



# TECHNICAL GUIDANCE

## MEMORandum

<b>Number</b>	15 of 2016
<b>Date</b>	14 June 2016
<b>Applicable auditees</b>	All auditees, including section 4(3) auditees that the AGSA opted not to audit
<b>Subject</b>	AG Directive

This document has been reviewed and approved for distribution by the BE: Audit R&D after consultation with all relevant role players.

### Introduction

1. The purpose of this TGM is to inform the auditors of the revision and publication of the new AG Directive (*General Notice 574 of 2016*, issued in *Government Gazette No. 40021* on 27 May 2016).
2. The new AG Directive is effective for financial periods beginning on or after 1 April 2015 and is applicable until further notice. A similar directive will not necessarily be issued annually.
3. Changes resulting from the revision of the AG Directive have been incorporated in the audit developments for the 2015-16 audits.

### Guidance

4. The general purpose of the AG Directive is to clarify the following:
  - The nature of the audit functions performed in the public sector
  - The standards, criteria and processes applied in performing audits in the public sector
  - The responsibilities of auditors in public practice and the manner in which they are required to perform public sector audits.
5. More specifically, the AG Directive addresses the following:
  - Audit functions performed in terms of the Public Audit Act (PAA)
    - Annual audit
    - Auditing standards
    - Auditing of reported information on performance against predetermined objectives
    - Auditing of compliance with applicable legislation relating to financial matters, financial management and other related matters
    - Internal control, as indicated by the reference to financial management in the PAA

- Focus areas
- Discretionary engagements
- Complaints against the AGSA
- Audits of public entities and other institutions not performed by the AGSA
  - Audits that the Auditor-General has opted not to perform
  - Appointment of registered auditors
  - Discharge of registered auditors
  - Responsibilities of registered auditors
  - Request for information
  - Complaints against registered auditors
- Auditees for which legislation is not prescriptive in respect of the financial statements
- Timing and submission of information for audit purposes
- Assessment and recognition of the financial reporting frameworks applicable in the public sector.

6. The following changes have been made in drafting the new AG Directive:

Par. no.	Change(s)	Reason for changes
Par. 5 (inserted)	A new paragraph has been inserted relating to the auditing of reported information on performance against predetermined objective of universities and reads: “Material findings on the usefulness of the information reported by Universities will not be reported in the auditor’s report.”	Universities are not required to report on performance against predetermined objectives in terms of the PFMA. However, the legislation specific to universities was amended to provide for planning and reporting on performance information. For 2015-16 it has been proposed that the usefulness of the information be audited and only reported in the MR.
Par. 9	The material findings on non-compliance with relevant legislation in respect of the following subject matters have been deleted: <ul style="list-style-type: none"> <li>• Audit Committees</li> <li>• Internal Audit</li> <li>• Service delivery – Education, Health, Public Works, Human Settlements and Social development; and</li> <li>• Monitoring and oversight.</li> </ul> <p>The Human Resource Management and Compensation subject matter has been indicated as applicable to local government only.</p> <p>The Asset and Liability management subject matter has been split into asset management which is applicable to local government only and liability management which is applicable to local government and public entities.</p>	The compliance subject matters have been reduced in order to focus on only the most significant and impactful areas.
Par. 9	The following words have been included to the Procurement and contract management subject matter – “including procurement and contract management functions performed on behalf of another organ of state (e.g. as procurement or implementing agents)”.	Agents are often used to perform procurement and contracting functions on behalf of other auditees. The auditors of these implementing agents do not always audit these functions as they only focus on the auditees own operations (often a case with auditees where AGSA opted not to perform audits). As a result there is inadequate assurance that there is also

