



AUDITOR-GENERAL
SOUTH AFRICA

MEDIA RELEASE

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Auditor-General of South Africa terminates its auditing contracts with audit firms, KPMG and Nkonki Inc.

PRETORIA – Auditor-General (AG) Kimi Makwetu has announced his office's decision to terminate, with immediate effect, the auditing contracts with KPMG and Nkonki Inc., who do public sector audits on behalf of the Auditor-General of South Africa (AGSA).

Use of private audit firms

As the country's supreme audit institution that audits South Africa's public sector, the AGSA, due to the size of its audits, uses various private audit firms – such as KPMG and Nkonki Inc. to audit on its behalf and to augment its auditing staff. When conducting these audits, the contracted firms stringently follow AGSA auditing standards, which include layers of rigorous internal and external, independent quality assurances and peer reviews to ensure that quality audit work is produced.

In addition to this, the core pillars that define the foundation of our profession are independence, professional competence and ethics. Once these have been fundamentally impacted, we are called upon to review and reassess our position.

Decision to totally terminate audit contracts

Last year Makwetu announced that his office, while waiting for various investigations into matters raised in the 2017 report titled 'KPMG South Africa leadership changes and key findings arising from KPMG International investigation', would continue to secure the services of KPMG SA, limited to the audits that were already allocated to the firm at the time.

Makwetu says recent media reports relating to the external audit of VBS Mutual Bank and the conduct of KPMG audit partners are some of the reasons that prompted the decision to withdraw all KPMG audit mandates with immediate effect.

On the termination of Nkonki Inc.'s contract, Makwetu said recent media reports on matters arising from the shareholder transactions involving the firm were of "grave concern and pose significant risk on the reputation of my office through the statutory audits contracted" to Nkonki Inc.

Maintaining accountability

Says Makwetu: "As South Africa's supreme audit institution, this country looks up to us to act and project an image of accountability, the same way we hold the entire public sector to account on how it uses taxpayers' monies. This is one of the tenets that have anchored this organisation for over 100 years, and we encourage all our employees and contracted audit firms to conduct themselves in a manner that will not erode this long-standing legacy.

"While we have adopted the International Standards of Auditing, which we follow and adhere to whenever we conduct our audits, it is also worth noting that all audit work performed by AGSA employees or contracted audit firms is subject to a series of rigorous internal and external quality control measures."

The AG says these terminations are not a judgement on the capabilities or integrity of the professionals that work in the firms, but are recognition of the significant reputational risks associated with matters that affect them at

present. We will continue to engage with both firms as they focus on their internal systems and the external, industry investigations, in the case of KPMG.

“Our priority now is to closely work with all interested stakeholders in the quest to maintain and further improve the confidence that the public places on the external audit function in the public sector. We are also part of endeavours to help mend the image of the accounting/auditing profession, which has received some reputational dents – most of these self-inflicted – in the recent past,” concludes Makwetu.

End.

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