 2021, we tabled three special reports on government's financial management of the pandemic relief initiatives. These reports covered initiatives in these broad categories:

- paying benefits and grants to relieve economic and social distress
- procuring personal protective equipment
- frontline initiatives to protect against and manage the impact of covid-19
- following up on accounting officers and authorities' commitments to take action
- focusing on the covid-19 funds to local government and how accounting officers take action to improve their controls of the special funds.

The reports highlighted risk areas such as irregularities, poor controls and systems, and indicators of potential fraud. They enabled oversight bodies to play a more proactive role. Of the accounting officers and executive authorities, 37% took action by implementing our recommendations and, in some cases, even took disciplinary steps. The remainder had partially implemented their commitments.

All three reports were well received by government, oversight bodies, the public and the media. This increased our relevance during a difficult time in our country.

The audit and reporting differed significantly from the annual audits in the following ways:

- These real-time audits looked at transactions, payments or procurement processes almost directly after they took place.
- The focus was on prevention and can be seen as a deterrent to prevent abuse.
- Data analytics were used extensively to identify risks and transactions that were not valid or accurate, or were incorrectly rejected.
- Multidisciplinary teams helped us identify fraud risks and incorrectly configured systems controls, and provided deeper insight on the quality, pricing and delivery of goods and services purchased.

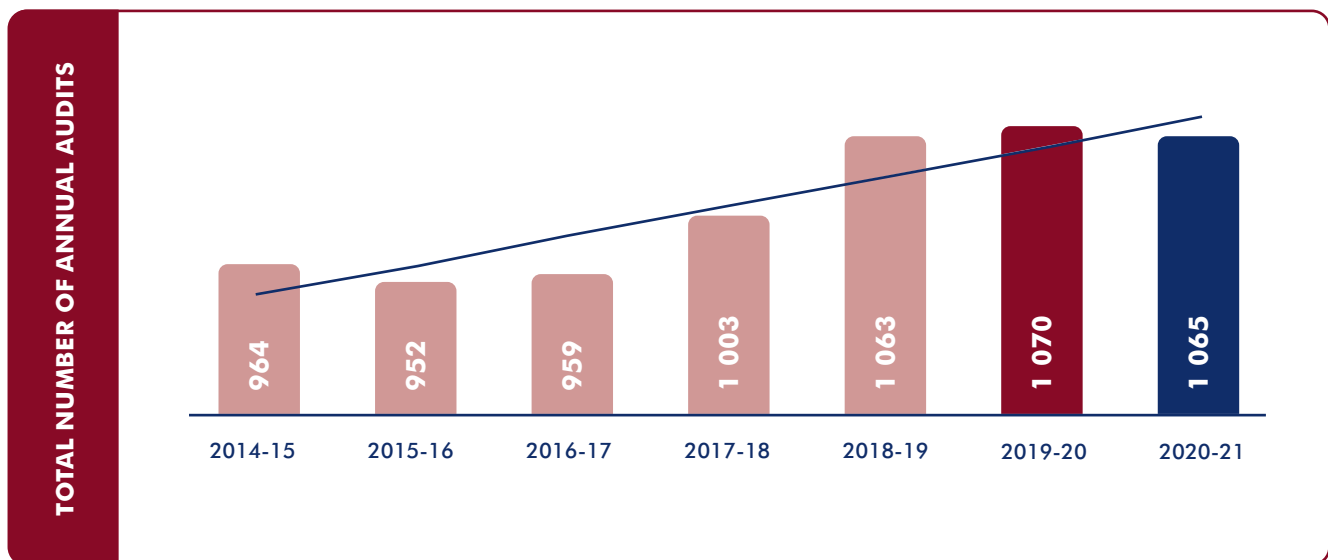


- We reported to oversight bodies through special reports at intervals during the audit and as matters unfolded, enabling immediate oversight.
- We shared our analyses, red flags and findings directly with investigative agencies through the multiagency Fusion Centre, enabling swift action.

We will consider making real-time auditing and reporting an integral part of our audits, especially for key government programmes where it can prevent abuse and programme failure.