Par. no.	Change(s)	Reason for changes
		compliance with legislation when performing these functions and/or material non-compliance identified is not reported in the auditor's report.
Par. 14	<b>First Bullet</b> The heading of the paragraph "Performance Audits" refers to section 20(3) of the PAA. The referencing to section 20(3) has been deleted. The paragraph has been deleted except for the words "These audits are conducted in accordance with the applicable ISSAIs and the <i>Performance audit manual</i> developed by the AGSA". This sentence has been amended to read "These audits are conducted in accordance with the ISSAI 300 – <i>Fundamental Principles of Performance Auditing</i> and the <i>Performance audit manual</i> developed by the AGSA."	The reference to section 20(3) of the PAA was incorrect. Performance audits are not mandated by section 20(3) of the PAA but by section 5(1) (d) of the PAA. The heading of paragraph 14 indicates what the applicable sections are in the PAA. Based on the legal opinion obtained, section 20(3) of the PAA refers to cases where certain performance audit procedures were performed as part of the annual audit and reported on in the auditor's report.
Par. 20	This paragraph has been amended to make provision for the auditee to notify the AGSA via email before appointing an auditor. An email address has specifically been created for this. The paragraph was also amended by deleting the requirement to notify the BE responsible for the audit.	The amendment was made as a result of a proposal made by STRAP, the section 4(3) audits task team and input from Corporate Executives.
Par. 20 & 21	Paragraphs have been amended to remove reference to "consent" of the AGSA on the appointment of the auditor.	Strictly speaking, the AGSA is only consulted on the appointment of the auditor and does not consent to it. We do not participate in this management function. We only have the power to reject the appointment of a preferred auditor.
Par. 22	This paragraph has been amended to make provision for instances where audit firms are contracted for more than one financial year.	To provide for practical considerations regarding the appointment of audit firms contracted for more than one financial year.
Par. 34 (inserted)	A new paragraph has been inserted to allow the AGSA the right to request to attend meetings with those charged with governance of the auditee.	This insertion is to enhance the AGSA's oversight role and assist in the environmental scanning exercise.
Par. 41 (as amended)	<b>Bullet 1</b> The paragraph has been amended by deleting the words "and all other information to be included in the annual report" and "concurrently with the financial statements".	The words deleted here are incorporated and expanded on in bullet 3 below.
	<b>Bullet 2, 3 (inserted) &amp; 4</b> Paragraphs 2 and 4 have been amended and paragraph 3 inserted.	These paragraphs have been amended and inserted to emphasise and give clarity on the submission of information and the impact of non-submission.
Addendum B Par. 10 (inserted)	<b>Appointment of new auditors:</b> This paragraph has been inserted to request confirmation from the Accounting Authority/ Board that a procurement process was followed in the appointment of the audit firm.	The AGSA requires assurance that the correct process was followed due to the findings in the public domain on SCM irregularities.
Addendum B Par. 11 (inserted)	<b>Appointment of new auditors:</b> Inserted a table that deals with the costs of audit and non-audit services provided by the audit firm during the last three years.	This information will assist in evaluating the firm's independence before the appointment of the firm.

## Previous guidance

7. The previous AG Directive (*General Notice 125 of 2015*, issued in *Government Gazette No. 38464* on 11 February 2015) and TGM 1 of 2015 that provided guidance on the previous AG Directive are hereby withdrawn.

## Action required

8. It is recommended that the product champion lead a technical discussion with audit staff to ensure understanding of the content of this TGM.
9. If audits are contracted out, the relevant senior manager (SM) should provide the team from the audit firm with this TGM and should brief them on the content thereof. The SM is also required to perform monitoring to ensure that the guidance provided is applied correctly by the audit firms.
10. Audit firms that perform audits in terms of section 4(3) should also be provided with this TGM by the relevant SM.

## Attachments

11. The new AG Directive, as published in *General Notice 574 of 2016*, issued in *Government Gazette No. 40021* on 27 May 2016, accompanies this TGM.

## Assistance

12. Should you have any questions regarding this TGM please contact your product champion for assistance. If necessary, the product champion will consult with Audit R&D in accordance with the consultation policy and procedures.

## BE: AUDIT R&D

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