Proposed Guide

August 2011

Comments requested by 7 October 2011

INDEPENDENT REGULATORY BOARD FOR AUDITORS

A Proposed Guide for Registered Auditors

AUDITING IN THE PUBLIC SECTOR

REQUEST FOR COMMENTS

The Committee for Auditing Standards ("CFAS") a statutory committee of the Independent Regulatory Board for Auditors ("IRBA") approved the release of this *Proposed Guide for Registered Auditors Auditing in the Public Sector* (the "Proposed Guide"), at its meeting in May 2011, which is now issued for public comment. The Proposed Guide has been prepared in consultation with the Auditor-General South Africa. To ensure that all relevant stakeholders are consulted and to streamline the consultation process, interested and affected stakeholders are invited to submit written comments to the IRBA. All comments will be considered a matter of public record.

Respondents are asked to submit their written comments by **7 October 2011,** preferably by email to standards@irba.co.za, or on a computer disk in MS Word format to:

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Independent Regulatory Board for Auditors
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Copies of the exposure draft may be downloaded free of charge from the IRBA website at http://www.irba.co.za. Should you have any queries or experience any technical difficulties in downloading the documents please do not hesitate to contact the Standards Department at +27 (0)87 940 8800 or send an email to standards@irba.co.za.

The proposed Guide may be modified in light of comments received before being issued in final form.

PROPOSED GUIDE FOR REGISTERED AUDITORS AUDITING IN THE PUBLIC SECTOR

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EXPLANATORY MEMORANDUM

Introduction

This explanatory memorandum provides background to, and an explanation of, the proposed Guide approved by the CFAS for exposure in 2011.

Background

The proposed Guide provides information that will assist private sector auditors in public practice in gaining an understanding of the public sector and the conduct of public sector audit engagements.

The proposed Guide has been developed by the Auditor General of South Africa (AGSA) in consultation with the CFAS Public Sector Standing Committee ("PSSC") established for the purpose of improving the understanding of and enhancing the performance of quality public sector audits.

The proposed Guide addresses the following aspects**:**

- Auditing the public sector in South Africa.
- The scope of auditing in the public sector.
- Mandate of the Auditor-General South Africa.
- The key stakeholders and role players in the public sector.
- Key laws and regulations relating to public sector entities.

Overview of the guide

The proposed Guide is informative and not technical in nature.

The full scope of auditing in the public sector is broader than in the private sector and includes the audit of the financial statements, performance against predetermined objectives and compliance with laws and regulations. In addition performance audits and investigations are also undertaken. Audits in the public sector are conducted in two cycles namely, the Public Finance Management Act (PFMA) (national and provincial government) and the Municipal Finance Management Act (MFMA) (local government). The PFMA and MFMA require that the financial statements and the audit thereof be finalised before specific dates. In order to conduct these audits within the prescribed timeframes the AGSA contracts with private firms to obtain additional resources.

The Auditor-General's (AG) mandate to audit public sector entities is derived from the Constitution. In addition to the Constitution, the Public Audit Act prescribes the functions of the Auditor-General. Audits in the public sector are performed in accordance with International Standards on Auditing incorporating the guidance included in the International Standards of Supreme Audit Institutions.

Project Timetable

Following due consideration of comments received on exposure of the proposed Guide, the CFAS will consider the final Guide at its meeting in November 2011 to recommend to the Board for approval to issue.

Guide for Respondents

The IRBA welcomes comments on all matters addressed in the exposure draft. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this exposure draft it will be helpful for the IRBA to be made aware of this view.

In line with the IRBA's legislative mandate, its objectives are to create the framework and principles to contribute to the protection of members of the public who rely on the services of registered auditors, and to support registered auditors who carry out their duties competently, fearlessly and in good faith. The goal is to help create an ethical, value-driven financial sector that encourages investment and confidence and promotes sound practices by developing and maintaining auditing standards which are internationally comparable.

The statutory responsibility of the CFAS is to assist the IRBA to:

- develop, maintain, adopt, issue or prescribe auditing pronouncements,;
- consider relevant changes internationally by monitoring developments by other auditing standard-setting bodies and sharing information where requested; and
- promote and ensure the relevance of auditing pronouncements.

Request for Specific Comments

While the CFAS welcomes comments on any aspects, comments are sought on the following specific matters:

1. The proposed Guide is intended to provide a comprehensive but summarised understanding of auditing in the public sector. Too little information will negatively impact on the effectiveness of the proposed Guide, but too much information will discourage auditors from taking the time to study it properly.

   Do you think that the right "balance" has been achieved?

2. The proposed Guide is intended to provide an easy to understand introduction to auditing in the public sector, especially useful for auditors who are unfamiliar with or lack experience in auditing in the sector.

   Do you think that the proposed Guide *is user-friendly, easy to read and understand, and achieves its objectives, from the perspective of someone who does not have the benefit of any prior knowledge or understanding of the information being provided?*

3. *Is the structure of the proposed Guide conducive to better understanding of the public sector auditing environment with specific reference to the various spheres of government?*

4. *Are there additional aspects that should be addressed in the proposed Guide?*

