



MANAGEMENT REPORT TEMPLATE

PURPOSE

To provide the engagement manager with requirements and guidance on how to report to management and those charged with governance. The template applies to public sector auditees audited by the AGSA. Subsections 2.3 and 2.4 apply to public sector auditees not audited by the AGSA in accordance with section 4(3) of the Public Audit Act 25 of 2004 (PAA), and the application of the rest of the requirements of this template is encouraged for these auditees.

MANAGEMENT REPORT: A PRACTICAL APPROACH

The explanatory material is referenced by a note at the end of the report where explanations and illustrative examples can be found.

The illustrative paragraphs are merely examples and should not be copied and pasted without taking into account the particular circumstances of the auditee.

The template for the management report has been pre-populated for the PFMA 2021-22 audit cycle to ensure that significant findings from the audit are communicated to management and those charged with governance in a consistent manner. A separate pre-populated management report template will be issued for the MFMA 2021-22 audit cycle.

The management report is addressed and provided to the [accounting officer/authority/other]. The report should also be shared with the executive authority, the audit committee and the head of the internal audit unit. In addition, the report may be shared with legislatures or their internal committees, in which case the separate guidance on sharing of the management report should be followed. Any requests for the management report by other state institutions must be dealt with in terms of the AGSA's *Audit engagement performance policy*.

Where wording appears in square brackets [], the appropriate wording for the circumstances should be selected or inserted while the other, non-applicable wording should be deleted. Where wording is included in round brackets (), this explanatory information should be deleted in the final version of the report.



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

[INTERIM/FINAL] MANAGEMENT REPORT

[NAME OF AUDITEE]

[Interim / [Insert year-end date]]

Communicated to the [accounting officer/authority/other] on: [Insert date]





MANAGEMENT REPORT

[NAME OF AUDITEE]

[Interim / [Insert year-end date]]

Discussed with the [accounting officer/authority/other] on: [Insert date]

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MANAGEMENT REPORT TO THE [ACCOUNTING OFFICER/ACCOUNTING AUTHORITY/OTHER (THE PARTY RESPONSIBLE FOR FINANCIAL AND NON-FINANCIAL REPORTING WHERE THE AUDITEE IS NOT SUBJECT TO THE PFMA)] ON THE AUDIT OF THE [NAME OF AUDITEE] FOR THE YEAR ENDED [INSERT YEAR-END DATE]

INTRODUCTION

(Final)

(Applicable to all audits that are **not** implementing the MI process)

1. The purpose of the management report is to communicate audit findings and other key audit observations to the [accounting officer/authority/other] and does not constitute public information. This management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended [Insert year-end date].
2. These findings were communicated to management and this report details management's response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.

(If the audit is selected for implementation of the MI process, the two paragraphs below should be used)

3. The purpose of the management report is to communicate audit findings and other key audit observations to the [accounting officer/authority/other] and to provide a summary of the material irregularities and suspected material irregularities of which the [accounting officer/authority/other] was notified. The report does not constitute public information.

[The management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended [Insert year-end date]. These findings were communicated to management and this report details management's response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.

4. In accordance with the terms of engagement, our responsibility in this regard is to:
 - express an opinion on the [consolidated and separate] financial statements
 - express an opinion in the management report on the usefulness and reliability of the reported performance information for selected [programmes/objectives], and report the material findings in the auditor's report



- report on material findings relating to compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)
 - (notify the [accounting officer/authority/other] of any material irregularity or suspected material irregularities identified during the audit, and report on it in the auditor's report.)
5. Our engagement letter sets out our responsibilities and those of the [accounting officer/authority/council] in detail.
 6. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information as well as the annexure to internal control deficiencies reported.
 7. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.






(Interim)

8. The purpose of the management report is to communicate audit findings and other key audit observations to the [accounting officer/authority/other] and the report does not constitute public information. This management report is provided to make it easier for the auditee to consider and correct the audit findings arising from the audit of the financial statements, performance information and compliance with legislation that have come to our attention to date. We will provide a final management report following the completion of the audit after year-end.
9. Our engagement letter sets out our responsibilities and those of the [accounting officer/authority/other] in detail.
10. The audit work performed to date includes the following:
 - (include detail on the audit work performed)
 - (include detail on the audit work performed)
11. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information¹ as well as the annexure to internal control deficiencies reported.
12. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.
(Interim introduction ends here)²
13. The **figure** that follows provides a pictorial summary of the audit results and our key messages on how to [improve/sustain] the audit outcomes with the focus on the following:³
 - Status of the audit outcomes



- Status of the level of assurance provided by key role players
- Status of the drivers of internal controls
- Status of risk areas
- [Root causes to be addressed/Best practices that should be maintained]

14. Movement from the previous year is depicted as follows:⁴

-  Improved
-    Unchanged / slight improvement / slight regression
-  Regressed

[INCLUDE GRAPHIC]



OVERALL MESSAGE

15. [Provide a **brief** high-level commentary highlighting auditee-specific key messages depicted by the graphic]⁵

SECTION 1: INTERACTIONS WITH STAKEHOLDERS RESPONSIBLE FOR OVERSIGHT AND GOVERNANCE⁶

16. During the audit cycle, we met with the following key stakeholders responsible for oversight and governance to communicate matters relating to the audit outcome and matters identified during our status of records review/s of the [type of auditee]:

(Add or amend the stakeholders as applicable. Where status of records review briefings were held, these should be listed in the table.)

Key stakeholder	Purpose of interaction	Number of interactions
[Speaker of the] portfolio committee on [name of committee]		
Standing committee on public accounts		
[Minister /Member] of the [executive committee] [of/for] [name of portfolio]		
[Title of the [accounting officer/authority/other], e.g. director-general]		
Audit committee		
Other key and influential stakeholder(s)		

17. At these interactions, we [shared/highlighted] the following key matters affecting audit outcomes and the auditee [include high-level summary of key matters or determinations not already included in the table above]:

-
-

18. [Some/All] stakeholders made commitments to implement initiatives that can maintain/improve the audit outcome. The commitments given and the progress of previous commitments are included in section 3.2, which deals with the assessment of assurance providers.



SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT

AUDIT OF THE [CONSOLIDATED AND SEPARATE] FINANCIAL STATEMENTS

19. [We identified material misstatements in the [consolidated and separate] financial statements during the audit. These misstatements were not prevented or detected by the [type of auditee]'s system of internal control. These material misstatements also constitute non-compliance with [section 40(1)/55(1) of the Public Finance Management Act (PFMA)/ other auditee specific legislation].

20. The misstatements that were not corrected form the basis for the [qualified/adverse/disclaimer of] opinion] on the financial statements.

OR

21. [We commend the [type of auditee] for submitting financial statements that were free from material misstatements].

Material misstatement			Impact	Impact
Financial statement item	Finding [Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement where applicable.]	Occurred in prior year [(Insert) [Yes/No]]	R current year	R prior year
Material misstatements not corrected⁷				



Material misstatement			Impact R current year	Impact R prior year
Financial statement item	Finding [Include a brief description of the misstatement as per the findings and the auditor’s report. Include the reasons for the auditee not correcting the misstatement where applicable.]	Occurred in prior year [(Insert) [Yes/No]]		
Material misstatements corrected⁸				



MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

Key audit matters⁹

(This section is only applicable to JSE-listed entities that are required to report key audit matters (KAM) in the auditor's report)

22. Key audit matters are those matters that, in my professional judgement, were of the most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole and in forming my opinion, and I do not provide a separate opinion or conclusion on these matters. The following key audit matters will be included in our auditor's report:

Key audit matter	How the matter was addressed in the audit
[Key audit matter heading]	
[Insert description of the key audit matter.]	
[Key audit matter heading]	
[Insert description of the key audit matter.]	

OR

(Where there are no KAM to communicate or the only KAM to communicate are the matters that gave rise to a modified opinion or a material uncertainty relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern).

23. [Except for the matter(s) described in the [*Basis for qualified (adverse) opinion* and] *Material uncertainty relating to going concern* section[s] of the auditor's report,] we have determined that there are no [other] key audit matters to communicate in our report.

Emphasis of matter paragraphs¹⁰

24. The following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the financial statements:

[Emphasis of matter sub-heading]

25. [Insert description of the emphasis of matter]

Material uncertainty relating to going concern¹¹

[Material uncertainty sub-heading]

26. [Insert description of the material uncertainty]

Other matter paragraphs¹²

27. The following other matter paragraphs will be included in our auditor's report to draw the users' attention to matters regarding the audit, the auditor's responsibilities and the auditor's report:

[Other matter sub-heading]

28. [Insert description of other matter]



AUDIT OF THE ANNUAL PERFORMANCE REPORT¹³

29. [In terms of the general notice issued in terms of the PAA, the opinion on the audit of reported performance information will be included in the management report. [The report is included below to enable management and those charged with governance to see what the report will look like once it is published in the auditor's report. We will report all the audit findings included under the basis for opinion and the other matter sections of this report in the auditor's report]].¹⁴

(Entities/Funds not required to report on performance against predetermined objectives.)

30. [The [entity/fund] is not required to prepare a report on its performance against predetermined objectives as it does not fall within the ambit of the PFMA and such reporting is also not required in terms of the entity's specific legislation].

OR

(The annual performance report was not prepared and submitted for auditing).¹⁵

31. [We were unable to audit and report on the usefulness and reliability of the performance information as the [type of auditee]'s annual performance report was not prepared as required by [section 40(3)(a) of the PFMA (for departments, trading entities and constitutional institutions) / section 55(2)(a) of the PFMA (for public entities) / section 55(3)(d) of the Financial Management of Parliament and Provincial Legislature Act (for Parliament and provincial legislatures) / [insert entity specific legislation for any other auditees]].

OR




(The performance information of the subsidiary/controlled entity is reported in the annual performance report (APR) of the holding/parent/controlling entity.)¹⁶

32. [Section 40(3)(a) of the PFMA (for departments, trading entities and constitutional institutions)/Section 55(2)(a) of the PFMA (for public entities)/ [insert entity specific legislation for any other auditees]] requires the [type of auditee] to prepare an annual performance report. The [type of auditee]'s performance information was reported in the annual performance report of [name of holding/parent/controlling entity]. The usefulness and reliability of the reported performance information was tested as part of the audit of [name of holding/parent/controlling entity] and any audit findings are included in the management and auditor's report of [name of holding/parent/controlling entity].

OR

Introduction and scope¹⁷

33. We have undertaken a reasonable assurance engagement on the reported performance information for the following selected [programmes/objectives]¹⁸ presented in the [type of auditee]'s annual performance report for the year ended [insert year-end date]¹⁹:

[Programmes/objectives]	Pages in annual performance report	Opinion	Movement ²⁰ .
[Programme/objective] [include number] – [include name]	x – x		
[Programme/objective] [include number] – [include name]	x – x		
[Programme/objective] [include number] – [include name]	x – x		

34. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements, ISAE 3000(R): *Assurance engagements other than audits or reviews of historical financial information*.

35. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion[s].

[Insert (programme/objective) (include number) – (include name)]²¹

[Opinion]/[Qualified/ Adverse/ Disclaimer of] opinion²²

36. In our opinion, the reported performance information for [name of (programme / objective)] is useful and reliable, in accordance with the applicable criteria as developed from the performance management and reporting framework as set out in annexure D to this report.

Basis for [Qualified/Adverse/Disclaimer of] opinion²³

[Insert appropriate sub-heading, i.e. indicator number and/or name or description]

37. [Insert description of the material misstatement per indicator.]

Other [matter/matters]

38. We draw attention to the [matter/matters] below. Our opinion/s [is/are] not modified in respect of [this/these] [matter/s].

Achievement of planned targets²⁴

39. Refer to the annual performance report on [page(s) x to x; x to x] for information on the achievement of planned targets for the year [and management explanations provided for the [under/overachievement] of targets.²⁵ This information should be considered in the context of the [qualified and/or adverse and/or disclaimer of] opinions expressed on the usefulness and reliability of the reported performance information in paragraph(s) [x; x; x] of this report.

Adjustment of material misstatements

40. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of [name[s] of programme/objective]. [As management subsequently corrected the misstatements, we did not raise any material findings on the usefulness and reliability of the reported performance information.]/ [As management subsequently corrected only some of the misstatements, we raised material findings on the usefulness and reliability of the

reported performance information. Those that were not corrected are included in the basis for [qualified/adverse/disclaimer of] opinion paragraphs.

Responsibilities of [the party responsible for the annual performance report] the reported performance information

41. The [board of directors, which constitutes the [accounting officer/authority/other] is responsible for the preparation of the annual performance report in accordance with the prescribed performance management and reporting framework, as set out in annexure D to this report, and for such internal control as the [accounting officer/authority/other] determines is necessary to enable the preparation of performance information that is free from material misstatement in terms of its usefulness and reliability.

Auditor-general's responsibilities for the reasonable assurance engagement on the reported performance information ²⁶

42. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected [programmes/objectives] presented in the annual performance report is free from material misstatement, and to issue a management report that includes our [opinion/s]. Reasonable assurance is a high level of assurance, but is not a guarantee that the assurance engagement conducted in accordance with the relevant assurance standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if they could reasonably be expected to influence the relevant decisions of users taken on the basis of the reported performance information.
43. Our procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the [type of auditee]. We have not evaluated the appropriateness of the performance indicators established and included in the planning documents. Our procedures do not examine whether the actions taken by the [type of auditee] enabled service delivery. Our procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, our opinion does not extend to these matters.
44. A further description of our responsibilities for the reasonable assurance engagement on reported performance information is included in annexure E to this report.

AUDIT OF COMPLIANCE WITH LEGISLATION²⁷

45. [Included below are material findings on compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.]/ [We did not identify any instances of material non-compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.]

[Include heading per compliance subject matter with findings]

46. [Include detailed information.]

OTHER INFORMATION²⁸

47. The [accounting officer/ authority/ council] is responsible for the other information. The other information comprises the information included in the annual report [which includes the director's report, the audit committee's report and the company secretary's certificate as required by the Companies Act of 2008(Act No. 71 of 2008)]. The other information does not include the [consolidated and separate] financial statements, the auditor's report and those selected [programmes/objectives] presented in the annual performance report that have been specifically reported on in the auditor's report²⁹.
48. Our opinion on the financial statements and findings on the reported performance information³⁰ and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.
49. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the [consolidated and separate] financial statements and the selected [programmes/objectives] presented in the annual performance report,³¹ or our knowledge obtained during the audit or otherwise appears to be materially misstated.
50. The following paragraphs will be included in the auditor's report to highlight to the users whether any inconsistencies in the other information exist:³²
51. [Insert appropriate paragraph/details]

INTERNAL CONTROLS³³

52. The significant deficiencies in internal control which led to our overall assessment of the status of the drivers of key controls, as included in the figure in paragraph x, are described below. The detailed assessment of the implementation of the drivers of internal control in the areas of financial statements, performance reporting and compliance with legislation is included in annexure F.

Leadership

(Describe the significant matters indicated as concerning or intervention required in the status of the drivers of internal control graphic under the headings below).

Effective leadership culture³⁴

53. [Include detailed information.]

Oversight responsibility³⁵

54. [Include detailed information.]

