



UNPACKING THE ANNUAL AUDIT PROCESS

The Auditor-General of South Africa (AGSA) annually audits and reports on the accounts, financial statements and financial management of all national and provincial state departments and administrations, all municipalities and any other institution or accounting entity required by national and provincial legislation to be audited by the Auditor-General. This is the AGSA's mandate as enshrined in the South African Constitution.

The process which is followed when auditing the above institutions is unpacked below and the two most frequently asked questions (FAQs) answered. On the flip side are a few more FAQs.

What do auditors do?

Why do they do it?

Risk assessment

Agree terms of engagement

Terms of the engagement are communicated and agreed to ensure a clear understanding of responsibilities of the parties, the objectives of the audit, access to information and the reports to be provided.

Plan the audit

An understanding of the auditee is obtained for risk assessment purposes and an audit plan is prepared.

Perform risk assessment procedures

A risk assessment is performed to determine the number and type of procedures to be performed.

Risk response

Perform procedures in terms of risk assessment

Procedures are performed to obtain evidence that the financial statements and annual performance report do not contain material misstatements and that key laws and regulations have been complied with.

Reporting

Prepare management report
(Not published)

The report is only provided to the management of the auditee and the executive authority at the end of the audit. It details the findings from procedures performed, identifies the root causes of these findings and makes recommendations for improvement.

Prepare auditor's report
(Published)

The report is published in the auditee's annual report. It informs those responsible for oversight, the public and others of material misstatements in the financial statements, material findings on the usefulness and reliability of the performance report, material non-compliance with key laws and regulations in specific focus areas, and the deficiencies in internal control that were identified during the audit.



What is an audit in the public sector?

The public sector auditor assesses the stewardship of public funds, performance of government policies and compliance with key laws and regulations in an objective manner. The scope of the annual audit performed for each auditee is prescribed in the Public Audit Act and the General Notice issued in terms thereof. It includes the following:

- Providing assurance that the financial statements are free from misstatements that will affect the users of the financial statements
- Reporting on the usefulness and reliability of the information in the annual performance report
- Reporting on material non-compliance with key laws and regulations
- Identifying the key internal control deficiencies that should be addressed to achieve a clean audit

Performance audits may also be performed to determine if resources have been procured economically and are used effectively and efficiently.

What does an audit not do?

- Due to the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some, even material, misstatements in reported information may not be detected, and the completeness and accuracy of the information reported is not guaranteed.
- The focus is on specific areas in key legislation and therefore an audit does not provide assurance that all applicable laws and regulations have been complied with.
- Although possible fraud may be identified during an audit this is not the main purpose of the audit. An audit does not provide assurance that service delivery has been achieved, only that the annual performance report is useful and reliable.

What is a clean audit?

A clean audit relates only to three aspects:

- the financial statements are free from material misstatements
- there are no material findings on the annual performance report
- there are no material findings on compliance with key laws and regulations

How can an organisation achieve a clean audit?

Matters reported by external and internal auditors should receive timeous management attention. Internal controls should address the following key areas:

Leadership

- Establish a culture of honesty, ethical business practices and good governance
- Exercise oversight
- Ensure effective human resource practices
- Implement appropriate policies and procedures
- Approve and monitor the implementing of action plans to address internal deficiencies
- Approve appropriate IT governance framework

Financial and performance management

- Ensure proper record keeping of all transactions
- Maintain effective controls over daily and monthly processing and reconciling of transactions
- Produce regular, accurate and complete financial and performance ('service delivery') reports
- Review and monitor compliance with applicable laws and regulations
- Design and implement formal controls to mitigate IT risks

Governance

- Ensure that risks are periodically identified, assessed and effectively mitigated
- Ensure adequately resourced and functioning internal audit unit
- Ensure audit committee that performs its legislated duties and that promotes accountability and service delivery

The Auditor-General of South Africa annually tables and publishes

- a general consolidated report and nine provincial reports on the national and provincial audit outcomes.
- a general consolidated report and nine provincial reports on the municipal audit outcomes.
- a number of performance audit reports.

These reports are available for viewing and free downloading at www.agsa.co.za