CFAS: GUIDE FOR REGISTERED AUDITORS

AUDITING IN THE PUBLIC SECTOR

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FOREWORD

1. Auditing in the public sector is not an end in itself but rather an indispensable part of a regulatory system that aims to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, and to obtain compensation, or to take steps to prevent – or at least render more difficult – such breaches.
2. The scope of an audit in the public sector includes the audit of the financial statements, performance against predetermined objectives and compliance with laws and regulations. In addition, performance audits and investigations are also undertaken.
3. The mandate of the Auditor-General of South Africa (AGSA) to audit public sector entities is derived from the Constitution. In addition to the Constitution, the Public Audit Act (PAA) prescribes the functions of the AGSA. Audits in the public sector are performed in accordance with International Standards on Auditing (ISAs), incorporating the guidance included in the International Standards of Supreme Audit Institutions.
4. Key stakeholders in the public sector include Parliament, provincial legislatures, national and provincial treasuries, the Accounting Standards Board (ASB), executive authorities, municipal councils, accounting officers, executive mayors and the public at large. When auditing in the public sector it is important to have an understanding of the three different spheres of government and how they interact with one another.
5. There are a number of laws and regulations applicable to public sector entities. It is important for public sector auditors to have knowledge of relevant legislation and to be aware of those laws and regulations that are applicable to a specific public sector entity or enterprise in order to identify instances of non-compliance with these laws and regulations. Key laws and regulations include the Public Finance Management Act (PFMA), Municipal Finance Management Act (MFMA), Municipal Systems Act (MSA), National Environment Management Act (NEMA), Companies Act, Division of Revenue Act (DoRA), Public Service Act (PSA) and Preferential Procurement Policy Framework Act (PPPFA).
6. The AGSA subscribes to the principles contained in the *Framework for communicating and promoting the value and benefits of SAIs*[1] and by so doing setting an example in the public sector and the auditing profession as leaders in public finance management, related governance and performance management. It is with this solid foundation that the AGSA adds value and can make a difference in the lives of citizens.
7. Audits are generally undertaken in two cycles: national and provincial government subject to the PFMA and local government subject to the MFMA. In order to conduct these audits within the prescribed time frames, the AGSA contracts with private practitioners to obtain additional resources. The auditing standards applied in the conducting of these audits incorporate the *International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements* and the *International Standards for Supreme Audit Institutions*.

[1] Supreme Audit Institutions

1. AUDITING THE PUBLIC SECTOR IN SOUTH AFRICA

Introduction

1.1 This Guide provides informative guidance that will assist registered auditors to understand the public sector and to conduct public sector audit engagements.

1.2 Auditing in the public sector is described as follows in the *Lima declaration of guidelines on auditing precepts* of the International Organization of Supreme Audit Institutions (INTOSAI)[2]:

'The concept and establishment of an audit is inherent in public financial administration, as the management of public funds represents a trust. An audit is not an end in itself but rather an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent – or at least render more difficult – such breaches.'

International Organisation of Supreme Audit Institutions (INTOSAI)

1.3 INTOSAI operates as an umbrella organisation for the external government audit community. It provides an institutionalised framework for supreme audit institutions (SAIs) to promote development and transfer knowledge, improve government auditing worldwide and enhance professional capacities, standing and influence of member SAIs in their respective countries.

1.4 SAIs generally are established by the supreme law making body of the country, or by constitutional provision. Commonly, the establishing law or regulation sets out the form of the SAI, the terms and conditions of incumbency, tenure, powers, duties, functions and general responsibilities, and other matters governing the holding of office and the discharge of the functions and duties to be performed. Whatever the arrangements, the essential function of the SAI is to uphold and promote public accountability.

1.5 The central aim of INTOSAI is to reinforce the independence and professionalism of external government auditing on a sustainable basis. In 1977 the *Lima declaration of guidelines on auditing precepts* determined the principle of independence of government auditing in methodological and professional terms.

1.6 In the *Mexico declaration on SAI independence* 30 years later, these requirements were defined in more concrete terms and eight pillars for the independence of external government auditing were identified.

1.7 The eight principles enshrined in the Mexico Declaration[3] address aspects of legal certainty, transparency, information management, follow-up mechanisms and availability of resources that allow SAIs to carry out the work that society has entrusted to them, and it is their foremost duty to devote all their efforts to the benefit of society.

1.8 The Johannesburg Accords[4] of 2010 deal with the value and benefits of SAIs.

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[2] ISSAI 1, section 1 (Appendix 1)

[3] ISSAI 10 (Appendix 1)

[4] Appendix 2

Value and benefits of SAIs[5]

1.9 The framework for defining the value and benefits of SAIs is constructed around two objectives: an external focus to make a difference to the lives of citizens; and an internal focus to lead by example by being a model institution. Each objective is explained with reference to a number of fundamental requirements, which in turn are supported by guiding principles. These are listed below:

- Responsiveness to changing environments and stakeholder expectations, without compromising independence;
- Ensuring that government is held accountable for using resources legally and responsibly, for the purposes intended, and economically, efficiently and effectively;
- Credible source of independent and objective insight and guidance to facilitate foresight and continuous improvements in government;
- Empowering the public to hold government accountable and responsive, through objective information, simplicity and clarity of the message, and convenient access to audit reports and messages in relevant languages;
- Enabling the legislature, one of its commissions, or those charged with governance to discharge their different responsibilities in responding to audit findings and recommendations and taking appropriate corrective action;
- Following up on audit findings and implementation of recommendations;
- Independence;
- Transparency and accountability;
- Code of ethics;
- Service excellence and quality considerations;
- Learning and knowledge sharing; and
- Effective communication.

[5] Refer to Appendix 2 for the full framework.

2. SCOPE OF AUDITING IN THE PUBLIC SECTOR

2.1 The PFMA and MFMA require that the financial statements and the audit thereof be finalised before specific dates. For this reason audits in the public sector are conducted in two cycles, namely the PFMA and the MFMA.

2.2 The following table illustrates the legislated dates for the PFMA and the MFMA:

	Date of financial statements	Date of submission of the financial statements for auditing	Date of the auditor's report
PFMA	31 March	31 May	31 July
MFMA	30 June	31 August	30 November / 31 December (consolidated)

2.3 As indicated in the Lima Declaration, the full scope of public sector auditing is broader than in the private sector and includes financial, compliance and performance audits.

Financial audit[6]

2.4 A financial audit consists of an audit of financial statements, plus some or all of the following elements:

- Audit of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements;
- Audit of financial accountability of the government administration as a whole;
- Audit of financial systems and transactions, including an evaluation of compliance with applicable statutes and regulations;
- Audit of internal control and internal audit functions;
- Audit of the probity and propriety of administrative decisions taken within the audited entity;
- Audit of performance against predetermined objectives; and
- Reporting of any other matters arising from or relating to the audit that the SAI considers should be disclosed.

Audit of predetermined objectives

2.5 The audit of predetermined objectives forms an integral part of the financial audit process and relevant audit procedures are performed during the financial audit process to gain assurance on the usefulness and reliability of the reported performance against predetermined objectives.