Human resource management³⁶

55. [Include detailed information.):

Policies and procedures³⁷

56. [Include detailed information.]



Action plans to address internal control deficiencies³⁸

57. [Include detailed information.]

Information technology governance framework³⁹

58. [Include detailed information.]

Financial and performance management

(Describe the significant matters indicated as concerning or intervention required in the status of the drivers of internal control graphic under the headings below).

Proper record keeping⁴⁰

59. [Include detailed information.]

Daily and monthly processing and reconciling of transactions⁴¹

60. [Include detailed information.]

Regular, accurate and complete financial and performance reports⁴²

61. [Include detailed information.]

Compliance monitoring⁴³

62. [Include detailed information.]

Information technology systems⁴⁴

63. [Include detailed information.]

Governance

(Describe the significant matters indicated as concerning or intervention required in the status of the drivers of internal control graphic under the headings below).

Risk management activities and risk strategy⁴⁵

64. [Include detailed information.]

Internal audit⁴⁶

65. [Include detailed information.]

Audit committee⁴⁷

66. [Include detailed information.]

Summary

67. The matters above, as they relate to the basis for the [qualified/adverse/disclaimer of] opinion, findings on the [annual performance report/name of performance report] and findings on compliance with legislation, will be summarised in the auditor's report as follows:

(Insert summary)

MATERIAL IRREGULARITIES⁴⁸

- 68. In accordance with the PAA and the material irregularity regulations, we have a responsibility to report on material irregularities identified during an audit [and on the status of material irregularities reported in the previous year.]
- 69. [We have notified the [accounting officer/authority/other] of [a material irregularity/ material irregularities] [and] [a suspected material irregularity/suspected material irregularities] identified during the audit] [and the actions the AGSA will take with regard to [this material irregularity/ these material irregularities.]] [We also assessed the progress made in resolving the material irregularities reported in the previous year.]
- 70. Except for the summary of material irregularities in progress, the auditor’s report will include the following summarised information:
- 71. **[Insert heading per material irregularity]**
(Insert description of material irregularity)

[Material irregularities in-progress]

- 72. [Insert paragraph that will be included in audit report, if applicable]
- 73. Summary of material irregularities in-progress⁴⁹:

Date of material irregularity notification	Description of material irregularity / suspected material irregularity	Status
[Insert date accounting officer/authority/other was notified] (Add additional rows as necessary to capture details of MI in progress)	(Insert heading of the material irregularity / suspected material irregularity as contained in the notification)	(The response of the [accounting officer/authority/other] was not yet due]] / [The process of evaluating the response from the [accounting officer/ authority/other] was not yet completed)

(Status of previously reported material irregularities)

- 74. [Insert paragraph that will be included in audit report, if applicable]



OTHER REPORTS⁵⁰

75. We draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the [type of auditee]'s financial statements, reported performance information and compliance with applicable legislation and other related matters. The reports noted do not form part of my opinion on the financial statements or my findings on the reported performance information⁵¹ or compliance with legislation. The summarised other reports will be included in the auditor's report as follows:
76. [Insert detailed information of reports on performance, investigations or other audit-related services or special audits conducted by various parties.]

SECTION 3: ASSURANCE PROVIDERS AND STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS⁵²

ASSESSMENT OF ASSURANCE PROVIDERS

77. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives⁵³ and overall governance. One of the important oversight functions of [provincial legislatures/Parliament] is to consider auditees' annual reports. To perform this oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report includes our auditor's report, which provides assurance on the credibility of the financial statements and the annual performance report,⁵⁴ as well as on the auditee's compliance with legislation.
78. Our reporting and the oversight processes reflect on past events, as it takes place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.
79. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.6) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

Senior management: provides [assurance/some assurance/limited assurance]

- (Include further details on the reasons for the assessed assurance levels.)

[Accounting officer/authority/council] provides [assurance/some assurance/limited assurance]

- (Include further details on the reasons for the assessed assurance levels.)

Executive authority provides [assurance/some assurance/limited assurance]

- (Include further details on the reasons for the assessed assurance levels.)

Internal audit provides [assurance/some assurance/limited assurance]

- Legislation in South Africa requires the establishment, roles and responsibilities of internal audit units. Internal audit units form part of the internal control and governance structures of the [type of auditee] and play an important role in its monitoring activities.
- The [accounting officer/authority/other] should ensure that the internal audit function is adequately resourced to function effectively.
- Internal audit provides an independent assessment of the [type of auditee]'s governance, risk management and internal control processes. Internal audit have a significant role to play as an assurance provider due to the assurance skills that they possess and assurance activities that they perform. Effective internal audit units are able to have a positive impact on the status of key controls.
- The internal audit unit of the [type of auditee] must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the [accounting officer/authority/other] and report to the audit committee on the implementation of the internal audit plan and matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management, performance management, loss control and compliance with the PFMA. The internal audit unit must also perform such other duties as may be assigned by the [accounting officer/authority/other].
- (Include further details on the reasons for the assessed assurance levels.)

Audit committee: provides [assurance/some assurance/limited assurance]

- Legislation requires the [accounting officer/authority/other] to ensure the establishment of an audit committee.
- The [accounting officer/authority/other] is expected to ensure that the audit committee functions effectively to have a positive impact on the status of key controls.
- The audit committee is an independent advisory body to the [political office-bearers/accounting officer/authority/other and the management and staff of the entity/department] on matters relating to internal financial control and internal audits; risk management; accounting policies; adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the PFMA, Treasury Regulations and any other applicable legislation; performance evaluation and any other issues.
- The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the [type of auditee], its efficiency and effectiveness and its overall level of compliance with the applicable legislation.
- (Include further details on the reasons for the assessed assurance levels.)

STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS⁵⁵

80. [No specific commitments were recorded, as we had reported no significant deficiencies in internal control.]/[Below is our assessment of the progress in implementing the commitments made by the [type of auditee] to address the prior and current year's audit findings].

No.	Commitment	Made by	Date	Origin of commitment	Status

- [Insert number] audit recommendations accepted by management in the prior year on matters included in the auditor’s report and other important matters were implemented, or alternative actions were taken to resolve the finding.
- [Insert number] recommendations are still being implemented and [insert number] have not been addressed, or very limited progress has been made.
- Details on the status of implementing the recommendations made in the previous year(s) are provided in section 10, which summarises the detailed audit findings.

Key audit matters⁵⁶

(This section is only applicable to non-JSE-listed schedule 2 public entities that are required to report KAM in the management report)

81. Key audit matters are those matters that, in our professional judgement, were of the most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming the opinion, and we do not provide a separate opinion or conclusion on these matters. The following key audit matters will be included in our auditor's report:

Key audit matter	How the matter was addressed in the audit
[Key audit matter heading]	
[Insert description of the key audit matter.]	
[Key audit matter heading]	
[Insert description of the key audit matter.]	

OR

(Where there are no KAM to communicate or the only KAM to communicate are the matters that gave rise to a modified opinion or a material uncertainty relating to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.)

82. [Except for the matter(s) described in the [Basis for [qualified/adverse] opinion and] Material uncertainty relating to going concern section[s] of the auditor’s report], we have determined that there are no [other] key audit matters to communicate in our report.



SECTION 4: SPECIFIC FOCUS AREAS⁵⁷**FINANCIAL VIABILITY⁵⁸**

83. Our audit included a high-level overview of the [type of auditee]'s financial viability as at year-end. The financial viability assessment provides useful information for accountability and decision-making purposes and complements the financial statements by providing insights and perspectives thereon. The financial viability assessment is expected to enhance timely remedial decision-making and policy reforms where financial viability may be at risk. It will also highlight to management those issues that may require corrective action and the urgency and magnitude of the reforms and decisions necessary to maintain operations. The information should be used to complement, rather than substitute, management's own financial assessment.
84. (Applicable to departments only) [It should be noted that the financial viability assessment below is based on the department's financial statement amounts adjusted to reflect certain accrual accounting concepts.]

FINANCIAL VIABILITY ASSESSMENT			
		AS AT 31 MARCH 202X	AS AT 31 MARCH 202(X-1)
EXPENDITURE MANAGEMENT			
1.1	Creditor payment period	Days	Days
	30+ day accruals as a percentage of total accruals	%	%
1.2	<ul style="list-style-type: none"> Amount of 30+ day accruals Amount of total accruals 	R... R...	R... R...
REVENUE MANAGEMENT			
2.1	Debtor-collection period (after impairment)	Days	Days
	Debtors' impairment provision as a percentage of accrued departmental revenue	%	%
2.2	<ul style="list-style-type: none"> Amount of debtors' impairment provision Amount of accrued departmental revenue 	R... R...	R... R...
ASSET AND LIABILITY MANAGEMENT			
3.1	An accrual-adjusted deficit for the year was realised (total expenditure exceeded total revenue)	No / Yes	No / Yes
	<ul style="list-style-type: none"> Amount of accrual-adjusted surplus/(deficit) for the year 	R...	R...
3.2	An accrual-adjusted net current liability position was realised (total current liabilities exceeded total current assets)	No / Yes	No / Yes
	<ul style="list-style-type: none"> Amount of accrual-adjusted net current assets/(liability) position 	R...	R...

FINANCIAL VIABILITY ASSESSMENT			
		AS AT 31 MARCH 202X	AS AT 31 MARCH 202(X-1)
3.3	An accrual-adjusted net liability position was realised (total liabilities exceeded total assets)	No / Yes	No / Yes
	<ul style="list-style-type: none"> Amount of accrual-adjusted net asset/(liability) position 	R...	R...
CASH MANAGEMENT			
4.1	The year-end bank balance was in overdraft	No / Yes	No / Yes
	<ul style="list-style-type: none"> Amount of year-end bank balance (cash and cash equivalents)/(bank overdraft) 	R...	R...
4.2	Cash shortfall as a percentage of next year's appropriation (budget), excluding "compensation of employees" and "transfers and subsidies" **	No cash shortfall / %	No cash shortfall / %
	<ul style="list-style-type: none"> Amount of the cash surplus/(shortfall) Amount of next year's appropriation (budget), excluding "compensation of employees" and "transfers and subsidies" 	R... R...	R... R...
4.3	Amounts payable in future periods as a percentage of the budget for the next three years, excluding "compensation of employees" and "transfers and subsidies" ⁵⁹	No amounts payable in future periods / %	No amounts payable in future periods / %
	<ul style="list-style-type: none"> Amounts payable in future periods Amount of the next three years' appropriation (budget), excluding "compensation of employees" and "transfers and subsidies" 	R... R...	R... R...
4.4	Guarantees issued by the department as a percentage of next year's budget, excluding "compensation of employees" and "transfers and subsidies"	No guarantees issued / %	No guarantees issued / %
	<ul style="list-style-type: none"> Amount of guarantees issued Amount of next year's appropriation (budget), excluding "compensation of employees" and "transfers and subsidies" 	R... R...	R... R...
4.5	Claims against the department as a percentage of next year's budget, excluding "compensation of employees" and "transfers and subsidies"	No claims against the department / %	No claims against the department / %
	<ul style="list-style-type: none"> Amount of claims against the department Amount of next year's appropriation (budget), excluding "compensation of employees" and "transfers and subsidies" 	R... R...	R... R...
OVERALL ASSESSMENT ⁶⁰			
Overall the financial viability is assessed as:		Red (Unfavourable – Intervention required)	Red (Unfavourable – Intervention required)

FINANCIAL VIABILITY ASSESSMENT		
	AS AT 31 MARCH 202X	AS AT 31 MARCH 202(X-1)
	Yellow (Concerning)	Yellow (Concerning)
	Green (Good)	Green (Good)
<p>* This (these) amount(s) has (have) been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion and will therefore not agree with the financial statement amounts. ⁶¹</p> <p>** This indicator assumes that the unauthorised expenditure of [R...], per note [...] will not be approved with funding.</p>		

OR (Entities other than departments)

FINANCIAL VIABILITY ASSESSMENT			
		AS AT 31 MARCH 202X	AS AT 31 MARCH 202(X-1)
EXPENDITURE MANAGEMENT			
1.1	Creditor payment period	Days	Days
REVENUE MANAGEMENT			
2.1	Debtor-collection period (after impairment)	Days	Days
2.2	Debtors' impairment provision as a percentage of accounts receivable	%	%
	• Amount of debtors' impairment provision	R...	R...
	• Amount of accounts receivable	R...	R...
ASSET AND LIABILITY MANAGEMENT			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	No / Yes	No / Yes
	• Amount of the surplus/(deficit) for the year	R...	R...
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	No / Yes	No / Yes
	• Amount of the net current assets/(liability) position	R...	R...
3.3	A net liability position was realised (total liabilities exceeded total assets)	No / Yes	No / Yes
	• Amount of the net asset/(liability) position	R...	R...
CASH MANAGEMENT			
4.1	The year-end bank balance was in overdraft	No / Yes	No / Yes
	• Amount of year-end bank balance (cash and cash equivalents)/(bank overdraft)	R...	R...
4.2	Net cash flows for the year from operating activities were negative	No / Yes	No / Yes

FINANCIAL VIABILITY ASSESSMENT			
		AS AT 31 MARCH 202X	AS AT 31 MARCH 202(X-1)
	<ul style="list-style-type: none"> Amount of net cash in/(out)flows for the year from operating activities 	R...	R...
4.3	Creditors as a percentage of cash and cash equivalents	Bank in overdraft / %	Bank in overdraft / %
	<ul style="list-style-type: none"> Amount of creditors (accounts payable) 	R...	R...
	<ul style="list-style-type: none"> Amount of cash and cash equivalents / (bank overdraft) at year-end 	R...	R...
OVERALL ASSESSMENT ⁶²			
Overall the financial viability is assessed as:		Red (Unfavourable – Intervention required)	Red (Unfavourable – Intervention required)
		Yellow (Concerning)	Yellow (Concerning)
		Green (Good)	Green (Good)
* This (these) amount(s) has (have) been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion and will therefore not agree with the financial statement amounts. ⁶³			

High-level comments

85. (Insert high-level observations of the risks posed by the assessment of the financial viability).⁶⁴

PROCUREMENT AND CONTRACT MANAGEMENT

86. The audit included an assessment of procurement processes, contract management and the related controls in place. These processes and controls must comply with legislation to ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system and to reduce the likelihood of fraud, corruption, favouritism, and unfair and other irregular practices. A summary of the findings from the audit are as follows:

Irregular expenditure⁶⁵

87. R... (x%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. Further irregular expenditure incurred in previous years amounting to R..., was also identified in the current year. X% (x% in the prior year) of this irregular expenditure was identified during the audit process and not detected by the [type of auditee]'s monitoring processes. The root cause(s) of the lack of effective prevention and detection are [xxx]. Of the irregular expenditure incurred, goods and/or services were not received for expenditure amounting to R....

Awards to persons in the service of the state and their close family members and/or business partners or associates.

88. The audit included an assessment of the interests of officials and their close family members and/or business partner or associates in suppliers to the [type of auditee]. Legislation specific

to procurement does not prohibit the [name of auditee] from making such awards, but compliance with the legislation and policies was tested to ensure that conflicts of interest did not result in contracts being unfairly awarded or unfavourable price quotations being accepted, and that employees obtained approval for performing remunerative work outside their employment as required.