Significantly, our normal auditing work did not come to a halt during this time. In parallel with the pandemic-related audit, we continued to work on the annual audit of national, provincial and local governments.

## AUDIT OUTCOMES OF THE 2020-21 AUDIT



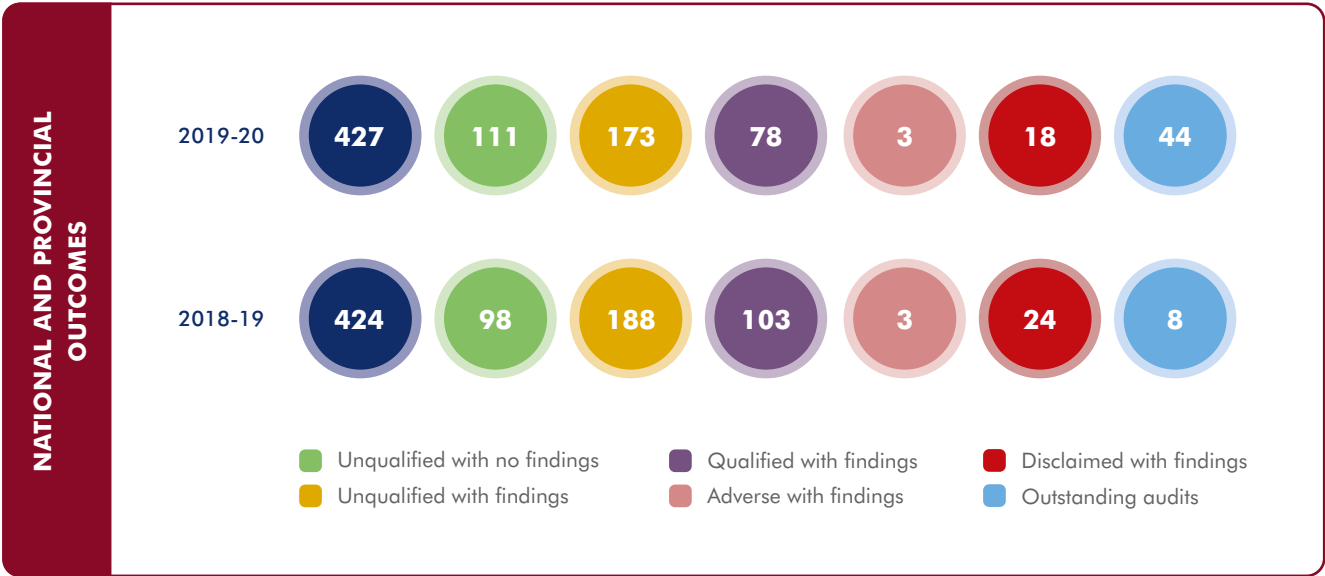
Despite the additional audit work related to the real-time audits, we maintained the same level of annual audits. We achieved this by optimising our audit portfolios, and with the incredible dedication of our staff.

### National and provincial audit outcomes

In the 2019-20 national and provincial general report, we highlighted that:

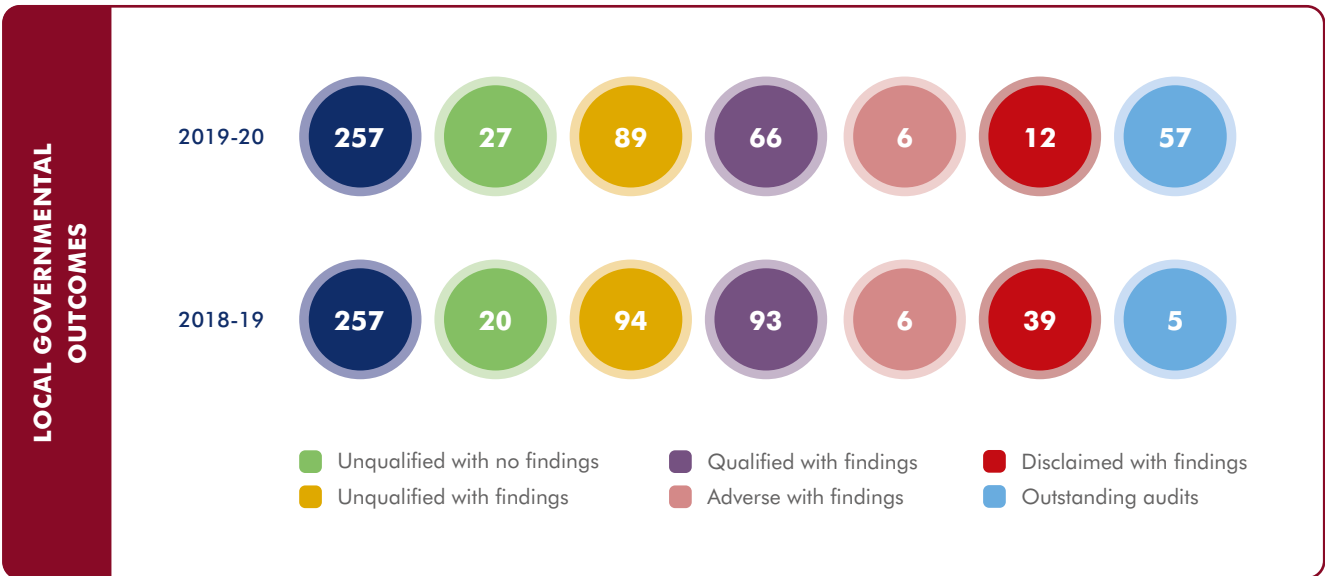
- sustainable solutions are required to prevent accountability failures
- in some areas a “quick fix” will not turn the situation around. Some problems will require deeper attention to prevent failures
- there must be consequences for accountability failures
- improving auditees’ financial management should be a priority
- there are opportunities for progressive and sustainable change.

Overall, audit outcomes improved, with 66 (16%) auditees receiving better results and 35 (8%) regressing. Across national and provincial government, we cannot yet see the progressive and sustainable improvements required to prevent accountability failures and deal with them appropriately and consistently. We also do not see the fundamentals strengthened to enable strong financial management disciplines across all auditees. Our theme for this general report was, appropriately, a continued call to act on accountability.



### Local government audit outcomes

The 2019-20 local government audit outcomes show a net decline among our auditees. Forty-one auditees (16%) improved their audit outcomes while 51 auditees (20%) regressed. The number of auditees that received clean audit outcomes increased slightly.

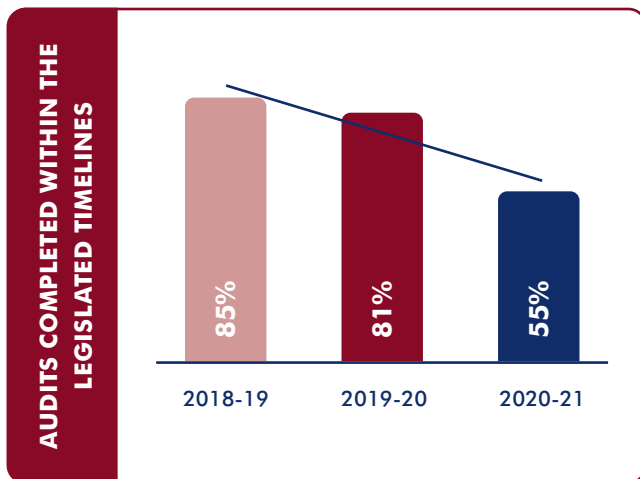


## Audits completed within the legislated timelines

In response to the national lockdown and the impact on the auditees' financial management functions governed by the Public Finance Management Act 1 of 1999, the minister of finance issued an exemption from complying with deadlines contained in the Act. The deadline for submission of annual financial statements from national and provincial auditees was extended from 31 May 2020 to 31 July 2020.