2.6 In terms of the PFMA, MFMA, MSA and related regulations, it is a legislated requirement for accounting officers or authorities to report annually on the performance of the entity against predetermined objectives. The performance reports

[6] ISSAI 100.39

are used to assess the success of service delivery and the use of funds appropriated by the legislatures.

2.7 The AGSA uses the following as a basis to evaluate the performance management system and annual performance report when drawing an audit conclusion:

- All relevant laws and regulations;
- The National Treasury's framework for the managing of programme performance information; and
- Other relevant frameworks, circulars and guidance issued by the National Treasury and the Presidency regarding the planning, management, monitoring and reporting of performance information.

2.8 The audit of predetermined objectives involves the following:

- Understanding the internal policies, procedures and controls related to the management of, and reporting on, performance information;
- Evaluating and testing systems and controls relevant to recording, monitoring and reporting of performance information;
- Verifying the existence, measurability and relevance of planned and reported performance information;
- Verifying the consistency of performance information between the strategic or annual performance or corporate or integrated development plan, the quarterly or mid-year reports and the annual performance report;
- Verifying the presentation of performance against predetermined objectives in the annual performance report against the format and content requirements determined by the National Treasury; and
- Comparing reported performance information to relevant source documentation and verifying the validity, accuracy and completeness thereof.

Compliance audit

2.9 Laws and regulations set out what activities public sector entities should carry out for the citizens and any limits or restrictions on such activities, the overall objectives to be achieved and how due process rights of individual citizens are protected. Public funds are entrusted to public sector entities for their proper management. It is the responsibility of these entities and their appointed officials to be transparent about their actions, accountable to the citizens for the funds with which they are entrusted, and exercise good stewardship over such funds.

2.10 The need to monitor that the activities of public sector entities are in accordance with relevant laws and regulations and that the rights of citizens are protected are important public sector control functions. Through compliance auditing, public sector auditors help to monitor that the basic principles of transparency, accountability, stewardship and good governance are being followed and put into operation[7].

2.11 In terms of sections 20(2)(b) and 28(1)(b) of the PAA, the auditor's report must reflect an opinion or conclusion on the entity's compliance with any applicable legislation relating to financial matters, financial management and other related matters.

2.12 Currently, only material compliance deviations that come to the attention of the auditor and which may assist users of the financial and performance information in assessing the entity's compliance with, and adherence to, applicable laws and

[7] ISSAI 4200.4

regulations are reported. The AGSA is in the process of phasing in the requirements of ISSAI 4200 to the stage where a reasonable assurance conclusion will be given on compliance with laws and regulations.

2.13 Compliance audits in South Africa are carried out as part of the financial audit and include determining whether information related to a particular subject matter is in compliance, in all material respects, with relevant criteria. Material non-compliance with laws and regulations relating to the financial statements will be reported under the basis for modification of the auditor's report. Material non-compliance relating to the report on predetermined objectives and other laws and regulations that indirectly affects the financial statements is reported under the *Report on other legal and regulatory requirements* section of the auditor's report.

2.14 The subject matter and criteria are determined per audit cycle based on:

- Public interest and expectations;
- Specific areas that are the subject of significant legislative focus;
- Discharge of accountability of the entity;
- Decisions of the users of the financial and performance information reported regarding compliance with, and adherence to, laws and regulations; and
- Those areas where there is a risk of non-compliance.

2.15 The materiality of compliance deviations is assessed in order to determine whether such deviations should be included in the auditor's report. The assessment of what represents a material compliance deviation is a matter of professional judgement and includes considerations of context as well as quantitative and qualitative aspects of the transactions or issues concerned.

2.16 A number of factors are taken into account in applying professional judgement to determine whether or not the non-compliance is material. Such factors may include the following:

- Importance of the amounts involved (monetary amounts or other quantitative measures such as the number of citizens or entities involved and time delays in relation to deadlines)
- Circumstances of the non-compliance
- Nature of the non-compliance
- Cause of the non-compliance
- Possible effects and consequences of the non-compliance
- Visibility and sensitivity of the programme in question (for example, is it the subject of significant public interest or does it impact vulnerable citizens)
- Needs and expectations of the legislature, the public or other users of the auditor's report
- Nature of the relevant authorities
- Extent or monetary value of the non-compliance.

2.17 The AG Directive and the Public Audit Manual issued by the AGSA, and other specific guidance provide more detailed information.

Special focus areas

2.18 In order to improve the efficiency and effectiveness of audits in the public sector, the financial audits performed by the AGSA include special focus on service delivery matters in certain specific sectors as well as human resource management, procurement and contract management.

2.19 The approach to the audit of human resource management, procurement and contract management focuses on the standardisation of the auditing process and procedures across all implicated audits.

2.20 The sector audit approach entails the coordination of the planning and identification of sector-specific risks to ensure a consistent audit approach to service delivery aspects relevant to the sector. It further entails the overall planning and coordination of reporting on sector-specific service delivery aspects to ensure consistency and uniformity of reporting on matters specific to the sector.

2.21 The AG Directive and the Public Audit Manual issued by the AGSA, and other specific guidance provide more detailed information.

Identification of internal control deficiencies

2.22 In line with the AGSA's Goal 2 *Visibility of leadership*, regular interactions take place with stakeholders. These interactions are aimed at deepening stakeholders' understanding of the messages in the auditor's report as well as to provide those in charge of public resources with insight into the key internal controls and to assist them in anticipating emerging risks so that they are enabled to take necessary corrective action.

2.23 Effective interaction with legislative oversight mechanisms, executive authorities and those charged with governance of the auditee is aimed at leading to commitments for corrective actions required to improve audit outcomes, improved oversight and effective accountability, and ultimately to clean administration.

2.24 A dashboard report is used to communicate the assessment of the drivers of internal control. These controls are categorised under leadership, financial and performance management as well as governance. Each control is three-dimensional, as it has an impact on financial information, performance information as well as compliance with laws and regulations.

2.25 The auditor's report includes reporting on the key drivers that resulted in the basis for the modified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations. This is not an opinion on internal control, but the AGSA will phase in reporting on internal control to a stage where a reasonable assurance conclusion will be given.

Performance audit[8]

2.26 A performance audit is described as an independent auditing process to evaluate the measures instituted by management to ensure that resources have been procured economically and are used efficiently and effectively.