89. The findings were as follows (Include details on awards and interests identified as per the table below. Include all interests identified per CAATs reports, excluding false exceptions, even if no finding was raised).⁶⁶

Finding	Number and value of awards made	Number and positions of official	Number of suppliers	Further non-compliance or irregularities			
				Supplier did not submit declaration of interest	Supplier did not declare interest (false declaration)	Official did not declare interest	Official involved in awarding contract/quotation
Awards made to officials of the [type of institution]	(Include number and total value of contacts/quotations)	(Include number and list positions)		(Include number of suppliers)	(Include number of suppliers)	(Include number of officials)	(Include number of officials)
Awards made to close family members of officials of the [type of institution]							
Awards made to business partners and associates of officials of the [type of institution]							
Awards to persons in the service of other state institutions							

Employees doing business with the state (Only for departments)

90. Regulation 13(c) of the Public Service Regulations of 2016 prohibits employees of departments from doing business with the state from 1 August 2016. The transitional provisions of the regulations require that the following actions must be taken by 1 February 2017 in relation to those contracts that were awarded before 1 August 2016. An employee shall:

- cease to conduct business with the organ of the state
- resign as an employee, or

- resign as a director of a company that conducts business with an organ of state or resign as an employee.

91. Furthermore, section 30(1) of the Public Service Act of 1994 states, “No employee shall perform or engage himself or herself to perform remunerative work outside his or her employment in the relevant department, except with the written permission of the executive authority of the department.”

92. The table below provides a summary of findings on employees doing business with the state. These findings amount to contravention of the Public Service Code of Conduct, which must be investigated and action taken in accordance with the provisions of the Public Service Act.

	Employees doing business with the department	Employees doing business with other organs of state
Contracts secured after 1 August 2016		
Number of employees		
Number of contracts/quotations		
Value of contracts		
Ongoing contracts awarded before 1 August 2016 – where no action was taken to dispose of the interest		
Number of employees		
Number of contracts/quotations		
Value of contracts		
Number of employees performing other remunerative work without approval		

Procurement processes

93. The table below is a summary of findings identified on procurement processes:

Information	Total		Quotations ⁶⁷		Competitive bids ⁶⁸		Contract management	
	Number	Value	Number	Value	Number	Value	Number	Value
Awards selected for testing								
Expenditure incurred on selected awards – current year								
Limitations – awards selected but could not be tested								



Information	Total		Quotations ⁶⁷		Competitive bids ⁶⁸		Contract management	
	Number	Value	Number	Value	Number	Value	Number	Value
Awards on which non-compliance was identified								
Irregular expenditure identified								
Instances of irregular expenditure where goods/ services were not received								

- (Include the summaries of findings under the headings below. For each finding, include the number of instances and value. Illustrative examples of findings are provided below.)

Limitations on audit

94. As indicated in the table above, sufficient appropriate audit evidence could not be provided that x (number) of the selected awards to the value of Rxx... were made in accordance with the requirements of applicable SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular.

95. The reasons for the limitations were xxx. As a result of these limitations, the findings reported in the rest of this section may not reflect the true extent of irregularities and SCM weaknesses.

Procurement processes – general

- The following awards were made to suppliers that are listed on the National Treasury's database as persons prohibited from doing business with the public sector.
- (List awards)
- The [type of institution] procured x (number) quotation(s) and x (number) contracts with a total value of R... through means other than the transversal contract, while the goods or services were available through a transversal contract in which the auditee participates.
- X (number) major projects to the value of R... were procured without a proper needs assessment being conducted in the form of a project evaluation.
- X (number) awards to the value of R... were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers and the deviation was not approved by a properly delegated official.

- X (number) awards with a value of R... were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers, and the deviation was approved even though it was possible to obtain the quotations.
- X (number) quotations with a total value of R... were accepted from prospective providers who were not registered on the National Treasury's central suppliers' database.
- X (number) [contracts and/or quotations] to the value of R... were procured from suppliers whose tax matters had not been declared by the South African Revenue Service to be in order.
- X (number) contracts with a value of R... were procured without inviting competitive bids, and the deviations were not approved.
- X (number) contracts with a value of R... were procured without inviting competitive bids, and the deviations were approved even though it was practical to invite competitive bids.
- Invitations for competitive bids for the procurement of x (number) contracts with a value of R... were not advertised in the (appropriate media).
- Invitations for competitive bids for the procurement of x (number) contracts with a value of R... were not advertised for the required minimum number of days.
- X (number) competitive bids with a value of R... were not adjudicated by a properly constituted bid adjudication committee.
- X (number) contracts to the value of R... were awarded based on criteria that differ from the original specifications.
- X (number) [contracts and/or quotations] with a value of R... were awarded without applying the preference points system.
- X (number) [contracts and/or quotations] with a value of R... were awarded to bidders who did not comply with specified pre-qualification criteria requirement.
- X (number) [contracts and/or quotations] were awarded to bidders based on preference points that were not [allocated and/or calculated] according to the requirements of the Preferential Procurement Policy Framework Act and its regulations.
- X (number) [contracts and/or quotations] were awarded to bidders who did not score the highest points in the bid evaluations, and there was no justification for the deviation.
- X (number) [contracts and/or quotations] were awarded to bidders based on functionality criteria that were not stipulated in the original invitation for bidding [and quotations]
- X (number) [contracts and/or quotations] which failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable.
- X (number) [contracts and/or quotations] which achieved the minimum qualifying score for functionality criteria were not evaluated further.
- X (number) [contracts and/or quotations] were awarded to bidders who did not submit a declaration of whether they were employed by the state or connected to any person employed by the state. The total value of these awards was R....

- X (number) [contracts and/or quotations] awarded were not approved by an appropriately delegated official/committee. The total value of these awards was R....
- X (number) of contracts valued at R... were participated on without following proper process of participation in a contract arranged by another organ of state.
- Tender requirements for X (number) contracts above R30 million did not include a condition for mandatory subcontracting to advance designated groups.

Construction contracts

- X (number) construction contracts with a total value of R... were awarded to contractors who were not registered with the Construction Industry Development Board (CIDB).
- X (number) construction contracts with a total value of R... were awarded to contractors whose CIDB grading was below the required grading for the value of the particular contract.
- X (number) construction contracts with a total value of R... were awarded to contractors who were not registered in the correct class of construction work.
- X (number) major capital projects were not evaluated through a system of project evaluation prior to a final decision on the project in accordance with section 38(1)(a)(iv) of the PFMA.
- X (number) major projects to the value of R ... were procured after 01 October 2019 without the review of quality of the documentation, deliverability, affordability and value for money by the gateway review team

Local content and production (designated sectors)

- Specifications for x (number) awards with a total value of R... did not stipulate the minimum threshold for local production and content.
- For x (number) [contracts and/or quotations] with a total value of R..., the stipulated minimum threshold for local content is lower than the prescribed minimum.
- X (number) [contracts and/or quotations] with a total value of R... were awarded to bidders that did not submit a declaration of local production and content.
- X (number) [contracts and/or quotations] with a total value of R... were awarded to bidders that did not meet the minimum threshold for local production and content.

IT-related goods and services

- X (number) IT-related goods/services classified as mandatory services were procured through means other than SITA. The total value of these awards was R....

Contract management

- X (number) contracts were amended or extended without approval by a delegated official. The total value of the extensions was R....
- The performance of x (number) contractors or providers was not monitored monthly. The total value of related contracts was R....

- The contract performance and monitoring measures and methods applied in monitoring x (number) contracts with a total value of R... were insufficient to ensure effective contract management.
- Payments amounting to R... were made for goods and services that were either not received or were not delivered according to the criteria documented in the [quotation/contract]. This relates to x (number) quotations and x (number) contracts.

Internal control deficiencies

96. (Include a short summary of the most important internal control deficiencies that should be addressed to improve procurement and contract management and refer to the detailed section on internal controls in the management report. Note – deficiencies were identified through the business process (understand the auditee business processes for supply chain management) and as a root cause finding.)

FRAUD AND CONSEQUENCE MANAGEMENT

97. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and to issue an auditor's report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.⁶⁹
98. Below is a summary of fraud risk factors that should be addressed to ensure that sufficient measures/controls are in place to prevent material misstatement due to fraud.
- (Include a summary of all fraud risk factors identified as per the fraud risk assessment performed).
99. The PFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular as well as fruitless and wasteful expenditure, the possible abuse of the SCM system (including fraud and improper conduct) and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the [type of auditee]'s management of consequences. The significant findings are provided below (delete findings not applicable):⁷⁰

Measures to manage consequences

100. The following measures were not implemented to ensure that the environment is conducive to effective consequence management:
- The [type of auditee] did not adopt systems (policies) to investigate allegations of misconduct and disciplinary procedures.
 - There was no code of conduct that addresses ethical behaviour by officials.
 - The role(s) relating to investigating allegations of misconduct have not been formally assigned to officials, units or committees of the auditee.
 - There was no hotline or similar process/mechanism for reporting financial misconduct/transgressions that are committed by officials and suppliers of the auditee.

- There was a lack of proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support the processes followed for financial misconduct/transgressions committed by officials and suppliers of the auditee.

Ongoing investigations

101. A total of xx (number) investigations were ongoing at year-end into allegations relating to [financial misconduct, fraud and/or improper conduct in SCM. [Some of these investigations have been ongoing for a period exceeding 12 months]. The table below provides a summary of investigations which had not been completed as at year-end (source: *Allegations and Noclar* working paper):

Total number of ongoing investigations as at year-end	
• Number of SCM-related investigations	
• Number of fraud-related investigations	
Number of investigations exceeding a period of six months	

Sanctions/recommendations not implemented for completed investigations⁷¹

102. The [PFMA treasury regulation/ Financial Management of Parliament and Provincial Legislatures Act] requires that at completion of an investigation, disciplinary proceedings are held. A total of xx (number) investigations were completed during the current year. For xx (number) completed investigations, appropriate action (sanction) was not taken as per the findings/recommendations of the investigations.

Failure to properly deal with allegations reported in the prior year

103. The table below provides a summary of findings from the previous year that were either not investigated or proper disciplinary steps were not taken after investigation.⁷²

104. [Unauthorised/irregular/fruitless and wasteful] expenditure

Finding (Not applicable findings should be deleted)	Value
Unauthorised expenditure	
Unauthorised expenditure identified in the previous year was not investigated to determine whether a person was liable for the expenditure	
Unauthorised expenditure was not properly investigated	
Effective and appropriate disciplinary steps were not taken against officials who [made and/or permitted] unauthorised expenditure	
Losses resulting from unauthorised expenditure were not recovered from the person liable	
Unauthorised expenditure was written off as irrecoverable without the approval of the relevant authority	
Unauthorised expenditure that constituted crime was not reported to the South African Police Service (SAPS)	

Finding (Not applicable findings should be deleted)	Value
Irregular expenditure	
Irregular expenditure identified in the previous year was not investigated to determine if a person was liable for the expenditure	
Irregular expenditure was not properly investigated	
Effective and appropriate disciplinary steps were not taken against officials who [made and/or permitted] irregular expenditure	
Losses resulting from irregular expenditure were not recovered from the person liable	
Irregular expenditure was written off as irrecoverable without the approval of the [accounting officer/authority/other]	
Irregular expenditure was condoned by authorities that did not have the authority to condone such irregular expenditure	
Irregular expenditure that constituted crime were not reported to the SAPS	
Fruitless and wasteful expenditure	
Fruitless and wasteful expenditure identified in the previous year was not investigated to determine whether a person was liable for the expenditure	
Fruitless and wasteful expenditure was not properly investigated	
Effective and appropriate disciplinary steps were not taken against officials who [made and/or permitted] fruitless and wasteful expenditure	
Losses resulting from fruitless and wasteful expenditure were not recovered from the person liable	
Fruitless and wasteful expenditure was written off as irrecoverable without the approval of the [accounting officer/authority/other]	
Fruitless and wasteful expenditure that constituted crime were not reported to the SAPS	

105. Allegations of financial misconduct, fraud and improper conduct in SCM

Finding (Not applicable findings should be deleted)	Number of instances
Allegations against accounting officer / accounting authority	
Allegations of financial misconduct were not investigated	
Allegations of financial misconduct, fraud and other improper conduct were not properly investigated	
Allegations of [theft/fraud/extortion/forgery] exceeding R100 000 were not reported to the SAPS	
Disciplinary hearings were not [instituted/held] for confirmed cases of financial misconduct	
Confirmed cases of financial misconduct that constituted a crime were not reported to the SAPS	
Allegations against other officials	
Allegations of financial misconduct were not investigated	

Finding (Not applicable findings should be deleted)	Number of instances
Financial misconduct, fraud and other improper conduct were not properly investigated	
Disciplinary hearings were not [instituted/held] for confirmed cases of financial misconduct	
Allegations of [theft/fraud/extortion/forgery] exceeding R100 000 were not reported to the SAPS	
Confirmed cases of financial misconduct that constituted a crime were not reported to the SAPS	
A proposal for the awarding of a contract for the recommended bidder who committed a corrupt or fraudulent act in competing for the particular contract was not rejected	
A contract awarded to a supplier of [goods/services] for the [supplier/official/other role player] who committed a corrupt or fraudulent act during the bidding process or the execution of that contract that benefited that supplier was not cancelled	

Transgressions reported to management for investigation

106. During the prior year audit, we reported findings relating to transgressions by officials or other role players for management to investigate. During the current year audit, we performed follow-up tests to determine whether the matters reported were dealt with by management.
107. The table below provides a summary of the transgressions reported in the prior year and an indication of how many were dealt with. It also provides a summary of transgressions identified in the current year that must be investigated and disciplinary steps taken based on the results of the investigations.

(Not applicable findings should be deleted)

Finding	Findings reported in prior year			Findings reported in current year	
	Number of instances	Number of instances investigated	Number of instances resolved from those investigated	Number of instances	Value
A: Improper conduct in SCM by suppliers					
Supplier submitted false declaration of interest					
Other improper conduct in SCM by suppliers					
B: Improper conduct in SCM by officials/role players					
Payments made to fictitious suppliers					
Payments made to suppliers who failed to deliver					



Finding	Findings reported in prior year			Findings reported in current year	
	Number of instances	Number of instances investigated	Number of instances resolved from those investigated	Number of instances	Value
Officials failed to disclose their own interest or that of close family members contracts					
Officials failed to disclose their own interest or that of business partners or associates in contracts					
Other improper conduct in SCM by officials or SCM role players					
C: Financial misconduct					
Performance of additional remunerative work without approval (only for departments)					
Employees of departments doing business with the state (only for departments)					
Other financial misconduct-related allegation					
D: Other contravention of legislation					
(Add other contravention of legislation)					
D: Other fraud / corruption allegations (not included above)					
(Add other possible fraud)					

108. [Unauthorised/irregular/fruitless and wasteful] expenditure disclosed in note (xx) to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of the [unauthorised/irregular/fruitless and wasteful] expenditure. Disciplinary steps must be taken against officials who caused or permitted the [unauthorised/irregular/fruitless and wasteful] expenditure, and losses incurred as a result must be recovered from the person liable.⁷³
109. In terms of section 225 of the IESBA code, we have a responsibility to consider reporting identified and suspected non-compliance with laws and regulations to an appropriate authority. The following matter(s) [has/have] been escalated to the [executive authority/(name of portfolio committee)] for them to ensure that appropriate steps are taken to address the non-compliance:
- (Document NOCLAR matters escalated to the EA/portfolio committee)

GRANT MANAGEMENT⁷⁴

110. The audit included an assessment of the department’s utilisation of the [insert name of grant(s)]⁷⁵. The following compliance findings were identified in the utilisation of the [insert grant name]⁷⁶:

[Only include the findings identified from the list below]:

- There was significant underspending of the grant due to an unspent amount of [insert unspent amount] of the grant.
- The grant was not spent according to the applicable grant framework.
- The performance of the key projects or functions funded by the grant was not evaluated.
- Transfers of DoRA grants to other institutions were not made in line with section 16(3) of DoRA.