The minister of finance also exempted municipalities and municipal entities from complying with the deadlines of the Municipal Finance Management Act 56 of 2003. The deadline was moved from 31 August 2020 to 31 October 2020.

These extended timelines had an impact on the date that auditees submitted their financial statements to the AGSA. Our initiatives to improve our audit report timelines, such as the audit milestones and project management training, had to be adjusted to respond to these extended timelines. We appreciate the support of our auditees and their leadership, and applaud them for keeping on course in these difficult times.



On average, we completed a combined 55% of audits within legislated timelines. At 68% completion, national and provincial audits performed better, with local government audits at 28% completion. The delays in national and provincial audits placed the local government audit cycle under further stress and compounded the problem of delayed audit sign-off.

The pandemic played a large role in audits not being completed on time, as the audit teams often had to respond to their own and auditee infections, isolation periods and

restraints. While we were able to audit remotely, the audit portfolio continued to suffer the effect of the pandemic long after lockdown restrictions eased.

The ripple effect of the legislated delays continued into the 2020-21 national and provincial audit cycle undertaken in 2021, as teams worked on local government audits at the same time as the national and provincial audits commenced.

The upcoming local government elections are subtly starting to cause more pushbacks on negative audit outcomes from auditees.

The continued pressure in the audit environment, especially in light of the third wave of the pandemic, is likely to have an impact on the next two audit cycles.

## Delivering audits through multidisciplinary teams

Multidisciplinary teams harmonise a diversity of skills and expertise from regularity, information systems, investigations and performance auditors. This created well-rounded teams that showed an understanding of our auditees' businesses, enabling them to navigate the complexities of an environment associated with high expenditure and greater audit risk.

### Multidisciplinary teams include professionals that specialise in:

- information technology governance
- risks and controls systems
- data analytics
- information security
- financial fraud and investigations
- key government sectors, and includes health professionals, economists, education specialists and engineers.

The Specialised Audit Services (SAS) portfolio consists of the Information Systems Auditing business unit (ISABU), the Investigation business unit (IBU) and the Performance Audit business unit (PABU). SAS's contribution to audit risk assessment, fraud data analytics and specialised auditee knowledge added deeper audit insight and improved efficiencies. Their support included areas such as:

- data analytics on general controls and evaluating large volumes of data on high-risk transactions (ISABU)
- supply chain management contract reviews, forensic data analytics and fraud risk engagements (IBU)

- focus areas for our real-time audits, specialised insight on the focus areas, and economy, effectiveness and efficiency during procurement (PABU).

Their knowledge on the subject matter resulted in effective and efficient audits.

**Challenges during multidisciplinary audits**

In isolated cases, we could not use SAS’s full expertise because of their limited resources. We are actively recruiting to fill these vacant positions while running training and development programmes to enhance our capabilities. In the interim, we have implemented a pre-audit risk-rating model that rates auditees to prioritise assistance for medium to high-risk auditees, which will use our constrained resources more effectively.

We have also piloted our data analytics project at five sites to increase our capabilities and our audit coverage to drive real-time auditing.

**ENHANCING OUR AUDIT PORTFOLIO**

**Developing capacity in the banking and financial services sector**

To support business units that audit the banking and financial services sector, we implemented a programme to gain a deeper understanding of these auditees using a formalised skills transfer that included numerous sessions with our strategic partners in the auditing field. Our teams have also taken on more complex audits in the banking sector and executed them successfully. The capacity building has led to a specialised risk-based audit approach to banking and financial services audits, and allowed us to standardise our audit programmes to align with best practice.

**Taking over section 4(3) audits**

As part of our strategy to systematically take over audits of SOEs, we continued to pay special attention to those SOEs that are critical to our country.

We officially took over the Transnet audit in October 2020 after a two-year transition. Our highly skilled team benefited from working closely with the former appointed auditors to deepen our knowledge of the entity in the build-up to taking over the audit. This effectively allowed us to follow a risk-based approach to auditing Transnet.

**Stand-alone audits**

Stand-alone audits are focused audits that drill down to unearth the root causes of mismanagement, irregularities or deficiencies in government initiatives. These audits do not span a performance year, but could cover the lifetime of a project or the period of the alleged irregularity or mismanagement.