Performance auditing is concerned with the auditing of economy, efficiency and effectiveness, and embraces:

- Auditing **economy** in relation to the acquisition of resources in the right quantity, of the right quality, at the right time and place at the lowest possible cost;
- Auditing the **efficiency** of the utilisation of human, financial and other resources and the optimal relationship between the output of goods, services or other results and the resources used to produce them; and

[8] ISSAI 100.40

- Auditing the **effectiveness** of performance in relation to the achievement of policy objectives, operational goals and other intended effects of the audited entity.

Process followed and principles applied to identify and prioritise performance audit topics

2.27 The process of selecting audit topics is critical. The impact of the audit depends largely on the audit topic; thus, great effort should be put into this process. There are many important factors to consider when performance audit topics are being selected.

2.28 The following processes are undertaken in order to identify topics:

- The public sector environment is scanned and all relevant sources of information are taken into consideration.
- Internal discussions are held, topics are debated where possible and the risks associated with the topics are assessed.
- External stakeholders are consulted.

2.29 The following criteria are considered when identifying topics:

	Criteria	**Factors**
1.	Materiality	Is the topic important to government/the public/the audited entity and does it involve a critical area?
2.	Public accountability	Will responsibility be taken/can the topic be explained?
3.	Possible impact	Will the topic have a powerful effect on enhancing the economy, efficiency and effectiveness of government undertakings?
4.	Improvement	Will the audit lead to improvements in government?
5.	Legislative or public interest	Will the topic address a legal concern or be to the advantage of the community?
6.	Risks to the SAI	Will the topic present a risk (strategic or reputational) to the SAI?
7.	Departmental issues	Will subjects of departmental concern be addressed by the topic?
8.	Relevance	Does the topic have some bearing on, or importance for, real world issues, present day events or the current state of society?
9.	Auditability	Can the topic be audited/is it practical to audit?
10.	Timeliness	Is this the right or appropriate time to audit the topic?
11.	Previous audit work	Has the topic been audited in the past?
12.	Other major work planned or in progress	Is other work being planned or done on the topic?
13.	Developments likely to affect assessment	Are there any events or processes of change that would probably affect the assessment (refers to the assessment as described below)?

	Criteria	Factors
14.	Request for performance audits	Have any special requests been made for performance audits to be done? Consideration should be given to the source of the request to determine the importance thereof, e.g. requests from Parliament versus requests from a department.
15.	High political sensitivity	Does the topic involve a delicate subject that is of governmental concern?

2.30 Each identified topic is assessed and all factors included in the assessment are measured or scored in a scoring matrix. The scores are totalled and the topics with the highest scores are deemed the most viable subjects and due for a performance audit.

Reporting responsibility of the auditor of the financial statements

2.31 The auditor is required to include information on performance audits completed or in progress in the auditor's report under "*Other legal and regulatory requirements"*.

Other functions

2.32 In terms of section 5 of the PAA, the AGSA also performs audit-related services, investigations and special audits.

3: MANDATE OF THE AGSA

3.1 There are a number of key pieces of legislation that have a direct impact on conducting audits in the public sector. These are dealt with below.

Constitution of the Republic of South Africa

3.2 Section 188 of the Constitution of South Africa outlines the functions of the auditor-general (AG). The AG is responsible for auditing and reporting on the accounts, financial statements and financial management of the public sector.

3.3 The AGSA has a constitutional mandate and, as the SAI of South Africa, it exists to strengthen our constitutional democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence. This is the reputation promise of the AGSA.

3.4 The following statement from the AG reiterates the importance of auditing to build public confidence: '*Instead of being concerned only with financial information, auditors should help to establish to what extent communities enjoyed their rights as citizens. Improving quality of life has to be at the forefront of auditors' responsibilities*.'

Public Audit Act

3.5 In addition to the Constitution, the following requirements of the PAA prescribe the functions of the AG.

3.6 The PAA[9] requires the AG to audit and report on the accounts, financial statements and financial management of:

- all national and provincial state departments and administrations
- all constitutional institutions
- the administration of Parliament and of each provincial legislature
- all municipalities
- all municipal entities
- any other institution or accounting entity required by other national or by provincial legislation to be audited by the AG.

3.7 The AG is further required[10] to audit and report on the consolidated financial statements of:

- the national government as required by section 8 of the PFMA
- all provincial governments as required by section 19 of the PFMA
- a parent municipality and all municipal entities under its sole or effective control as required by section 122(2) of the MFMA.

3.8 In terms of section 12 of the PAA, the AG may authorise one or more persons to perform or to assist in performing an audit. Such a person could either be a member of staff of the AGSA or a private practitioner. Private practitioners are contracted to

[9] PAA 4(1)

[10] PAA 4(2)

perform engagements on behalf of the AGSA in terms of the AGSA's memorandum of agreement.

3.9 Private practitioners that do work on behalf of the AGSA are the AGSA's agents and must be seen to share the AGSA's business ethics, auditing standards and corporate values. To this end, the AGSA conducts training workshops for the audit firms that are contracted, which result in their deepened understanding of the public sector environment. The AGSA also ensures that contracted private practitioners participate in the countrywide road shows that are conducted with the AGSA's stakeholders.

Consultation by private practitioners on technical matters

3.10 Where a private practitioner is conducting an audit on behalf of the AGSA and wishes to consult on a technical matter concerning the audit, the firm should first inform the AGSA's engagement manager that a matter for consultation outside its engagement team has arisen and should indicate whether its own technical department has the required knowledge and experience to resolve the specific matter. The AGSA's engagement manager can then agree that the firm may consult with its technical unit or may decide to follow the AGSA's processes to obtain a resolution.

3.11 If the private practitioners consult with their technical department, the technical opinion or recommendation obtained should be documented and then be discussed and agreed with the AGSA's engagement manager and product champion prior to discussion with the auditee or any other party.

3.12 The consultation documentation should be included in the engagement file and should also be filed and shared by the product champion. Both the practitioner and the AGSA's engagement manager should ensure that the conclusions are implemented. Where the private practitioner or the AGSA's engagement manager does not agree with the opinion received, the individual consulted should be informed and the difference of opinion process must be followed.