111. Key projects funded by the [insert name of grant] were identified, tested and reported on, over the project life cycle of the selected key projects. We tested the timelines, budget spending, compliance with procurement processes, appropriate recording of the transactions in the financial statements and that the quality of the goods and services delivered agreed with the initial requirements

112. The table below summarises the audit findings on the key projects⁷⁷.

Summary of key findings per selected project			
Key project name	(Project name)	(Project name)	(Project name)
Brief description of key project			
Project commenced as planned			
Project completed within defined duration (applicable if completed)			
Status of completion			
Total project budget			
Actual amount spent from initiation to date (end of financial year)			
Audit findings			
Overspending or underspending on total project budget	(Yes, significant [over/under] spending	(Yes, significant [over/under] spending OR	(Yes, significant [over/under] spending OR

Summary of key findings per selected project			
Key project name	(Project name)	(Project name)	(Project name)
	OR No finding = No)	No finding = No)	No finding = No)
Findings identified on the procurement of goods and services for the project	(Finding = Yes No finding = No)	(Finding = Yes No finding = No)	(Finding = Yes No finding = No)
Findings identified on the appointment and contract management of implementing agents for the project	(Finding = Yes No finding = No N/A)	(Finding = Yes No finding = No N/A)	(Finding = Yes No finding = No N/A)
Findings identified on procurement and contract management by the implementing agent for the project	(Finding = Yes No finding = No N/A)	(Finding = Yes No finding = No N/A)	(Finding = Yes No finding = No N/A)
Findings on the overall project management	(Finding = Yes No finding = No)	(Finding = Yes No finding = No)	(Finding = Yes No finding = No)
Findings identified on consequence management in relation to the project	(Finding = Yes No finding = No Not tested = N/A)	(Finding = Yes No finding = No Not tested = N/A)	(Finding = Yes No finding = No Not tested = N/A)
Findings identified on fraud in relation to the project	(Finding = Yes No finding = No)	(Finding = Yes No finding = No)	(Finding = Yes No finding = No)
Findings identified on the quality of goods and services delivered on the project	(Finding = Yes No finding = No)	(Finding = Yes No finding = No)	(Finding = Yes No finding = No)
Findings on commissioning of the completed project	(Finding = Yes No finding = No Not completed = N/A)	(Finding = Yes No finding = No Not completed = N/A)	(Finding = Yes No finding = No Not completed = N/A)
Findings identified on accounting for the project (annual financial statements)	(Finding = Yes No finding = No)	(Finding = Yes No finding = No)	Finding = Yes No finding = No)
Spending not aligned to stage of completion	(Finding = Yes No finding = No)	(Finding = Yes No finding = No)	(Finding = Yes No finding = No)
Budget spent but project milestones not achieved	(Finding = Yes No finding = No)	(Finding = Yes No finding = No)	Finding = Yes No finding = No)

Summary of key findings per selected project			
Key project name	(Project name)	(Project name)	(Project name)
Findings identified on grant spending in relation to the project	(Finding = Yes No finding = No)	(Finding = Yes No finding = No)	(Finding = Yes No finding = No)
Findings identified on fruitless and wasteful expenditure incurred on the project	(Finding = Yes No finding = No)	(Finding = Yes No finding = No)	(Finding = Yes No finding = No)
Findings identified on irregular expenditure incurred on the project	(Finding = Yes No finding = No)	(Finding = Yes No finding = No)	(Finding = Yes No finding = No)

113. [For those areas listed in the table where more detailed findings need to be brought to the attention of management, include the key findings here.]⁷⁸

- [Include details]

BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) ACT AND REGULATIONS REQUIREMENTS

(auditors to delete heading and finding, if not applicable)

114. The audit included confirming whether the requirements as set out in the B-BBEE Act and Regulations were adhered to (only applicable to national and provincial departments, trading entities, public entities and constitutional institutions). The purpose of this value-add initiative is to highlight the requirements contained in the B-BBEE Act and Regulations. Below is the list of findings identified (delete those findings that are not applicable):

- The [type of auditee] did not submit the [FORM B-BBEE 1 / the approved audited annual financial statements / the approved annual report] pertaining to the 2020-21 financial year to the B-BBEE Commission as required by regulation 12(2) of the B-BBEE Regulations.
- The [type of auditee] did not submit the [FORM B-BBEE 1 / the approved audited annual financial statements / the approved annual report] pertaining to the 2020-21 financial year to the B-BBEE Commission within 30 days as required by regulation 12(2) of the B-BBEE Regulations.
- The [type of auditee] did not submit [FORM B-BBEE 1 / the approved audited annual financial statements / the approved annual report] pertaining to the 2020-21 financial year to the B-BBEE Commission after approval of the 2020-21 audited annual financial statements and 2020-21 annual report as required by regulation 12(2) of the B-BBEE Regulations.
- The [type of auditee] did not submit the correct [annual financial statements / annual report] pertaining to the 2020-21 financial year to the B-BBEE Commission as required by regulation 12(2) of the B-BBEE Regulations.

- The annual report of the [type of auditee] did not include a report on compliance with broad-based black economic empowerment as required by section 13G(1) of the B-BBEE Act.

COVID-RELATED PROCUREMENT AND TRANSACTIONS⁷⁹

(Include a summary of findings identified on any Covid-related procurement findings related to the 2021-22 audit which were identified where applicable.)

SECTION 5. USING THE WORK OF INTERNAL AUDIT

115. The auditing standards allow external auditors the optional use of the work of internal auditors for external audit purposes and for direct assistance. We have used internal audit as follows:

- [Include a list of reports which were used for risk identification and which were used to amend the nature, timing and extent of audit procedures.]
- [Include explanations of why not all internal auditor's reports were used.]
- [The internal audit function was used for external audit purposes or for direct assistance as follows:]

SECTION 6: EMERGING RISKS

Accounting, performance management/reporting and compliance matters

New pronouncements

Modified cash standard

116. The following emerging risks are relevant for the 2021-22 audit cycle.

Componentisation of assets

- Departments are encouraged to componentise assets in their asset registers as it will become a requirement in future. The effective date to componentise assets has not been determined yet.

Classification of housing-related expenditure

- Departments of Human Settlements classify all housing-related expenditure as Transfers to households in accordance with the Sector Specific Guide: Human Settlements Departments issued in March 2012. A change in the classification of housing-related expenditure that will align to the classification requirements in the Economic Reporting Format (ERF) will be required at a date still to be determined by the National Treasury.

Inventory

- Departments are encouraged to develop their inventory management systems as the inventory disclosure note will become a requirement in future. The effective date to disclose inventory is still to be determined by the accountant-general.

- Due to the uncertainty surrounding the effective date of implementation, we have not included any findings in the auditor’s report relating to inventory. However, we include the following summary of findings from our review of the inventory management processes for your attention, to ensure that they are addressed in readiness for the eventual inclusion of inventory in the financial statement disclosures. It is further recommended that a process be put in place to determine the inventory held by the department at each year-end.

Material audit finding	Reason for occurrence	Commitment made

Standards of GRAP

117. The ASB has issued the following GRAP pronouncements, with effective dates as indicated:

GRAP pronouncement	Effective date
GRAP 25 on <i>Employee benefits</i> (revised)	To be determined
GRAP 104 on <i>Financial instruments</i> (revised)	1 April 2025
IGRAP 7 on <i>The limit on a defined benefit asset, minimum funding requirements and their interaction</i> (revised)	To be determined
IGRAP 21 on <i>The effect of past decisions on materiality</i>	1 April 2023
Guideline on <i>Accounting for landfill sites</i>	1 April 2023

IFRS

118. The following list reflects the IFRS standards and interpretations that will become effective for financial periods commencing on or after the dates indicated:

IFRS pronouncement	Effective date
IFRS 17 - Insurance contracts	1 January 2023

Subsequent events

- [Include detailed information.]
- Media reports
- Political initiatives
- Changes in oversight
- Transfer of functions

Audit findings on the annual performance report that may have an impact on the audit opinion in future

119. The planned and reported performance information of selected [programmes/objectives] was audited against the following additional criteria as developed from the performance management and reporting framework:

- Presentation and disclosure – overall presentation
 - Overall presentation of the performance information in the annual performance report is comparable and understandable
- Relevance – completeness of relevant indicators (not applicable to Parliament and provincial legislatures)
 - Completeness of relevant indicators in terms of the mandate of the auditee, including:
 - relevant core functions are prioritised in the period under review
 - relevant performance indicators are included for the core functions prioritised in the period under review
 - standardised indicators related to the core functions prioritised for the year under review are included in planning documents (provincial departments and provincial public entities only).

120. Material audit findings arising from the audit against the additional criteria do not have an impact on the audit opinion(s) of the selected [programmes/objectives] in this report. However, it may impact on the audit opinion in future.

(If material findings on the phased misstatement conditions were raised)

121. The material findings in respect of the additional criteria are as follows:

(Only include the heading if material findings were identified)

Presentation and disclosure – overall presentation

122. [Include the reporting paragraph on the phased misstatement condition as per the guidance and examples included in section F of chapter 4 of the reporting guide].

Relevance – completeness of relevant indicators

(not applicable to Parliament and provincial legislatures)

123. [Include the relevant reporting paragraphs on the phased misstatement condition as per the guidance and examples included in section F of chapter 4 of the reporting guide].

OR

(If **no** material findings were identified on the phased misstatement conditions)

124. [No material findings were identified in respect of the additional criteria].

SECTION 7: ENTITIES CONTROLLED BY THE [DEPARTMENT/PUBLIC ENTITY/COLLEGE]

125. In terms of the PFMA, the [type of auditee] has certain oversight responsibilities regarding the entities over which it has ownership control. The audit outcomes of these entities are summarised below.⁸⁰

Name of entity	Audit outcome			Significant deficiencies in internal control					
	Financial statement opinion	Findings on the performance report	Findings on compliance	Leadership		Financial and performance management		Governance	
				Assessment	Movement	Assessment	Movement	Assessment	Movement
				▲	▶	▲	▶	▲	▼

▲ Improved
▶ Unchanged
▼ Regressed

Good

Concerning

Intervention required

- We performed procedures to evaluate the department’s oversight of the public entities under its control. The following are our findings in this regard:
 - [Insert findings.]

SECTION 8: RATINGS OF DETAILED AUDIT FINDINGS⁸¹

126. For purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:



- Matters to be included in the auditor's report: These matters should be addressed as a matter/ of urgency.
- Other important matters: These matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and compliance with legislation in future.
- Administrative matters: These matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and compliance with legislation.

SECTION 9: CONCLUSION

127. [The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to achieve sustained clean administration. Our staff remain committed to assist in identifying and communicating good practices to improve governance and accountability and to build public confidence in government's ability to account for public resources in a transparent manner.] (Adapt the conclusion to the circumstances of the auditee.)

Yours faithfully

(Insert name and surname of corporate executive, business executive or senior manager responsible for signing the auditor's report)

[Corporate Executive/Business Executive/Senior Manager]: [Business Unit]

[Date of signature]

Enquiries: Name and surname
Telephone: xxx xxx xxxx
Fax: xxx xxxx
Email: xxxxx@agsa.co.za

Distribution:

Audit committee
Head of internal audit unit
Executive authority



SECTION 10: SUMMARY OF DETAILED AUDIT FINDINGS

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
Property, plant and equipment											
45		✓			✓						[In progress / Not addressed]
46											[In progress / Not addressed]
Inventory											
											[In progress / Not addressed]
											[In progress / Not addressed]
Revenue											
											[In progress / Not addressed]
											[In progress / Not addressed]
											[In progress / Not addressed]
Receivables											
											[In progress / Not addressed]



DETAILED AUDIT FINDINGS: ANNEXURES A TO C⁸²

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

[Class of transaction/account balance/disclosure/non-compliance/predetermined objectives]

1. [Audit finding heading]

Audit finding

Internal control deficiency

Recommendation

Management's response

Name:

Position:

Date:

Auditor's conclusion



ANNEXURE B: OTHER IMPORTANT MATTERS

[Class of transaction/account balance/disclosure/non-compliance/predetermined objectives]

2. [Audit finding heading]

Audit finding

Internal control deficiency

Recommendation

Management's response

Name:

Position:

Date:

Auditor's conclusion

ANNEXURE C: ADMINISTRATIVE MATTERS

[Class of transaction/account balance/disclosure/non-compliance]

3. [Audit finding heading]

Audit finding

Internal control deficiency

Recommendation

Management's response

Name:

Position:

Date:

Auditor's conclusion

ANNEXURE D: PERFORMANCE MANAGEMENT AND REPORTING FRAMEWORK

The Performance Management and Reporting Framework (PMRF) consists of the following:

- Legislation applicable to performance planning, management and reporting, which includes the following:
 - Public Finance Management Act 1 of 1999 (PFMA)
 - Treasury Regulations, 2005 issued in terms of the PFMA
 - National Treasury practice note 4 of 2009-10
 - Public Service Act, 1994 (PSA)
 - Public Service Regulations, 2016 issued in terms of the PSA
 - Financial Management of Parliament and Provincial Legislatures Act 10 of 2009 (FMPPL)
 - Regulations for reporting by public higher education institutions, 2014, issued in terms of the Higher Education Act, 1997 (applicable to universities only)
- The Framework for Managing Programme Performance Information (FMPPI), issued by the National Treasury. This framework is applicable to all spheres of government.
- The Revised Framework for Strategic Plans and Annual Performance Plans, (Revised FSAPP) , issued in terms of the National Treasury instruction No. 10 of 2020. This framework is applicable to all national and provincial departments, constitutional institutions and those public entities listed in parts A and C of schedule 3 of the PFMA.
- Circulars and guidance issued by the National Treasury and the Department of Public Service and Administration (DPSA), Department of Cooperative Governance and Traditional Affairs (Cogta) and supported by the Department of Planning Monitoring and Evaluation (DPME) regarding the planning, management, monitoring and reporting of performance against predetermined objectives.