**Investigations**

The requests for investigation increased by 56% this year to 126 (2019-20: 81 requests). A substantial number of the requests received either do not fall within our mandate or can be addressed during the annual audit process. Going forward, we will raise awareness of the types of matters that our mandate covers and strengthen our relationships with public bodies that are better equipped to deal with these matters.

**Performance Auditing**

The PABU is conducting a follow-up performance audit on the rehabilitation of abandoned mines at the Department of Mineral Resources. The objective of the audit is to evaluate the effectiveness of management’s corrective actions, implemented since the first performance audit on this topic in 2009. We will conclude this report during 2021.

**SUMMARY OF AUDITS TAKEN OVER**

15

of 21 schedule 2 entities audited by us



### Strict oversight of governance in section 4(3) audits

We have enhanced strict oversight of SOE audits by implementing the PAA regulations and continue to assess each institution classified as section 4(3) to ensure that we concur with the conditions of appointing private auditors to enforce governance and oversight.

The concurrence process requires us to reach consensus with the auditee and section 4(3) auditors on the concurrence conditions. In collaboration with the South African Institute of Chartered Accountants (Saica), we held a section 4(3) lecture to inform private auditors about the amended regulations and highlight their expected cooperation on the concurrence process.

We identified threats of familiarity at some institutions that have been audited by the same private auditors for between five to 20 years. This was especially rife at universities. We therefore imposed conditions on these section 4(3) auditees to appoint new auditors for the 2021-22 audits. While we received pushback from some of our auditees and private audit firms, we will continue to strictly implement our regulations without fear or favour, especially given the concerns about audit quality and auditor independence.

### Agility of our audit methodology

Our audit methodology has proven its agility in responding to the additional risks emerging from the pandemic and the lockdown. We adjusted our audit processes to cope with the legislated delays in audits, limits on our ability to visit auditees, the covid 19 initiatives' real-time audits and implementing the MI process. We are satisfied that our audit methodology has achieved its purpose and is agile enough to meet future challenges and opportunities.

### Our differentiated approach

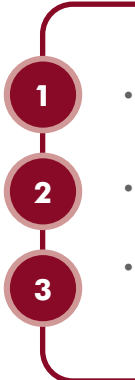
Our methodology currently provides for different audit approaches to small and dormant auditees, and auditees with repeated disclaimers of opinion.

We expanded the categories of our auditee portfolio this year. This will enable us to develop additional differentiated audit approaches and ensure that we audit what matters in the most efficient and effective manner. We will implement the categorisation and the differentiated audit approaches in 2021-22.

### Innovative ways to conduct audits using technology

In this performance year, we introduced the innovation think tank, recognising the importance of innovation in the current environment. This created a platform where auditors can share ideas with a specific focus on enhancing audit efficiencies.

#### We focused on three central themes:

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- 1 • ensuring that we only touch information once
  - 2 • using technology to increase our efficiency
  - 3 • increasing audit assurance without doing additional work

We developed concepts that required greater automation in our audit approach. This approach was used to audit the appropriation statement during its pilot at three audit business units, and achieved an 80% decrease in audit time and 60% decrease in costs. The result was a testament to the potential of automation in the broader audit process.

This approach will be institutionalised and rolled out in all our annual audits in 2021-22. As we explore further innovation, we will focus on expanding our use of novel technologies to achieve further efficiencies in our auditing.

## CONTINUOUSLY AND SUSTAINABLY IMPROVE THE QUALITY OF OUR AUDITS

### Value adding auditing objective 2: Ensure high quality of our audits

#### PERFORMANCE MEASURE

% adherence to quality standards: audit engagements

#### 2020-21 TARGETS

80% – 90% (C1, C1#, C2 and C3 rating)

#### 2020-21 ACTUAL

81%

Given our disappointing quality control results over the two previous performance years, we committed to an audit quality improvement action plan that we continued to implement during the performance year. Although these activities were hampered by our need to reprioritise our internal initiatives to respond to the national and global environment, we were able to turn the tide on non-compliance with audit standards. This year, we subjected 58 audit files to a post-issuance quality review and obtained an 81% compliance rate with quality standards against a target range of 80% to 90%. We are pleased with the improvement from last year, which is a result of:

- proactively reviewing selected audits that phased in the MI process
- enhancing targeted communications on audit quality
- enhancing our technical analysis
- conducting transversal root cause analysis with specific corrective actions.