3.13 Audit Research and Development (ARD) has periodic meetings with the National Treasury and the ASB to resolve auditing and accounting matters. Matters identified by the auditors are elevated to these meetings so that they can be dealt with on a centralised basis.

Audits performed by private practitioners

3.14 The AG may opt[11] not to audit and report on the accounts, financial statements and financial management of:

- any public entity listed in the PFMA and
- any other institution not mentioned in the above-mentioned list which is funded from the National Revenue Fund (NRF), or
- a provincial revenue fund, or
- by a municipality, or
- authorised in terms of any legislation to receive money for a public purpose.

3.15 Only if the AG opted not to audit these entities and did not advise them before the start of the financial year that the AGSA will perform the audit, are these entities permitted to appoint their own auditors who may be in private practice. In this regard, the document, "*Consultation of the AG on the appointment of an auditor*", attached to the AG Directive, should be completed.

[11] PAA 4(3)

3.16 When electing not to perform an audit of a public entity or institution in terms of section 4(3) of the PAA, the AGSA is mandated by the PAA in terms of the following sections to impose a wide spectrum of duties on private practitioners appointed as auditors to these entities:

- Section 27(1): An auditor appointed in terms of section 25(1)(b) must perform the functions of office as auditor in terms of section 20 of the Public Accountants' and Auditors' Act (now the Auditing Profession Act, 2005).
- Section 27(2): In performing those functions as the auditor of an auditee, the auditor has the powers assigned to the AG in terms of section 15.
- Section 27(5): The AG or a person designated by the AG may request information regarding the audit from an auditor appointed in terms of section 25(1)(b).

3.17 Section 28(1): The report of an auditor appointed in terms of section 25(1)(b) must reflect such opinions and statements as may be required by any legislation applicable to the auditee which is the subject of the audit, but must reflect at least an opinion or conclusion on:

- whether the financial statements of the auditee fairly present, in all material respects, the financial position at a specific date and results of its operations and cash flow for the period which ended on that date in accordance with the applicable financial framework and legislation
- the auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters
- the reported information relating to the performance of the auditee against predetermined objectives.

3.18 Section 28(2): If required by the AG, the auditor must report:

- whether the auditee's resources were procured economically and utilised efficiently and effectively
- on any matters arising from an investigation required by the AG that should in the public interest be brought to the attention of the relevant legislature.

3.19 Section 29(1): The AG may designate an authorised auditor to carry out an investigation or special audit referred to in section 5(1)(d). Specific requirements concerning these matters are dealt with in the annual AG Directive.

3.20 When the AG decides to perform the audit of a public entity, the following criteria are taken into account:

- Request from Parliament
- Request from the entity itself
- Public interest
- Internal capacity
- Specialist industry and technical knowledge

3.21 In terms of section 25(1)(a) of the PAA, the AG states in the AG Directive that he/she opts not to perform the audits of any entities referred to in section 4(3) of the PAA, except for those entities that are already being audited by the AGSA. The AG will advise an entity before the start of the financial year if the AGSA will perform the audit.

3.22 Private practitioners are required by the AG Directive to comply with the AGSA's reporting requirements, the provisions of the PAA and the directive, which will be monitored by the AGSA. In this regard the appointed auditor has to complete the section 4(3) audit monitoring checklist.

3.23 The AGSA will in consultation with the private practitioner also liaise with and attend meetings with the auditee as deemed necessary.

3.24 The outcomes of audits not performed by the AGSA will be included in the AGSA's general report.

Reportable irregularities in terms of the Auditing Profession Act

3.25 If a private practitioner, who is contracted to perform an audit on behalf of the AGSA, identifies a reportable irregularity as contemplated by paragraph 10.1.12 of the *Reportable Irregularities Guide* of the IRBA this matter is not required to be reported to IRBA. The registered auditor in this instance should report the matter to the AG who is the appointed auditor. However, in circumstances where the AGSA has opted not to audit the entity, and such public sector entity appoints the auditor, the registered auditor reports the reportable irregularity to the IRBA.

3.26 Specific guidance on reporting on compliance with laws and regulations in the public sector is included in the AG's *R3: Reporting guide*.

The AG Directive

3.27 In terms of the powers vested in the AG by section 2(b) of the PAA and to promote consistency in reporting in the public sector, the AG issues a Directive which, *inter alia*, communicates information on the following matters:

- The appointment and discharge of the auditors where the AGSA has opted not to perform the audit in terms of section 4(3) of the PAA;
- Requirements concerning communication of information on these audits to the AGSA; and
- Requirements concerning the auditor's report format and content for these entities.

3.28 The requirements regarding audits not performed by the AGSA are aimed at ensuring full and consistent application of the PAA, read together with the relevant sections of the PFMA and the MFMA. In essence, auditors of these entities are required to audit and report in line with the requirements of the Directive and other related guidance issued by the AGSA.

3.29 Interactions with the auditors, as well as the boards and senior management of these auditees are conducted to ensure an understanding of these requirements.

Auditing standards applicable in the public sector

3.30 In the public sector assurance engagements are performed in accordance with the International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements. In addition, INTOSAI issues *International Standards for Supreme Audit Institutions* (ISSAIs)[12] applicable to SAIs, which should also be taken into consideration in performing these engagements...

3.31 The ISSAIs consist of the following levels:

[12] Refer to Appendix 1 for a list of the ISAs containing considerations specific to the public sector and the framework of the ISSAIs.

- Founding principles
- Prerequisites for the functioning of SAIs
- Fundamental auditing principles
- Auditing guidelines
- INTOSAI guidance for good governance (INTOSAI GOV)

3.32 The auditing guidelines are presented in ISSAIs 1000 to 2999 and provide guidance on conducting financial audits of public sector entities.

3.33 Each INTOSAI financial auditing guideline consists of the relevant ISA and a practice note that provides relevant guidance on applying that ISA in financial audits of public sector entities. INTOSAI contributes to the development of ISAs by participating in the IAASB task forces responsible for developing new standards or revising existing standards.

3.34 The purpose of the INTOSAI GOVs is to provide guidance to public authorities on proper administration of public funds.