ANNEXURE D – CRITERIA DEVELOPED FROM THE PERFORMANCE MANAGEMENT AND REPORTING FRAMEWORK

CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY			
	Departments / constitutional institutions / trading entities	Public entities	Parliament / provincial legislatures	Universities
Consistency: performance indicators and targets are consistent between planning and reporting documents				
1. Reported indicators are consistent or complete when compared to planned indicators	Section 40(3)(a) of the PFMA NT Instruction No.10 of 2020-21: Implementation of the Revised FSAPP Section 25(1) of the PSR	Section 55(2)(a) of the PFMA TR 28.2.2 Applicable to 3A & 3C public entities: TR 30.1.3(g) NT Instruction No.10 of 2020-21: Implementation of the Revised FSAPP Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 55(3)(d) of the FMPPLA	Section 5(2)(k) & 7(4)(a) of the regulations for reporting by public higher education institutions
2. Changes to indicators are approved	TR 5.1.1 NT Instruction No.10 of 2020-21: Implementation of the Revised FSAPP Sections 4.4.3 and 4.4.4 of Revised FSAPP	Applicable to 3A & 3C public entities: TR 30.1.1 NT Instruction No.10 of 2020-21: Implementation of the Revised FSAPP Sections 4.4.3 and 4.4.4 of Revised FSAPP Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 15(1) and (2)(b) of the FMPPLA	Section 5(2)(m) of the regulations for reporting by public higher education institutions



CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY			
	Departments / constitutional institutions / trading entities	Public entities	Parliament / provincial legislatures	Universities
3. Reported targets are consistent or complete when compared to planned targets	Section 40(3)(a) of the PFMA TR 5.2.4 NT Instruction No.10 of 2020-21: Implementation of the Revised FSAPP Section 25(1) of the PSR	Section 55(2)(a) of the PFMA TR 28.2.2 Applicable to 3A & 3C public entities: TR 30.1.3(g) Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 55(3)(d) of the FMPPLA	Section 5(2)(k) & 7(4)(a) of the regulations for reporting by public higher education institutions
4. Changes to targets are approved	TR 5.1.1 NT Instruction No.10 of 2020-21: Implementation of the Revised FSAPP Sections 4.4.3 and 4.4.4 of Revised FSAPP	Applicable to 3A & 3C public entities: TR 30.1.1 NT Instruction No.10 of 2020-21: Implementation of the Revised FSAPP Sections 4.4.3 and 4.4.4 of Revised FSAPP Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 15(1) and (2)(b) of the FMPPLA	Section 5(2)(m) of the regulations for reporting by public higher education institution
5. Reported achievements are consistent with the planned and reported indicator and target	Section 40(3)(a) of the PFMA	Section 55(2)(a) of the PFMA	Section 55(3)(d) of the FMPPLA	Section 7(4)(a) of the regulations for reporting by public higher education institutions
Measurability: Performance indicators are well defined and verifiable, and targets are specific, measurable and time bound				
6. A performance indicator is well defined when it has a clear definition so that data will be collected consistently	FMPPI chapter 3.2		Criteria not applicable	Section 1(d) of the regulations for reporting by public higher education institutions



CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY			
	Departments / constitutional institutions / trading entities	Public entities	Parliament / provincial legislatures	Universities
and is easy to understand and use				
7. A performance indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator	FMPPi chapter 3.2		Criteria not applicable	
8. A target is specific when the nature and the required level of performance of the target are clearly identifiable	FMPPi chapter 3.3		Criteria not applicable	Section 1(a) of the regulations for reporting by public higher education institutions
9. A target is measurable when the required performance can be measured	FMPPi chapter 3.3		Criteria not applicable	Section 1(b) of the regulations for reporting by public higher education institutions
10. A target is time bound when the time frames for the achievement of the target are indicated	FMPPi Chapter 3.3		Criteria not applicable	Section 1(c) of the regulations for reporting by public higher education institutions
Relevance: Performance indicators relate logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives				
11. The performance indicator and target relate logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives	FMPPi chapter 3.2		Criteria not applicable	Section 1(e) of the regulations for reporting by Public Higher Education Institutions



CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY			
	Departments / constitutional institutions / trading entities	Public entities	Parliament / provincial legislatures	Universities
Presentation and disclosure: Performance information in the annual performance report is presented and disclosed in accordance with the requirements contained in legislation, frameworks, circulars and guidance				
12. Reasons for variances between planned and actual performance are disclosed in the annual performance report	The NT's annual report guide for national and provincial departments Section 31(1) of the PSR	Applicable to schedule 3A & 3C public entities: The NT's annual report guide for schedule 3A and 3C public entities	Criteria not applicable	
13. Reasons for variances are corroborated by source documentation	The NT's annual report guide for national and provincial departments FMPPI chapter 5	Applicable to schedule 3A & 3C public entities: The NT's annual report guide for schedule 3A and 3C public entities FMPPI chapter 5	Criteria not applicable	
14. Changes to performance indicators and performance targets are disclosed in the annual performance report	NT annual report guide for national and provincial departments Section 31(1) of the PSR	Applicable to 3A & 3C public entities: NT annual report guide for schedule 3A and 3C public entities	Criteria not applicable	
Reliability: Recording, measurement, collation, preparation and presentation of information on actual performance / target achievements that are valid, accurate and complete				
1. Reported performance occurred and pertains to the reporting entity	Section 40(3)(a) of the PFMA Chapter 5 of the FMPPI	Section 55(2)(a) of the PFMA chapter 5 of the FMPPI	Section 55 of the FMPPLA	Section 7 of the regulations for reporting by public higher education institutions



CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY			
	Departments / constitutional institutions / trading entities	Public entities	Parliament / provincial legislatures	Universities
2. Reported performance is recorded and reported accurately	Section 25(1)(e) of the PSR			
3. All actual performance is recorded and included in the reported performance information				



ANNEXURE E: AUDITOR GENERAL'S RESPONSIBILITY FOR THE AUDIT OF THE REPORTED PERFORMANCE INFORMATION⁸³

1. As part of our engagement conducted in accordance with ISAE 3000(R), we exercise professional judgement and maintain professional scepticism throughout our reasonable assurance engagement on reported performance information for selected [programmes/objectives].
2. We are independent of the [type of auditee/the group] in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to our audit in South Africa. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

Quality control relating to assurance engagements

3. In accordance with the International Standard on Quality Control 1, the Auditor-General of South Africa maintains a comprehensive system of quality control that includes documented policies and procedures on compliance with ethical requirements and professional standards.

Reported performance information

4. In addition to our responsibility for the assurance engagement on reported performance information as described in the auditor's report, we also:
 - identify and assess risks of material misstatement of the reported performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. In making those risk assessments, we consider internal control(s) relevant to the management and reporting of performance information per selected [programme/objective] in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [type of auditee]'s internal control
 - evaluate the documentation maintained by the [type of auditee] that supports the generation, collation, aggregation, monitoring and reporting of performance indicators and their related targets for the selected [programmes/objectives]
 - evaluate and test the usefulness of planned and reported performance information, [including presentation in the annual performance report]⁸⁴, its consistency with the approved performance planning documents of the [type of auditee], and determine whether the indicators and related targets were measurable and relevant
 - evaluate and test the reliability of information on performance achievement to determine whether it is valid, accurate and complete.




Communication with those charged with governance

5. We communicate with the [accounting officer/authority/other] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
6. We also confirm to the [accounting officer/authority/other] that we have complied with relevant ethical requirements regarding independence and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence and, where applicable, the actions taken to eliminate threats, or the related safeguards applied.




ANNEXURE F: ASSESSMENT OF INTERNAL CONTROLS⁸⁵

Below is our assessment of implementing the drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the [annual performance report/insert name of performance report] and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented. These either had caused, or could cause, the financial statements or the [annual performance report/insert name of performance report] to be materially misstated, and material instances of non-compliance with legislation to occur.

The internal controls were assessed as follows:

	The required preventative or detective controls were in place.
	Progress was made on implementing preventative or detective controls, but improvement is still required, or actions taken were not or have not been sustainable.
	Internal controls were either not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.

The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions under the three fundamentals of internal control. The movement is assessed as follows:

	Improved
	Unchanged
	Regressed

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Leadership						
Overall movement from previous assessment						
<ul style="list-style-type: none"> Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protecting and enhancing the best interests of the entity 						
<ul style="list-style-type: none"> Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls 						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
<ul style="list-style-type: none"> Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored 						
<ul style="list-style-type: none"> Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities 						
<ul style="list-style-type: none"> Develop and monitor the implementation of action plans to address internal control deficiencies 						
<ul style="list-style-type: none"> Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance 						
Financial and performance management						
Overall movement from previous assessment						
<ul style="list-style-type: none"> Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting 						
<ul style="list-style-type: none"> Implement controls over daily and monthly processing and reconciling transactions 						
<ul style="list-style-type: none"> Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information 						
<ul style="list-style-type: none"> Review and monitor compliance with applicable legislation 						
<ul style="list-style-type: none"> Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information relating to user access management, programme change control and IT service continuity 						
Governance						
Overall movement from previous assessment						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
<ul style="list-style-type: none"> Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored 						
<ul style="list-style-type: none"> Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively 						
<ul style="list-style-type: none"> Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation 						

EXPLANATORY MATERIAL

¹ Where the entity is a TVET college or a CET college, the words “annexures to the report on the audit of performance information” should be deleted as the audit of predetermined objectives does not apply to the TVET and CET colleges.

² Interim management report

The introductory part of the interim management report ends here. The rest of the management report should be completed to the extent that the audit information is available. This will assist the auditor to escalate key matters before the final financial statements are prepared.

³ Overall message

The figure is for the auditee only. However, the auditor can include additional figures on status at subsidiaries and other auditees the accounting officer is responsible for if separate management reports are not issued.

⁴ Movement arrows

Improved – only improvement of more than 5% is regarded as an improvement

Unchanged – 0% movement

Slight regression – only regression of 5% or less is regarded as a slight regression

Slight improvement – only improvement of 5% or less is regarded as a slight improvement

Regression – only regression of 5% or more is regarded as a regression

⁵ Overall message

The auditors are required to summarise the audit outcomes into one overall message that encompasses the following:

- Movement in audit outcomes
- The impact of key role player's assurance on the audit outcomes
- The root causes that must be addressed and best practice to be maintained as per the guidance note above on the root causes
- The status of the six key risk areas
- The status of the drivers of internal control

⁶ Interactions with stakeholders responsible for oversight and governance

Auditors may include additional information on stakeholder engagements; for example, the effectiveness of meetings, key discussion points worth bringing to the attention of the accounting officer, and problems in arranging meetings with stakeholders. For the purpose of the management report, the interactions with the accounting officer as part of the regular audit steering meetings can be included.

Auditors should also include briefings held on the status of records reviews and include key areas of concern relating to the following:

- [Oversight and monitoring
- Financial management
- Performance management
- Procurement and contract management
- Compliance management
- HR management
- IT management
- Financial health
- (add other applicable areas/delete what is not applicable)]

⁷ Material misstatements not corrected

Include all material misstatements that had not been corrected at the time of reporting. The finding should be brief and to the point, but should allow the reader to understand what the problem is and how it should be addressed. In the report, the misstatements included here should agree to the uncorrected misstatements in respect of which the auditor had asked management to provide a representation letter (ISA 580). These misstatements should also correspond to the matters included under the basis for qualified/adverse/disclaimer of opinion paragraph(s) in the auditor's report.

⁸ Material misstatements corrected

Include all material misstatements corrected during the course of the audit. This should include individually immaterial items that are material in aggregate.

⁹ Key audit matters

The form and content of this section of the management report are dealt with in the key audit matters (KAM) guideline.

¹⁰ Emphasis of matter paragraphs

Refer to chapter 2 for guidance and illustrative examples of emphasis of matter paragraphs.

¹¹ Material uncertainty related to going concern

If a material uncertainty exists and the disclosure in the financial statements is adequate, the auditor includes a paragraph describing the uncertainty. Refer to the reporting guide for illustrative examples.

The section should be excluded when there is no material uncertainty relating to going concern. It should also be excluded where the appropriate disclosures on a going concern uncertainty have not been made, which would result in a qualification of the financial statements.

Refer to chapter 2 for more detailed guidance relating to material uncertainty specific to going concern.

¹² Other matter paragraphs

Refer to chapter 2 for guidance and illustrative examples of other matter paragraphs.

¹³ Audit of the annual performance report

Where the entity is not required to report on performance information **or** where the annual performance report was not prepared and submitted for audit purposes, amend the heading of this part of the management report for the audit opinion to Performance information reporting.

¹⁴ Audit of the annual performance report

Do not include this paragraph in the management report if the entity is not required to report on performance information. Where the annual performance report was not prepared and submitted for audit, only use the first sentence of this paragraph.

¹⁵ Audit of the annual performance report

Refer to the PAM chapter 9.2 – *Limitation scenario 1* for detailed guidance.

¹⁶ Audit of the annual performance report

Refer to PAM chapter 14.2 – *AoPO: Auditing in group structures* for detailed guidance on the different group scenarios that may be encountered and when this reporting paragraph is applicable.

17 Introduction and scope

Different scenarios may be applicable to the audit of the annual performance report, depending on the information made available by the auditee.

If a disclaimer of opinion is expressed on all selected (programmes/objectives), the introduction should be replaced with the following:

We were engaged to undertake a reasonable assurance engagement on the reported performance information for the following selected [programmes/objectives] presented in the [type of auditee]'s annual performance report for the year ended [insert year-end date]:

[Programmes/objectives]	Pages in annual performance report	Opinion
[Programme/objective] [include number] – [include name]	x – x	
[Programme/objective] [include number] – [include name]	x – x	

18 Terminology used

Different terminology may be used in the annual performance report; the same terminology should be used in the management report. Scoping is done at the highest level of reporting: programmes are relevant to departments and public entities with programme structures; objectives are relevant mainly to entities.

19 Material programmes selected for auditing but not reported in the annual performance report

If material programmes/objectives were selected for auditing but not reported in the annual performance report, the following paragraph should be included after the table with the opinions:

We were unable to conclude on the usefulness and reliability of the reported information of the following [include name and number of programme(s)/objective(s)] as the annual performance report submitted for auditing did not include the reported performance information on [this/these programmes/objectives].

20 Movement in audit outcome

If the programmes/objectives are tested for the first time either remove the movement column completely or include the following in the movement column for the specific programme/objective affected – [Not previously selected for testing].

21 Opinion per programme/objective

The auditor should include an opinion and basis for an opinion section for each selected programme/objective.

²² **Modified opinions**

If the auditor's opinion is other than unmodified, the appropriate modification should be used in the heading and the appropriate wording below should be used:

Qualified opinion due to disagreement misstatements only

In our opinion, except for the effects of the matter[s] described in the basis for qualified opinion section of our report, the reported performance information for [name of programme/ objective] is useful and reliable in accordance with the applicable criteria as developed from the performance management and reporting framework set out in annexure D to this report.

Qualified opinion due to limitation misstatements only

In our opinion, except for the possible effects of the matter[s] described in the basis for qualified opinion section of our report, the reported performance information for [name of programme/ objective] is useful and reliable in accordance with the applicable criteria as developed from the performance management and reporting framework set out in annexure D to this report.

Qualified opinion due to both disagreement and limitation misstatements

In our opinion, except for the effects and the possible effects of the matter[s] described in the basis for qualified opinion section of our report, the reported performance information for [name of programme/ objective] is useful and reliable in accordance with the applicable criteria as developed from the performance management and reporting framework set out in annexure D to this report.

Adverse opinion

In our opinion, because of the significance of the matter[s] described in the basis for adverse opinion section of our report, the reported performance information for [name of programme/ objective] is not useful and reliable in accordance with the applicable criteria as developed from the performance management and reporting framework set out in annexure D to this report.