We also supported new and acting engagement managers, and managers that had previously received a non-comply rating. The support plan included compulsory pre-issuance reviews, audit report consistency reviews, business executive support, coaching or peer reviews and a coaching support programme that included compulsory sessions offered by an accredited coach.

We tightened pre-issuance review processes and enforced standards of finalising and archiving audit files, and will continue to monitor the corrective actions.

### Implementing the International Standards on Quality Management

The International Auditing and Assurance Standards Board modernised the International Standards on Quality Management (ISQM). Our exco approved the move to replace the ISQC1 with the ISQM 1 and 2. These new standards on managing audit quality are tailored to an evolving and increasingly complex environment that includes the impact of technology and using external service providers.

Our fundamental redesign processes to adapt to the new requirements had been slowed down due to our audit priorities. We continued to raise organisation-wide awareness, engage directly with key business process owners and explore the impact of the new standards.

We are confident that implementing the new quality management standards will contribute positively to improvements in our audit quality results.

### Audit quality indicators

To improve the quality of our audit engagements, for the past few years we have worked on our audit quality indicators (AQIs). AQIs provide an early warning of potential threats to audit quality, and are subdivided into two main categories: in-flight AQIs and post-flight AQIs. In-flight AQIs are indicators based on real-time data of specific audits and audit support activities and shared during an audit cycle. Post-flight AQIs are indicators based on historical data and shared after the audit cycle to provide insight on emerging audit quality risks.

We approved our current set of AQIs in July 2020 and issued four in-flight AQI reports designed to promote and deepen our internal culture, which recognises that our audit quality is our licence to operate. Going forward, we intend to use these reports for corrective action.



### Contracted audit firms accountability model

We have strengthened controls on the quality of audit work that we expect from contracted audit firms. This is in response to the poor quality of audits produced by some of these firms, which had an impact on our audit product.

The contracted audit firm accountability model was introduced in May 2019. It requires any firm we contract to ensure that its audits meet the minimum quality standards and undergo quality control reviews before submission to the AGSA. This process and continuous monitoring led to an improved audit product.

We have also worked on a system of consequences for contracted audit firms that have adverse quality outcomes.

### Pre-issuance reviewers

We rely on pre-issuance reviewers to improve audit quality. We engage with these reviewers on their, and the engagement manager's responsibilities, as well as escalation processes during the review process.

As part of strengthening the pre-issuance review process, we investigated the role of pre-issuance reviewers on files that had obtained non-comply quality control assessment ratings in 2019-20.

Pre-issuance reviewers who did not adequately discharge their responsibilities were either removed from the database or received warning letters.

We launched a pre-issuance review online reporting platform to gather data and feedback from pre-issuance reviewers. This platform allows us to identify the root causes of poor quality reviews and improve areas of weakness in the process. Reviewers raised the following challenges:

- the allocation process was not consistent and reviewers feared raising findings because of a perception of victimisation
- skills and experience were lost because reviewers were changed annually during each audit cycle
- the allocation process was lengthy and resulted in lost time.

To address these challenges, we introduced a new allocation process that assigns reviewers to the same audit for the duration of the tender cycle.

During June and July 2020, we trained pre-issuance reviewers on their responsibilities and the audit software to ensure that they were adequately skilled to support our audit quality.

## CONCLUSION ON THE PERFORMANCE OF THE VALUE-ADDING AUDITING STRATEGIC GOAL

Our special reports on our real-time audits raised awareness and encouraged action from government and oversight bodies before the relief initiatives saw any further abuses, losses or mistakes. These audits enabled oversight to play their role proactively and elicited a very public commitment from accounting authorities and the executive to urgently deal with the matters reported. This increased our relevance during a difficult time in our country.