Reporting

Auditor's report

3.35 The auditor's report prepared by the AGSA and private practitioners in terms of section 4(3) of the PAA, where the AG opted to not audit public sector entities, is illustrated in the AGSA's *R3: Reporting guide* which is issued annually. The report consists of the report on the financial statements and the report on other legal and regulatory requirements in accordance with ISAs. The principles of SAAPS 2 are taken into account in the development of the report. The illustrative reports are to be incorporated into the Revised SAAPS 3 to be issued by the IRBA.

General report

3.36 Each year, the AGSA produces auditor's reports on government departments, public entities, municipalities and other public institutions. In addition to these entity-specific reports, the AGSA analyses the audit outcomes in general reports which cover both the PFMA and the MFMA cycles. Private sector auditors are required to complete the relevant questionnaires to facilitate the inclusion of such entities' information in the general report.

4: KEY STAKEHOLDERS AND ROLE PLAYERS IN THE PUBLIC SECTOR

4.1 There are many stakeholders and role players in the public sector - these are described below:

4.1.1 Constitutional

- *Parliament* – This consists of the National Assembly and the National Council of Provinces (NCOP) that participate in the legislative process in the manner set out in the Constitution. The National Assembly is elected to represent the people and to ensure government by the people under the Constitution. The NCOP represents the provinces to ensure that provincial interests are taken into account in the national sphere of government.

- *Provincial legislatures* – The legislative authority of a province is vested in its provincial legislature. The provincial legislature has the power to pass a constitution and legislation for its province in terms of the Constitution and to assign any of its legislative powers to a municipal council in that province.

- *National Treasury* - The National Treasury is responsible for managing South Africa's national government finances. Supporting efficient and sustainable public financial management is fundamental to the promotion of economic development, good governance, social progress and a rising standard of living for all South Africans. The Constitution mandates the National Treasury to ensure transparency, accountability and sound financial controls in the management of public finances.

  The National Treasury's legislative mandate is also described in the PFMA. The National Treasury is mandated to promote government's fiscal policy framework; to coordinate macroeconomic policy and intergovernmental financial relations; to manage the budget preparation process; to facilitate DoRA, which provides for an equitable distribution of nationally raised revenue between national, provincial and local government; and to monitor the implementation of provincial budgets.

  As mandated by the executive and Parliament, the National Treasury supports the optimal allocation and utilisation of financial resources in all spheres of government to reduce poverty and vulnerability among South Africa's most marginalised.

  The National Treasury's priorities include increasing investment in infrastructure and industrial capital; improving education and skills development to raise productivity; improving the regulation of markets and public entities; and fighting poverty and inequality through efficient public service delivery, expanded employment levels, income support and empowerment.

- *Office of the Accountant General (OAG)* – The responsibility of the OAG is to promote and enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities of institutions in all three spheres of government. This includes the administration of the NRF and the Reconstruction and Development Programme Fund (RDPF), as well as banking services for national departments. The OAG is also responsible for developing policies and frameworks on accounting, internal audit and risk management.

- *Provincial Treasuries* – There is a provincial treasury in each province, consisting of the MEC for finance in the province, who is the head of the provincial treasury and the provincial department responsible for the financial matters in the province.

- *Accounting Standards Board* – The ASB is a juristic person and sets standards of generally recognised accounting practice, as required by the Constitution, for the annual financial statements of departments, public entities, constitutional institutions, municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality, Parliament and the provincial legislatures.

4.1.2 Key committees of Parliament

- Portfolio committees (PCs) – Appointed from among members of the National Assembly to shadow the work of the various national government departments. The role of PCs is to consider bills, deal with departmental budget votes, and oversee the work of the department they are responsible for, and enquire and make recommendations about any aspect of the department, including its structure, functioning and policy.
- Standing Committee on Public Accounts (SCOPA) – The committee (established in terms of the Standing Rules for the National Assembly) is the mechanism through which the National Assembly exercises oversight over the expenditure of public money which it annually appropriates to executive organs of state in the national sphere of government. Similar committees, i.e. provincial accounts committees, exist at provincial level.
- Standing Committee on the Auditor-General (SCOAG) – This is the mechanism provided by the National Assembly to maintain oversight over the AG. The AG determines the auditing standards after consulting with SCOAG. The AG submits his budget and business plan to SCOAG for consideration and recommendation. The AG submits his audited financial statements to SCOAG.

4.1.3 Other coordinating mechanisms at provincial level

- *Premier* – The executive authority of a province is vested in the premier of a province. The premier exercises the executive authority together with the executive council by, inter alia, implementing provincial legislation in a province, developing and implementing provincial policy, and coordinating the functions of the provincial administration and its departments.

  The premier's office is the visible flagship of the province, providing leadership in terms of policy and direction and setting the style and tone of government's administration. It is the driving force behind the Reconstruction and Development Programme. Its main strategic objectives and goals are:

  - Growth and development objectives
  - Transformation of the public service.
- The *MEC for finance* is responsible for the following:
  - Stimulate economic growth and employment creation through funding of strategic investment initiatives
  - Fund social needs of the province in line with national norms and standards
  - Ensure optimum financial and fiscal management in the province
  - Promote good governance in the province

- The *MEC for local government* is responsible for the following:
    - Municipal transformation and organisational development
    - Service delivery and infrastructure
    - Investment
    - Local economic development
    - Financial viability and management
    - Mainstream hands-on support
    - Build capacity of municipalities
    - Enhance monitoring and evaluation
    - Good governance and public participation and empowerment
    - Institutional transformation and development
    - Integration and alignment
    - Enhance intergovernmental relations

4.1.4 Stakeholders directly related to the entities

- *Executive authority*
    - In relation to a national department, the cabinet member who is accountable to Parliament for that department
    - In relation to a provincial department, the member of the executive council (MEC) of a province who is accountable to the provincial legislature for that department
    - In relation to a national public entity, the cabinet member who is accountable to Parliament for that public entity or in whose portfolio it falls
    - In relation to a provincial public entity, the member of the provincial executive council who is accountable to the provincial legislature for that public entity or in whose portfolio it falls
- *Municipal council – This is the council of a municipality that is accountable to* meet the following objectives of the Constitution:
    - Provide democratic and accountable government for local communities
    - Ensure the provision of services to communities in a sustainable manner
    - Promote social and economic development
    - Promote a safe and healthy environment
    - Encourage the involvement of communities and community organisations in matters of local government
- *Accounting officer* – The head of a department or the chief executive officer of a constitutional institution. In relation to a municipality, it is the municipal manager. In relation to a municipal entity, it is the chief executive authority.