Disclaimer of opinion

We do not express an opinion on the reported performance information for [name of programme/objective] of the [type of auditee]. Because of the significance of the matter[s] described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate evidence to provide a basis for an opinion on the reported performance information of the [programme/objective].

²³ **Basis for opinion paragraphs**

Refer to chapter 4 of the reporting guide for illustrative examples on writing the basis for modification paragraphs.

²⁴ **Achievement of planned targets**

This paragraph may be EXCLUDED from the report ONLY IF BOTH the following criteria are met:

- NO material findings were identified for any of the scoped-in programmes /objectives.

- The targets of ALL material indicators of the scoped in programmes / objectives were achieved as per management's disclosure in the APR*

* Note: This determination is based on the information presented by management in the APR and not as per auditor's calculation and audited information. Since no material misstatements were identified and reported the user can rely on management's assessment and disclosure.

²⁵ **Achievement of planned targets**

The reporting on reasons for deviations is required in terms of the Annual report guides issued by National Treasury, and is ONLY applicable to Departments and schedule 3A and 3C public entities.

²⁶ **Auditor's responsibility**

If a disclaimer of opinion is expressed on all selected programmes/objectives, the auditor only includes the paragraphs below and excludes the paragraphs from the template.

Our objectives are to obtain reasonable assurance about whether the reported performance information in the annual performance report for the selected [programmes/objectives] is free from material misstatement, in accordance with International Standard on Assurance Engagements, ISAE 3000(R): *Assurance engagements other than audits or reviews of historical financial information*, and to issue a management report that includes our [opinion/s]. However, because of the matter[s] described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate evidence to provide a basis for an audit opinion on the selected [programmes/objectives].

We are independent of the [type of auditee/ the group] in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to our audit in South Africa. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

²⁷ **Findings on compliance with legislation**

Refer to chapter 5 for detailed guidance on the completion of this section.

²⁸ **Other information**

When a disclaimer of opinion is expressed for both the financial statements and audited performance information (i.e. the selected programmes /objectives), the section on "Other information" **should be excluded** from the report. This is required since providing further details about the audit, including a section to address other information, may overshadow the disclaimer of opinion on the financial statements and the selected programmes/objectives.

²⁹ **Other information**

In the event that the annual performance report was not prepared or submitted for audit purposes (refer to PAM chapter 9.2 – Limitation scenario 1 for detailed guidance), the following information should be removed from this paragraph:

“...those selected [objectives/ programmes] presented in the annual performance report that have been specifically reported in the auditor’s report.”

³⁰ **Other information**

In the event that the annual performance report was not prepared or submitted for audit purposes (refer to PAM chapter 9.2 – Limitation scenario 1 for detailed guidance), the following information should be removed from this paragraph: “.....and findings on the reported performance information”.

³¹ **Other information**

In the event that the annual performance report was not prepared or submitted for audit purposes (refer to PAM chapter 9.2 – Limitation scenario 1 for detailed guidance), the following information should be removed from this paragraph: “.....and the selected [objectives/ programmes] presented in the annual performance report..”

³² **Other information**

Refer to chapter 3 of the reporting guide for guidance and illustrative examples of the other information paragraphs to be used when the following scenarios are encountered:

- Where unmodified opinions were expressed for the financial statements and the audited performance information AND the other information was received, read and considered.
- Where only part of the other information was received, read and considered.
- Where no other information was received.
- Where a disclaimer of opinion was expressed on the financial statements and/or audited performance information.

List the findings based on the specific scenario applicable at the auditee.

³³ **Internal control**

Where significant deficiencies in the drivers of internal control exist, these deficiencies should be described in the narratives under each heading. Headings for which no significant deficiencies in internal control exist should be removed from the section.

The subheadings under leadership, financial and performance management and governance may be adapted for the particular circumstances, provided that they can still be linked to the drivers under each of these fundamentals of internal control.

³⁴ **Effective leadership**

Reflect on the integrity and ethical values, especially of top management, and on what measures they have put in place to set an ethical tone throughout the auditee, using the information obtained during the evaluation of the engagement risk and by obtaining an understanding of the control environment.

Management established a formal code of conduct that addressed appropriate ethical and moral behaviour, but [the code was not communicated to all staff/staff were not trained to properly understand and implement the code].

Or

There was no formal code of conduct at the [type of auditee]. Many instances of management override and numerous cases of fraud and theft are being investigated, as indicated under the *Other reports* section of this report.

Or

(The tone at the top) Through [its/their] [directives, actions and behaviour], the [accounting officer/authority and management] [at all levels] did not demonstrate the importance of [integrity and ethical values] to support the functioning of the system of internal control.

Or

(Evaluating adherence to standards of conduct) Processes are not in place to evaluate the performance of [individuals and teams] against the formal code of conduct at the [type of auditee].

Or

(Addressing deviations in a timely manner) Deviations from the code of conduct were not [identified and remedied] in a [timely and consistent manner] at the [type of auditee].

³⁵ Oversight responsibility

The non-application of governance best practice indicators as internal control deficiencies should be reported in the management report only. These control deficiencies may be used as root causes for governance weaknesses if relevant. This can be linked to the dashboard report under leadership.

For entities that have adopted King IV, these control deficiencies should be reported as non-application of a recommended practice with the King IV Report on Corporate Governance.

For entities that have not adopted King IV, these control deficiencies should be reported as non-application of governance best practices. This should be reported irrespective of the non-application being identified by the auditor, auditee or any other party.

(the above is only applicable to schedule 2 state-owned entities and auditees with debt listed on the JSE).

Include matters relating to the ineffective oversight of the reporting process by those charged with governance. One of the responsibilities of the leadership is to review interim or monthly reporting regularly in terms of best practice as well as the PFMA. This should include the approval of accounting policies and other matters of judgement, such as accounting estimates, fair value measurements and performance measures.

As the [accounting officer/authority/other] did not review the [interim/monthly] reports [and/or] the financial statements and the [annual performance report/insert name of

annual performance report] before submitting them for auditing, the following matters were not identified and corrected:

- ...

Or

The [type of auditee] did not have sufficient monitoring controls to ensure the proper implementation of the overall process of [planning/budgeting/implementation/reporting].

(Note: This pertains to the overall performance management systems and processes.)

Or

The [type of auditee] did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures at a [programme/objective] level and for purposes of taking corrective action.

(Note: This pertains to the performance management systems and processes at a programme/objective level. Relevant details and examples pertaining to the programmes/objectives audited should be included.)

The unavailability of key personnel during the course of the audit has an impact on the effectiveness of the audit. Such unavailability could be at the beginning of the audit during the risk assessment process or at the end of the audit when responses to audit findings are requested.

Despite numerous requests, we were unable to arrange an appointment with the director-general to discuss the financial [and/or] performance risks faced by the department and how they were mitigated.

Or

The [accounting officer/ authority] did not ensure that steps were taken in order to ensure that deficiencies in internal control identified [by auditors (internal auditors and external auditors) and management] were addressed. The following matters were noted in this regard:

- ...

Or

The [accounting officer/ authority] did not oversee the implementation and monitoring of internal controls. [Information [is not] reported by management on the status of internal control [are not performed] on a regular basis].

³⁶ **Human resource management**

Human resources management refers to the management of an auditee's employees or human resources.- Human resource management is effective if adequate and sufficiently skilled staff members are in place and if their performance and productivity are properly managed. The audit must include an assessment of the management of human resources. The significant deficiencies should be included in this paragraph under each focus area.

Examples of findings on human resource management are listed below:

Human resource planning and organisation

- A human resource plan based on the strategic plan of the [type of entity] was not in place.
- An approved organisational structure was not in place.
- The organisational structure was not aligned to the strategic plan of the [type of entity].
- Job descriptions did not exist for each post or group of posts.

Management of vacancies

- The overall vacancy rate at year-end increased from xx% in the previous year to xx% in the current year.
- The senior management vacancy rate at year-end increased from xx% in the previous year to xx% in the current year.
- The finance department vacancy rate at year-end increased from xx% in the previous year to xx% in the current year.
- Positions in senior management were vacant for more than 12 months.
- The [XXX] position had been vacant for more than 12 months (include specific posts that are critical for financial and performance reporting and monitoring compliance with legislation, i.e. key officials as defined in the HR working papers).
- Vacant positions in senior management were not advertised within six months.

Appointment processes

- Appointments were made in posts that had not been approved and/or funded or were not on staff establishment.
- Appointments were made in posts that had not been advertised.
- New appointees did not have the required qualifications and experience for the position.
- The prescribed selection and approval processes were not followed for all appointments.
- The verification process for new appointments did not [always take place and/or did not cover criminal record checks/citizenship verifications/financial record checks/qualification verifications/reference checks].

Competencies of key officials

- (Summarise findings on adherence to competency requirements).

Performance management

- No performance management system in place for employees other than senior managers.
- Performance bonuses were paid to [senior managers and/or other employees] who did not have signed performance agreements for the period to which the bonus related.
- [Senior managers and/or other employees] did not have signed performance agreements for the current performance period.
- Performance bonuses [were paid to employees who were not entitled to such bonuses and/or were incorrectly calculated].

Restrictions

Restrictions were placed on the auditors to assess the following HR management matters: (Detail all the matters listed above that could not be tested as a result of a limitation/ restriction placed on the audit team e.g. documents not provided.)

The summary should not be included if there were no findings relating to human resource management.

Additional findings may also be added and changes made to provide context and create understanding.

We identified the following shortcomings in human resource management relating to predetermined objectives:

The [type of auditee] did not have sufficient capacity to plan, manage and report on its performance.

Or

The [type of auditee] did not properly plan and provide training on planning, managing and reporting performance information.

Or

The [type of auditee] did not hold performance management and reporting staff accountable for shortcomings identified during the internal and external audit processes.

³⁷ **Policies and procedures**

Reflect on whether controls are described in policy and procedure manuals and whether these were communicated to staff, using the information obtained during the documentation of the auditee's business processes. Where recommendations were communicated, establish whether they were implemented.

Management did not have documented policies and procedures to guide the operations of the [type of auditee], resulting in numerous instances of non-compliance with the [PFMA/ Companies Act], as detailed under the *Findings on compliance with legislation* section of this report. In addition, management did not take action to correct the following internal control deficiencies identified during our audit:

- ...
Or

The [type of auditee] did not have documented and approved internal policies and procedures to address planning, implementation, monitoring and reporting processes and events pertaining to performance management and reporting.

(Note: This pertains to the overall performance management systems and processes.)

Or

The [type of auditee] did not have documented and approved internal policies and procedures to address the process of [collecting/recording/processing/monitoring/reporting] performance information.

(Note: This pertains to the performance management systems and processes at a programme/objective level. Relevant details and examples pertaining to the programmes audited should be included.)

Or

The internal policies and procedures of the [type of auditee] did not adequately address the processes pertaining to the [planning/monitoring/managing/reporting] of performance information at an overall performance management level or a [programme/objective] level.

Or

The internal policies and procedures pertaining to the [planning/monitoring/managing/reporting] of performance information were not aligned to the applicable legislation in the following instances:

- [Include relevant examples.]

(Note: This pertains to the overall performance management systems and processes.)

Or

The following implemented [activities/processes] were not in accordance with the documented policies and procedures:

- [List examples of actual activities/processes.]

(Note: This pertains to audit findings that stem from an understanding of the overall performance management systems and processes and/or the performance management systems and processes at a programme/objective level.)

Or

The [type of auditee] did not have key controls to address the systems of [collecting/collating/verifying/storing] performance information. For example:

- [List examples.]

(Note: This pertains to audit findings that stem from an understanding of the performance management systems at a programme/objective level in relation to the key controls that ensure the completeness, validity and accuracy of input, processing and output of performance information.)

Or

The following key controls were insufficient to address the systems of [collecting/collating/verifying/storing] performance information:

- [Include details.]

(Note: This pertains to audit findings that stem from an understanding of the performance management systems at a programme/objective level in relation to the key controls that ensure the completeness, validity and accuracy of input, processing and output of performance information.)

Or

The [type of auditee] did not develop and implement proper performance planning and management practices to provide for the development of performance indicators and targets.

³⁸ **Action plans to address internal control deficiencies**

Reflect on whether management developed action plans and whether their implementation was monitored.

The [type of auditee] developed a plan to address internal and external audit findings, but the appropriate level of management did not monitor adherence to the plan in a timely manner.

Or

The [type of auditee] did not develop a plan to address internal and external audit findings relating to [financial/performance/compliance] matters.

Or

The [type of auditee] did not develop a plan early enough in the financial year to address internal and external audit findings relating to [financial/performance/compliance] matters by year-end.

³⁹ **Information technology governance framework**

Include detailed information on the deficiencies relating to IT governance (as provided by the ISA BU, or other audit where applicable).

⁴⁰ **Proper record keeping**

Reflect on whether a proper filing/records management system was in place and whether documents and records, such as schedules and reconciliations of debtors, creditors and bank supporting the financial statements and performance report, were properly filed, easily retrievable and available for audit purposes.

The [type of auditee] did not have [a proper filing system/a proper records management system/an approved record classification system] to maintain information that supported the reported performance in the [annual performance report/name of performance report]. This included information that related to the collection, collation, verification, storage and reporting of actual performance information.

Or

The [type of auditee] did not formulate and implement a records management policy and related procedures to ensure that all documentation was properly controlled.

Or

The [type of auditee] did not compile and maintain an approved records classification system for paper-based and electronic records to safeguard these records and facilitate their timely retrieval.

Or

Documents and records of the [type of auditee] were not numbered consecutively to facilitate control over documents.

Or

The [type of auditee] [did not designate a member of staff to take responsibility for records management] [and] [did not ensure that staff were trained to apply proper records management procedures to facilitate sound records management].

In terms of ISA 260.16(b), significant difficulties encountered during the audit may include the following:

- Significant delays in management providing the required information.
- An unnecessarily short time within which to complete the audit.
- Extensive unexpected effort to obtain sufficient appropriate audit evidence.
- The unavailability of expected information.
- Restrictions imposed on the auditor by management.
- Management's unwillingness to assess the auditee's ability to continue as a going concern when requested.

In some circumstances, such difficulties may constitute a scope limitation that will lead to a modification of the auditor's opinion.

The PFMA and general notice issued in terms of the PAA require the financial statements and the annual performance report to be submitted for auditing within two months after year-end. Report here on any significant delays in this submission and the factors that may have contributed in this regard.

In terms of our engagement letter, we agreed that all information requested for audit purposes would be submitted within [xx] working days of the request by the auditors. Despite this agreement, management did not supply the documentation requested in the following instances:

- [Give details of significant delays in providing information.]

The information requested was only supplied on [insert date], after we had issued the draft auditor's report that contained qualifications in respect of the limitation on the scope of the audit. Due to the late receipt of the information and given the legislated deadlines for the submission of the auditor's report, we did not consider the information when finalising this report.

Or

The information requested was only supplied on [insert date], after we had issued the draft auditor's report. Due to the late receipt of the information and given the legislated deadlines for the submission of the auditor's report, we did not consider the information when finalising this report.

⁴¹ Daily and monthly processing and reconciling of transactions

Reflect on whether controls over daily and monthly processing and reconciling of transactions were implemented.