We reduced our audit scope during our annual audits to allow us to balance the parallel real-time audits and our annual audit cycles. However, we are confident that our response did not have a negative impact on the value that we added to auditees and oversight bodies.

Our innovation think tank worked as a platform for auditors to share ideas focused on enhancing audit efficiencies and greater automation in our audit approach.

Our audit methodology's agility assisted us to respond appropriately to the risks generated by the pandemic, to perform real-time audits and to audit large and complex SOEs.

As part of our strategy to systematically take over SOE audits, we continued to pay special attention to those SOEs that are critical for our country to function. Our capacity-building journey and multidisciplinary teams enabled us to take over the Transnet audit seamlessly and continue to support the Eskom audit as planned. We continue to play a pivotal role in overseeing those SOEs that we have opted not to audit directly.

The number of staff who gained a deeper understanding of the banking and financial services sector increased, which led to a specialised risk-based audit approach to this sector and allowed us to standardise the audit programme.

## CONCLUSION ON THE PERFORMANCE OF THE VALUE-ADDING AUDITING STRATEGIC GOAL (CONTINUED)

We reinforced our message for government to invest in controls that prevent transgressions, fraud, abuse and financial losses, and launched a set of guides on preventative controls to make the concept more accessible to oversight bodies.

The positive responses from some auditees to the outcomes of our work have not yet manifested in their environment. We remain concerned that the improvements at some auditees are not sustainable and the fundamentals of strong financial management disciplines are not being strengthened across all auditees. We are aware that more needs to be done to entrench and enhance these improvements.

A number of initiatives such as proactive reviews, enhanced targeted communications, root-cause analysis and corrective actions were undertaken to improve audit quality. We also developed a support plan for new and acting senior managers and managers that had previously received a non-comply quality rating, and implemented the AQIs. These initiatives allowed us to turn the tide of non-compliance with audit standards, confirmed by our 81% compliance with quality standards against a target range of 80% to 90%.

We continued to raise awareness on the ISQM 1 & 2 standards to prepare the audit environment. Implementing the new quality management standards will contribute positively to improvements in our audit quality results.

### Key challenges

The pandemic continued to affect our operations significantly. Substantial legislated and audit process delays put our audit teams under tremendous pressure, although they did everything in their power to complete their audits.

Auditee closures due to lockdowns and their poor IT systems restricted our access for data analytics procedures. We resolved this by getting direct real-time access to their databases, which saved a lot of time and effort, and enabled us to report our findings more frequently.

The real-time audits also stretched our capacity to deliver beyond the normal audit cycles, especially among the SAS units. Our SAS units had to increase their capacity in a short time frame to meet the demands of the audits.

### Future outlook

We will continue to capacitate our SAS units to effectively respond to the risks in our audit environment. Real-time auditing and reporting, which uses such teams extensively, is being considered as an audit approach for the future, especially for key government programmes where it can be used to strengthen prevention measures against abuse and programme failure. We will also continue to enhance our capacity to audit SOEs while using available opportunities to create the necessary balance within the audit portfolios.

We expanded the categories of our auditee portfolios to develop additional differentiated audit approaches and ensure that we audit what matters in the most efficient and effective manner. We will implement these categories and differentiated audit approaches in the next performance year.

The substantial increase in requests for investigation that do not fall within our mandate indicates that we need to raise awareness of the types of matters that our mandate covers. We also need to strengthen our relationships with public bodies that are better equipped to deal with matters that fall outside of our scope.

Our audit methodology is the foundation from which we continue to explore opportunities that add greater value to our auditees. The methodology is agile enough to meet future challenges and we will continue to seek innovation to further the success of our innovation pilot project. We will focus on expanding our use of novel technologies to achieve greater audit efficiencies, while introducing and institutionalising initiatives to sustain and improve our compliance with audit standards.