- *Accounting authority* – The board or controlling body of a public entity or, if there is no board or controlling body, the chief executive officer of the public entity.
- *Executive mayor* – The councillor elected as the executive mayor and who is responsible for identifying the needs of the municipality. The executive mayor also recommends to the municipal council strategies, programmes and services to address the needs and recommends or determines the best way to deliver those strategies, programmes and services to the maximum benefit of the community.
- *MEC* – The member of the executive council of a province.

4.1.5 Professional

- *INTOSAI* (see chapter 1 for a discussion on INTOSAI).
- *Southern African Institute of Government Auditors (SAIGA)* – The institute was established for the promotion of members' interests by advancing accountability and auditing. Since the principles of government auditing are based on the generic principles of auditing, the Institute strives to promote auditing in its wider context.
- *South African Institute of Chartered Accountants (SAICA)* – SAICA serves the interests of the chartered accountancy profession and society, by upholding professional standards and integrity, and the pre-eminence of South African CAs nationally and internationally.
- *IRBA* – The IRBA is the statutory regulator of registered auditors. The IRBA's mandate is to protect the public interest in South African through the effective regulation of audits and other assurance engagements conducted by registered auditors, in accordance with internationally recognised standards and processes.

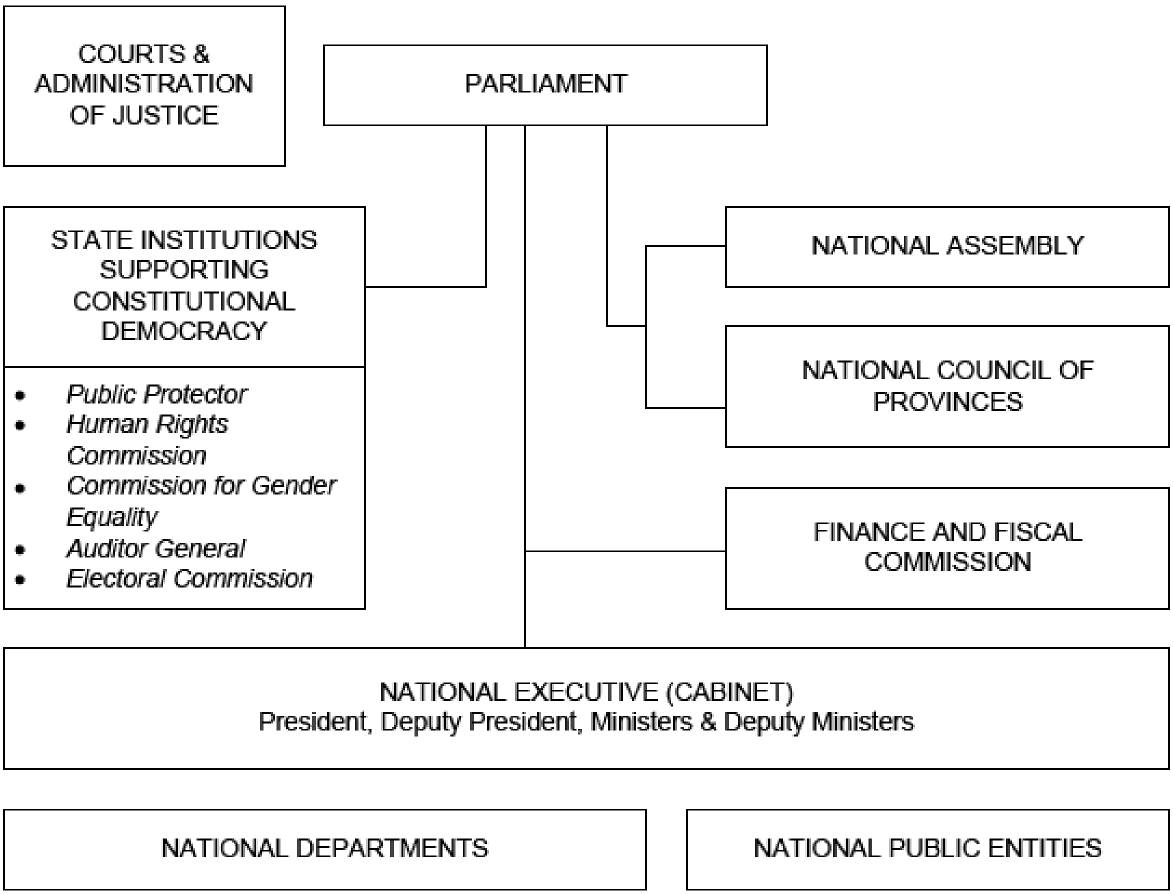
4.1.6 Other

- *Special interest groups*
- *Institutional and individual lenders*
- *General public*

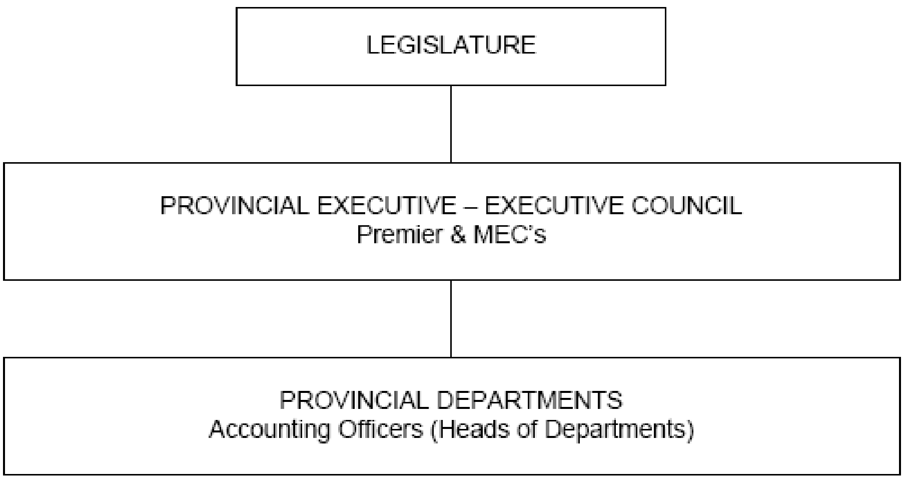
National and provincial government structures

4.2 The national and provincial governance structures are depicted in the figure below.

National Government



Provincial Government



The three spheres of government

4.3 The Constitution sets out the values and rights of our society and the rules that government must follow. The role, powers and functions of government are set out in the Constitution. Government is responsible for making policies and laws about the rights and responsibilities of citizens and the delivery of government services. Government collects revenue (income) from taxes and uses this money to provide services and infrastructure that improves the lives of all the people in the country.