Management did not implement the following daily and monthly controls designed for the [type of auditee]'s business processes:

- Monthly bank reconciliations were not [prepared/reviewed].
- Payments to creditors were not properly authorised by agreeing the payment to the detailed creditor statements.

Or

Management did not design the following daily and monthly controls to reduce the [type of auditee]'s business risks:

- No password controls were designed for employees accessing the accounting system.

Or

A recurring issue in recent years has been the number of suspense accounts that are not reconciled and cleared timeously. The impact of these uncleared accounts is a potential misstatement of:

- accounts receivable
- revenue
- expenditure.

The balances of the uncleared suspense accounts are as follows:

- ...

Management did not collect performance information at [appropriate intervals appropriate for monitoring, setting service delivery targets and milestones, and validating recorded information].

⁴² **Regular, accurate and complete financial and performance reports**

Reflect on whether management prepares regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. Do staff understand the applicable financial reporting framework and performance information reporting requirements? Are accounting policies reviewed quarterly/bi-annually/annually to ensure that they are still relevant, and are any changes to accounting policies appropriately treated and disclosed?

As indicated in section 2.1, the financial statements contained numerous misstatements that were corrected. This was mainly due to staff not fully understanding the requirements of the financial reporting framework.

Or

As indicated in section 2.3, the [annual performance report/name of performance report] contained numerous misstatements that were corrected. This was mainly due to staff not fully understanding the performance information requirements.

⁴³ **Compliance monitoring**

Reflect on whether the auditee understands which legislation it must comply with, whether compliance is regularly monitored, and whether non-compliance is promptly addressed.

Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.

Or

Management did not have mechanisms that could [identify applicable legislation as well as changes to legislation, assess the requirements of the legislation, and implement processes to ensure and monitor compliance with legislation].

⁴⁴ **Information technology systems**

Include detailed information, as provided by the ISA BU, on deficiencies relating to the following key control areas that ensure the reliability of IT systems as well as the availability, accuracy and protection of information:

- IT governance
- Change control
- Security management
- User access control
- IT service continuity
- Facilities and environmental control

⁴⁵ **Risk management activities and risk strategy**

Legislation requires that a risk assessment must be conducted regularly and that a risk management strategy, which includes a fraud prevention plan, must be documented and used as set out in treasury regulation 3.2.27.

Also consider the impact that any failure to conduct the risk assessment had on the design and implementation of internal controls to address risks.

The [type of auditee] did not conduct a risk assessment, as required by the PFMA. Consequently, the following control deficiencies were identified:

- (Provide details of key internal control deficiencies and the impact thereof on the financial statements/annual performance report.)

⁴⁶ **Internal audit**

Matters regarding the internal audit unit should not only relate to non-compliance with legislation. Also include details of issues indicating that the internal audit unit was not performing as required by the PFMA and Treasury Regulations, or indicate that it was indeed fulfilling its responsibilities effectively.

As per ISA 315.23, if the entity has an internal audit function, the auditor should obtain an understanding of the following to determine whether the internal audit function is likely to be relevant to the audit:

- The nature of the internal audit function's responsibilities and how the internal audit function fits into the entity's organisational structure.

- The activities performed, or to be performed, by the internal audit function (refer to ISA 315 paragraphs A112 to A115).

As per paragraph A4 of ISA 610.8, the external auditor should determine whether the work of the internal auditors is likely to be adequate for purposes of the audit and, if so, the planned effect of the work of the internal auditors on the nature, timing or extent of the external auditor's procedures.

Reasons must be provided in a simple and clear manner based on the evaluations done on internal audit and with the purpose of helping the accounting officer and the audit committee to understand why the work of internal audit was/was not used.

We are concerned about the following matters regarding the effectiveness of the internal audit unit, which require attention:

- The internal audit unit reported to the CFO, who determines the internal audit plan, which affected the unit's objectivity.
- The internal auditors were not technically competent, as they had only limited experience and training as auditors.
- Due to the lack of an effective methodology and non-adherence to standards on internal auditing, internal audit work was not undertaken with due professional care.
- The internal audit unit did not conduct internal audits or reviews of performance information systems and management that focused on compliance aspects as well as the usefulness and reliability of the reported performance information.
- The internal audit unit did not review financial and performance reports to confirm the reliability of the reports before their submission to the audit committee or external auditors.
- The internal audit unit did not review internal control and provide recommendations for addressing deficiencies.
- The internal audit unit did not review supply chain management.
- The internal audit unit did not review compliance with legislation.
- The internal audit unit did not follow up on the implementation of internal and external audit recommendations to address audit findings.

⁴⁷ **Audit committee**

Report on whether an audit committee was in place and complied with relevant legislation. Matters regarding the audit committee should not only relate to non-compliance with legislation. Also reflect on the audit committee's impact on financial and performance reporting, for example:

- Did they review the financial statements and performance report before their submission to the external auditors?
- Did they have regular meetings with the executive?
- Did they monitor compliance with legislation?

- Did they monitor supply chain management?
- Did they provide guidance on rectifying internal control deficiencies?
- Did they monitor the implementation of internal and external audit recommendations?
- Did they review monthly management information?
- Did they review the effectiveness of the internal audit unit?

The audit committee did not function throughout the year. Members were only appointed two months before year-end. Consequently, the committee did not approve the internal audit plan and did not oversee the implementation of the matters reported by the internal audit unit.

Or

The audit committee did not meet before the submission of the financial statements and [annual performance report/name of performance report] for auditing, to review the adequacy, reliability and accuracy of the financial statements and [annual performance report/name of performance report].

Or

The audit committee [did not consider the internal audit reports] [and] [did not monitor the implementation of recommendations].

⁴⁸ **Material irregularities (MIs)**

This section applies **only to** auditees selected for implementation of the material irregularity process. The section should be **removed** if there are no current year MIs or suspected MIs or MIs in progress or no status of prior year MIs to report on. Refer to the MI manual and audit report template for detailed guidance.

⁴⁹ **Material irregularities in progress**

The summary of material irregularities in progress table should remain in the management report. It must NOT be included in the audit report.

⁵⁰ **Other reports**

Refer to the auditor's report template in chapter 1 and the audit report template explanatory notes for detailed guidance on reporting under this section

⁵¹ Where the auditee is a TVET college, delete reference to reported performance information as the audit of predetermined objectives does not apply to the TVET colleges.

⁵² **Assessment of assurance providers**

The colours should be amended to indicate the correct status of each driver. The following options are available to choose from when assessing the level of assurance provided by assurance providers:

- Provides assurance
- Provides some assurance

- Provides limited or no assurance
- Vacant or not established

NB: The level of assurance provided should be assessed for all the key positions as per the assurance working papers even if, at the time of the assessment, the positions were vacant (i.e. the person/s who was/were acting in the roles must be assessed. The vacancy option must not be selected if there was a person acting in the role).

‘Not established’ means that the assurance provider was not formed, ‘vacant’ means that membership was insufficient to constitute the assurance provider.

The assessment of the level of assurance provided by assurance providers must be based on the following:

Assurance providers	Basis of assessment
Senior management	<p>Overall key control assessment of financial and performance management controls.</p> <p>Refer to the assurance providers working paper – entities other than departments, PFMA – key officials and assurance providers (departments).</p>
Accounting [authority/officer]	<p>Overall key control assessment of:</p> <ul style="list-style-type: none"> - leadership controls - risk management activities (included in governance controls). <p>Refer to the assurance providers working paper – entities other than departments, PFMA – key officials and assurance providers (departments).</p>
Minister/MEC	<p>Overall key control assessment of leadership controls.</p> <p>Assessment of the impact of executive authority on the controls of the auditee based on interactions with the executive, commitment given and honoured and the impact of actions/initiatives by the executive.</p> <p>Refer to the assurance providers working paper, PFMA – key officials and assurance providers (departments)</p>
Internal audit and audit committee	<p>Overall status of the drivers of key controls. Note: The assessment must be the same as the overall status of the drivers of key controls for both assurance providers.</p>

⁵³ Where the auditee is a TVET college, delete the wording “their performance against predetermined objectives” as performance information does not apply to TVET colleges.

⁵⁴ Where the auditee is a TVET college, delete the words “annual performance report” as performance information does not apply to TVET colleges.

⁵⁵ **Status of implementing commitments and recommendations**

The commitments to be included in the table should be limited to the main commitments made by the auditee, and should relate directly to the internal control deficiencies reported in section 3. The column for origin of commitment is where the commitment originates from, e.g. status of records review, audit outcome discussions, etc. Indicate in the status column whether the commitment was complete, in progress or not addressed, or whether alternative action was taken. This should be corroborated by the assessment of the key drivers in the dashboard.

An example of a commitment made:

No.	Commitment	Made by	Date	Origin of commitment	Status
1.	Recruitment policies and procedures to be drafted to ensure compliance with legislation	Accounting officer		Status of records review	In progress
2.	Develop an action plan to address and monitor the internal control deficiencies identified by the internal audit.	Accounting officer		Status of records review	In progress
3.	Promote a culture of proper record keeping by making it mandatory that all records are stored each month in the storeroom for safekeeping.	Accounting officer		Status of records review	In progress
4.	Develop a procedure manual for updating the fixed asset register to ensure that it is correct and accurate.	Chief financial officer		Status of records review	In progress
5.	Develop a system for ensuring that the policies and procedures for SCM are updated with the latest legislation.	Head of SCM		Status of records review	In progress
6.	The audit committee should consider the performance reports during their meetings.	Audit committee		Status of records review	In progress

⁵⁶ **Key audit matters**

The form and content of this section of the management report are dealt with in the key audit matters (KAM) guideline.

⁵⁷ **Specific focus areas**



This focus area must be reported on for all PFMA and MFMA auditees, except for small auditees and dormant auditees where financial viability is clearly not applicable, or if the auditee is in the process of being wound-up/liquidated.

The financial viability reporting is only required to be completed at entity level. It is not required at consolidation level for auditees that have control over one or more entities.

Completion of the financial viability reporting is also encouraged for public sector auditees not audited by the AGSA in accordance with section 4(3) of the PAA, but is not mandatory for such auditees.

⁵⁸ **Financial viability**

If a disclaimer or adverse opinion is expressed on the financial statements, the financial viability assessment should be limited to the overall assessment and high-level comments, and the individual indicators should be omitted from the financial viability assessment table. Refer to the *Financial viability reporting* section of the *Specific focus areas* chapter in the reporting guide for guidance in this regard.

⁵⁹ The indicator compares amounts payable in future periods irrespective of how long into the future such amounts become payable, against the auditee's budget for the next three years. If such a mismatch in comparison periods exists, it should be contextualised below in the overall high-level comments that follow the financial viability table.

⁶⁰ Refer to the *Financial viability reporting* section of the *Specific focus areas* chapter in the reporting guide for guidance and examples on how to make the overall assessment of "red", "yellow" or "green".

⁶¹ The auditor should indicate which of the R-amounts included in the financial viability table have been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion by placing an asterisk (*) next to such amounts.

⁶² Refer to the *Financial viability reporting* section of the *Specific focus areas* chapter in the reporting guide for guidance and examples on how to make the overall assessment of "red", "yellow" or "green".

⁶³ The auditor should indicate which of the R-amounts included in the financial viability table have been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion by placing an asterisk (*) next to such amounts.

⁶⁴ Refer to the section on financial viability reporting of the chapter on specific focus areas in the reporting guide for further guidance.

When preparing the overall high-level comments, the auditor should remember that the aim of the financial viability focus area is to reflect on the auditee's possible going concern/financial viability uncertainties, with a link to the impact on service delivery and the outcomes in other audit areas (e.g. compliance work on budget and grant management) to improve focus and achieve integration. Due to the close correlation between going concern and financial viability, the overall high-level comments must link to and comment on the auditee's going concern assessment and on any significant uncertainties that may exist regarding the auditee's ability to continue as a going concern. Reference should also be made to any guarantees issued in favour of or by the auditee and the impact thereof on the

auditee's possible going concern/financial viability uncertainties. Where the auditee is part of a group, mention should further be made of instances where the auditee is dependent on financial support from, or must provide financial support to, other entities in the group. The requirement to link the financial viability comments to the going concern assessment is particularly relevant and important for public entities that are required to be fully or substantially self-funding and to recover the cost of goods and services from users (e.g. the SOEs). However, because the financial viability assessment does not consider predictive, forward-looking information such as forecasts and projections, but rather provides a snapshot view as at the reporting date, the financial viability assessment on its own cannot be used to reach a conclusion as to the auditee's ability to continue as a going concern. For this purpose, the auditor performs the going concern procedures in the *Going concern and financial viability* working paper.]

⁶⁵ **Procurement and contract management**

Where the auditee is a TVET college, the section relating to irregular expenditure should be deleted as the prescripts of the PFMA/MFMA do not apply to the TVET colleges.

⁶⁶ Where the auditee is a TVET college, the table should be amended to be as follows:

Finding	Number and value of awards made	Number and positions of official identified	Number of suppliers identified	Further non-compliance or irregularities regarding the awards	
				Official did not declare interest	Official was involved in awarding the contract/ quotation
Awards made to officials of the college	Number value (total value of contacts/ quotations)	Number of positions	Number	Number of officials	Number of officials
Awards made to close family members, partners and associates of officials of the college	Number value	Number of positions	Number	Number of officials	Number of officials

Limitations on the audit

Sufficient appropriate audit evidence could not be provided that x (number) of the selected awards to the value of Rxx... were made in accordance with the requirements of applicable SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that these awards were made in accordance with CET Act section 10(9B) and (9)(c) and sections 20(7)(b) and 8(a)-(c).

Procurement processes

- X (number) awards to the value of R... were procured from suppliers in which members of staff had a private or business interest and the interest was not disclosed to the institution.
- X (number) awards to the value of R... were procured from suppliers in which members of the council or interim council had a private or business interest and the interest was not disclosed to the institution.
- X (number) awards to the value of R... were procured from members of staff and the council of the institution did not provide evidence that such goods, products or services were unique; the supplier was a sole provider; or the procurement was in the best interest of the institution.
- X (number) awards to the value of R... were procured from members of the council of the institution or from suppliers in which the members had a private or business interest and such members of the council did not withdraw from participating in any manner whatsoever in the process relating to the contract.

⁶⁷ Procurement below R500 000 was through quotation but from 01 August 2021 the procurement through quotation has increased to R1 000 000

⁶⁸ Procurement above R500 000 was through competitive bidding process but from 01 August 2021 procurement through competition bidding process will commence from R1 000 000.

Internal control deficiencies

(Include a short summary of the most important internal control deficiencies that should be addressed to improve procurement and contract management and refer to the detailed section on internal controls in the management report. Note – deficiencies were identified through the business process (understand the auditee's business processes for supply chain management) and as a root cause finding.)

⁶⁹ Fraud

ISA 240 contains specific requirements for making and documenting enquiries and findings related to actual, suspected and alleged fraud.

When the auditor has obtained evidence that fraud exists or may exist, it is important that the matter be brought to the attention of the appropriate level of management as soon as possible. Other matters related to fraud to be discussed with those charged with governance may include the following:

- Concerns about the nature, extent and frequency of management's assessment of the controls in place to prevent and detect fraud as well as the risk that the financial statements may be misstated.

- Failure by management to address identified significant deficiencies in internal control appropriately, or to respond appropriately to an identified instance of fraud.
- The auditor's evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may point to management's effort to manage earnings to deceive financial statement users by influencing their perceptions of the auditee's performance and profitability.
- Concerns about the adequacy and completeness of the authorisation of transactions that appear to be outside the normal course of business.

Annexure D to ISA 240 contains examples of fraud risk factors.

⁷⁰ Where the entity is a TVET college, this paragraph should be deleted and following paragraph inserted:

The CET Act stipulates that circumstances resulting in financial or other maladministration or serious undermining of the functioning of the college should be investigated. Our audits included an assessment of the [type of auditee]'s management of consequences. The significant findings are provided below (delete findings not applicable):

⁷¹ Where the auditee is a TVET college, this should be deleted as there is no specific requirement in the CET Act that disciplinary steps should be taken for investigations conducted.

⁷² Where the auditee is a TVET college, irregular, fruitless and wasteful expenditure is not applicable to the TVETs, therefore the tables relating to irregular, fruitless and wasteful expenditure should be deleted and the table relating to allegations of financial misconduct, fraud and improper conduct in SCM should be amended to be as follows:

Allegations of financial misconduct, fraud and improper conduct in SCM

Finding (not applicable findings should be deleted)	Number of instances
Allegations against council and the principal	
Allegations of financial misconduct were not investigated	Number of allegations/ findings
Allegations of [theft/fraud/extortion/forgery] exceeding R100 000 were not reported to the South African Police Service	Number of allegations/ findings
Confirmed cases of financial misconduct that constituted a crime were not reported to the South African Police Service	Number of cases
Allegations against other officials	
Allegations of financial misconduct were not investigated	Number of allegations/ findings
Allegations of [theft/fraud/extortion/forgery] exceeding R100 000 were not reported to the South African Police Service	Number of allegations/ findings
Confirmed cases of financial misconduct that constituted a crime were not reported to the South African Police Service	Number of cases
A proposal for the award of a contract for the recommended bidder who committed a corrupt or fraudulent act in competing for the particular contract was not rejected	Number of allegations/ findings
A contract awarded to a supplier of [goods/services] for the [supplier/official/other role player] who committed corrupt or fraudulent act during the bidding process or the execution of that contract that benefited that supplier was not cancelled	Number of allegations/ findings.

⁷³ As unauthorised, fruitless and wasteful expenditure does not apply to TVET colleges, this paragraph should be deleted.

⁷⁴ Grant management

This section is ONLY applicable to the following departments and grants as per TU 53 of 2021:

- Basic Education:
 - Schools Infrastructure Backlogs Grant (DBE)
 - Education infrastructure grant (provincial departments)
 - National Schools Nutrition Programme Grant (where procedures were applicable)
- Water and Sanitation:
 - Regional Bulk Infrastructure Grant
 - Water Services Infrastructure Grant
- Human Settlements:

- Human Settlements Development Grant (provincial departments)
- **Health:**
 - Health Facilities Revitalisation Grant (provincial departments)
 - * HIV, TB, Malaria and Community Outreach Grant (where procedures were applicable)
 - * National Tertiary Services Grant (where procedures were applicable)
 - * Statutory Human Resources and Training Grant (where procedures were applicable)

The purpose of section is to accumulate and summarise the findings on the utilisation of the listed grants and the related grant funded key projects across all audit areas for the purpose of value adding reporting to management.

⁷⁵ **Grants**

Include the name of the grant as per guidance note above.

Note: Department of Water and Sanitation has two infrastructure grants that can be tested and reported here. Include the name of both grants (can be applied to other grants if applicable).

⁷⁶ **Conditional grant compliance findings**

Refer to the findings summarised in the *PFMA : Compliance testing – Conditional grants WP; Grant management sheet*.

If no compliance findings were identified, replace the last sentence with the following sentence: No material compliance findings were identified.

Note: Water and sanitation (any others where applicable) – clearly indicate findings in relation to each of the grants separately, if applicable.

⁷⁷ **Summary table on results of testing the key projects**

The table can be used to provide a high level overview of the project details and key findings for each of the selected key projects. The auditor may tailor the table to the specific circumstances of the auditee and the nature of findings identified.

If only one or two key projects were tested the auditor may determine that it is more appropriate not to include a table and only report the detailed findings as per the guidance below.

If the table is used, list each of the key projects selected for testing and summarise the key findings identified from the audit work performed by indicating “Yes /No/ N/A”.

Note: Water and Sanitation: consider including a separate table for each of the grants or alternatively include a row in the table to differentiate the projects related to each of the grants (can be applied to other grants if applicable).

Refer to the 2021-22 *PFMA: Compliance testing – Conditional grants WP; Grant management sheet* for a summary of the findings relevant in completing the table. This table and other detailed findings must be completed by RA with the assistance of PA to ensure the

necessary context is provided to ensure accuracy of technical content. This includes the following areas:

- Brief description of key project (RA & PA)
- Project commenced as planned (PA)
- Project completed within defined duration (applicable if completed) (PA)
- Status of completion (PA)
- Findings on the overall project management (PA)
- Findings identified on the quality of goods and services delivered on the project (PA)
- Findings on commissioning of the completed project (PA)
- Spending not aligned to stage of completion (PA)
- Budget spent but project milestones not achieved (PA)
- Findings identified on fruitless and wasteful expenditure incurred on the project (RA & PA)
- Findings identified on irregular expenditure incurred on the project (RA & PA)

⁷⁸ **Reporting findings on key projects**

Where more detailed findings need to be brought to the attention of management, the key findings on the key projects summarised in the table provided, should be reported in sufficient detail to provide the necessary context to the findings.

If appropriate, reporting may be supported with further analysis, graphics or photos depicting the findings on the key projects.

⁷⁹ **Covid related procurement and transactions**

Note that for all active contracts for covid related items procured through emergency procurement instruction, auditees are required to honor those contracts and must therefore still be sampled for testing.

⁸⁰ **Entities controlled by the [department / public entity]**

Complete the table as follows:

- List the entities controlled by the auditee.
- Indicate the type of opinion expressed on the financial statements.
- State 'Yes/No' in the performance report and compliance columns to indicate whether there were findings in these areas.

Public entities under the control of departments obtain finance for operating activities from the department. This is done in a number of different ways, such as a transfer payment to cover operational expenditure or a conditional grant to undertake a specific project.

In some instances, departments do not budget for a transfer payment despite the enabling legislation of the public entity stating that the public entity will be funded by an appropriation by Parliament. Departments would rather carry the operating expenditure of the public entity in the department or provide departmental resources, such as accommodation or personnel who undertake the functions of the public entity.

These last two scenarios have accounting implications, which could result in misstatements in the department when expenditure of the public entity is allocated to departmental expense

accounts and the receiving public entity does not account for the costs borne by the department, or where the public entity does not account for the free services received.

The auditor should indicate the type of financing provided and specify where this was not in line with legislation or had not been properly accounted for.

⁸¹ **Ratings of detailed audit findings**

When reporting on a misstatement in a financial statement item, all the errors detected during the audit that relate to that financial statement item should be grouped together to determine the total misstatement of this item (this is done on the *Substantive tests of details* working paper). Only one exception should be raised and one communication of audit finding to the auditee, which should include all the issues that gave rise to the misstatement in that financial statement item.

Where uncorrected misstatements are material, this is reflected in the auditor's report. All issues relating to that financial statement item should be included. It would therefore be unusual to see a 'tick' for matters affecting the auditor's report and also for other important matters for one financial statement item.

⁸² **Detailed audit findings**

ANNEXURES A – C

[Class of transaction/account balance/disclosure/non-compliance/predetermined objectives]

- Include all the findings for each class of transaction, account balance or disclosure together, not as separate findings.
- Include all findings for each piece of legislation (non-financial).

Audit finding

- Disagreement misstatement
 - State the factual evidence regarding the situation measured against the required standard (what should exist), and include full reference to the applicable accounting standard. Refer to the actual item in the financial statements, if possible or applicable.
 - Describe why the misstatement occurred without giving explanations or making excuses for the auditee.
 - State that the misstatements identified are quantitatively or qualitatively material. The projected misstatements should not be reported. Factual misstatements identified in items specifically selected for testing should still be reported.
 - Where a disclosure is omitted, the nature of the omitted information should be described, if possible.
- Limitation misstatement
 - Describe the limitation and indicate the reason for the limitation.

- State why it was not possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
- Control deficiency
 - Describe the control deficiency. Why has it not been appropriately designed (in other words, why is it unable to prevent or detect and correct misstatements in the financial statements or performance report) or why has it not been appropriately implemented?
 - Or**
 - Describe the missing control that is necessary to prevent or detect misstatements in the financial statements or performance report.
 - Or**
 - State the factual evidence regarding the situation measured against the required standard (what should exist) Refer to the applicable policies and procedures of the auditee, and describe how the deficiency occurred.
 - Explain the potential effects of the deficiency; for example, the likelihood of material misstatements in the financial statements or performance report, susceptibility to loss or fraud of the related asset or liability, and the exposure of the financial statement items to the deficiency.
 - State the misstatements detected as a result of the deficiency.
- Non-compliance (non-financial)
 - State the factual evidence regarding non-compliance with the required legislation (what should exist) and include full reference to the applicable legislation. Refer to chapter 6 for detailed guidance.
- State the auditee's accomplishment, or lack thereof, in terms of improvements since the previous year. This information is necessary to present the existing conditions fairly and to provide a proper perspective of the nature and significance of the audit finding being raised.

For example: This matter was reported in [the previous year/20xx-xx], but no steps have been taken to date to implement the recommendations provided.

Internal control deficiency

- State the internal control deficiency that caused the finding.
- The deficiencies should be recorded under the following headings:
 - Leadership
 - Financial and performance management
 - Governance
- Refer to chapter 6 of the reporting guide for guidance on what should be covered under each of the above headings. The issues reported should be specific to the auditee.

- No internal control deficiency should be reported when the finding is an internal control deviation.
- Document the root cause of the finding
- Document management's commitment to addressing the finding or previous commitments to addressing a repeat finding.

Recommendation

- The recommendation should include the following:
 - The action that should be taken to address the existing conditions or to improve operations.
 - Suggestions to correct or enhance performance to achieve the desired results.
- The recommendation should address the internal control deficiency.

Management's response

- Management should be required to include a response, especially for internal control deficiencies, to ensure that they are in agreement with the finding and to improve the quality of their commitments.
- Management's response should include the following:
 - Acknowledgement of, or agreement with, the finding and the internal control deficiency.
 - Commitment to take corrective action.
 - For findings that affect an amount disclosed in the financial statements, an indication of what corrections will be made to the population. Alternatively, should management deem the journal entry unnecessary, the reason why such a conclusion has been reached.
 - Who (position) will be responsible for the corrective action to be taken.
 - The estimated date on which the corrective action would have been completed (refer to the agreed timelines in the communication of the misstatement).
- Management's response in terms of internal control deficiencies should include the following:
 - Management's understanding of the actual or suspected causes of the deficiencies.
 - Exceptions arising from the deficiencies that management may have noted; for example, misstatements that were not prevented by the relevant IT controls.
 - A preliminary indication of management's response to the findings.

Name
Position
Date

Auditor's conclusion

- This section of the communication of audit findings and the management report is used to facilitate the communication process between the auditor and the auditee

and to indicate to management that the auditor has assessed and understood their response.

- The auditor is required to respond to the responses received from management in a timely manner, especially where management stated that they have corrected the population. This will ensure that there is sufficient time to make the necessary corrections.
- Please note that this is not an appropriate avenue to voice differences of opinion. The auditor must use structures such as the audit committee and audit steering committee to resolve differences.

⁸³ **Annexure E** should be omitted when the opinion is disclaimed.

⁸⁴ **Annexure E – Presentation in the annual performance report**

Presentation in the annual performance report NOT applicable to schedule 2; 3B or 3D public entities, Parliament and provincial legislatures

⁸⁵ **Annexure F – Assessment of internal controls**

The assessment should be done at an overall level for each audit dimension. The table summarises the overall status of the drivers of internal control after the assessment of key controls for financial statements, performance information and compliance with legislation. The overall status presented in this table informs the information in the general report. The movement from the prior year-end to the current year-end should be included next to the heading *Overall movement from previous assessment* under each fundamental of internal control for each audit dimension.

The assessment should be obtained as follows, using the ASMIS report 129 – AO Listing – PFMA key drivers of audit outcomes – by ABU:

Leadership

Add all the “Overall” scores of the six areas under leadership per auditee.

By using the following formula for leadership, determine the total and percentage for:

- Green = COUNTIFS (Range, “10”)
- Orange = COUNTIFS (Range, “>9”, Range, “<14”)
- Red = COUNTIFS (Range, “>13”)

Financial and performance management

Add all the “Overall” scores of the five areas under financial and performance management per auditee.

By using the following formula for financial and performance management determine the total and percentage for:

- Green = COUNTIFS (Range, “<9”)
- Orange = COUNTIFS (Range, “>8”, Range, “<13”)
- Red = COUNTIFS (Range, “>12”)

Governance

Add all the “Overall” scores of the three areas under governance per auditee.

By using the following formula for governance determine the total and percentage for:

- (i) Green = COUNTIFS (Range, “<5”)
- (ii) Orange = COUNTIFS (Range, “>4”, Range, “<7”)
- (iii) Red = COUNTIFS (Range, “>6”)

Please note that the formula for each of the three areas (leadership, financial and performance management and governance) is different – do not copy the same formula for each of the areas.

The internal control table should be included even if there is nothing to report, because the auditor includes an icon in the cells next to each driver to indicate whether management had achieved the three fundamentals of internal control.

If material non-compliance with supply chain management legislation is reported in the auditor’s report and/or in part A of section 3 of the management report, the internal control table should reflect the applicable control deficiencies in the compliance with legislation column. Refer to chapter 5 for guidance on the typical control deficiencies.

When detailing the deficiencies below, reflect on the root cause of the deficiency (in other words, why it had occurred).

If a root cause is not clear, try asking questions that start with “why” until there are no more questions that can be asked. The answer to the last “why” is probably the root cause of the finding.

Because there may be many potential root causes, it is important to focus on the key causes. That is, the actions need to address the primary drivers of the findings, and not necessarily all of the potential, yet minor, causes.

Sometimes the root cause is quite simple or obvious (e.g. management simply did not think about doing something). The auditor should not assume that the root cause is an elaborate or complicated set of circumstances.

The root cause should be described in concise, direct language. It is typically necessary to share the root causes with the process owner who is typically looking for a brief explanation of why a finding is raised.

The table should be completed as follows in relation to work performed by information systems auditors:

Leadership – IT governance framework:

The cells relating to **financial, performance reporting and compliance with legislation** should be completed.

Governance – IT risks:

A separate assessment will not be done under governance. It should be dealt with as part of the IT governance framework.

Financial and performance management – Formal controls over IT systems:

The cells relating to the **financial** column should be completed for the general control audits performed. The cells relating to **performance objectives** and **compliance with legislation** should be marked as **N/A**.

The **Performance reporting** cells should only be completed if IS audits on performance objectives have actually been performed.