4.4 There are three spheres of government in South Africa:

- National government
- Provincial government
- Local government

4.5 The spheres of government are autonomous and should not be seen as hierarchical. The Constitution states that the spheres of government are distinctive, inter-related and inter-dependent. At the same time, they all operate according to the Constitution and laws and policies made by Parliament.

4.6 The system of government is designed so that certain responsibilities are exclusive (performed by one sphere only), while others are concurrent (shared between the different spheres).

4.7 The government machinery is made up of three parts:

- The elected members (legislatures) – who represent the public, approve policies and laws and monitor the work of the executive and departments
- The cabinet or executive committee (executive) – who coordinate the making of policies and laws and oversee implementation by government departments
- The departments and public servants – who are responsible for doing the work of government and account to the executive

SPHERE	LEGISLATURE	EXECUTIVE	ADMINISTRATION
NATIONAL	Parliament	President and cabinet	Director-general
PROVINCIAL	Legislature	Premier and executive council	Head of department
LOCAL	Council	Mayor and mayoral committee	Municipal manager

4.8 The judiciary is also defined as part of government, but is independent so that the courts can protect citizens without being influenced or pressurised by government. The independence of the judiciary is a cornerstone of constitutional democracy. It guarantees the supremacy of the Constitution. The judiciary is not dealt with further since it is not formally part of the policy-making or implementation machinery of government.

National: Role, powers and functions

4.9 Laws and policies are approved by Parliament, which is made up of the National Assembly and the NCOP. The National Assembly is made up of members of Parliament, elected every five years.

4.10 The NCOP was set up to ensure that provincial and local government are directly represented in Parliament. It is made up of representatives of provincial legislatures and local government. Each province has a set number of permanent and rotating representatives. The NCOP has to debate and vote on any law or policy that affects provincial or local government.

4.11 The president is elected by Parliament and appoints a cabinet of ministers. They act as the executive committee of government and each minister is the political head of a government department.

4.12 Each government department is responsible for implementing the laws and policies decided on by Parliament or the cabinet. Government departments are headed by a director-general and employ directors (managers) and public servants (staff) to do the work of government.

4.13 Every department prepares a budget for its work. The budgets are put into one national budget by the treasury (Department of Finance), which has to be approved by Parliament. The treasury has to balance the income and expenditure of government in the budget.

4.14 The Presidency coordinates the work of government and provides direction and strategic support to ministers and departments. The Presidency monitors and evaluates overall progress towards achieving government goals.

4.15 The Department of Public Service and Administration (DPSA) sets the policies and framework for the public service at national and provincial level.

4.16 Provincial or local government may not do anything that is against the laws or policies set by national government. Provincial government gets most of its money from the national government through the treasury. Local government also gets grants and some loans through the treasury.

4.17 The Department of Cooperative Governance and Traditional Affairs (which resides at a national level) is responsible for national coordination of provinces and municipalities. In each province, the Department of Local Government monitors and supports municipalities.

Provincial: Role, powers and functions

4.18 There are nine provincial governments. Every province has a legislature made up of between 30 and 90 members of the provincial legislature (MPLs). Some provincial laws are approved by legislatures. The legislature also passes a provincial budget every year. Legislatures are elected in provincial elections that are held with national elections, every five years.

4.19 A premier is elected by the legislature and appoints MECs to be the political heads of each provincial department. The MECs and the premier form the provincial executive council (cabinet).

4.20 Provincial government is headed by a director-general, while provincial departments are headed by a deputy director-general or a head of department. They employ directors (managers) and public servants to do the work of government. Most of the public servants in the country fall under provincial government – these include teachers and nurses.

4.21 In each of the nine provinces there are usually at least 12 departments. The names are slightly different and in some provinces departments are combined.

4.22 Each province has to develop a provincial growth and development strategy that spells out the overall framework and plan for developing the economy and improving services. Provinces also have a spatial development framework that says where and how residential and business development should take place and how the environment should be protected.

4.23 The provincial MEC and Department of Local Government are responsible for coordination, monitoring and support of municipalities in each province.

Local (municipal): Role, powers and functions

4.24 The whole of South Africa is divided into local municipalities. Each municipality has a council where decisions are made and municipal officials and staff who implement the work of the municipality.

4.25 The council is made up of elected members who approve policies and by-laws for their area. The council has to pass a budget for its municipality each year. Councils must also decide on development plans and service delivery for their municipal area.

4.26 The work of the council is coordinated by a mayor who is elected by council. The mayor is assisted by councillors in an executive committee (elected by the council) or a mayoral committee (appointed by the mayor). The mayor together with the executive or mayoral committee also oversees the work of the municipal manager and department heads. In some very small municipalities the whole council forms the executive – this is called a plenary executive.

4.27 The work of the municipality is done by the municipal administration that is headed by the municipal manager and other officials. The municipal manager is responsible for employing staff and coordinating them to implement all programmes approved by the council.

Different categories of municipalities

4.28 There are three different kinds of municipalities in South Africa:

- *Metropolitan municipalities (category A)*

  Metropolitan municipalities exist in the six biggest cities in South Africa. They have more than 500 000 voters and the metropolitan municipality coordinates the delivery of services to the whole area. There are nine metropolitan municipalities, namely Buffalo City (East London), City of Cape Town, Ekurhuleni Metropolitan Municipality (East Rand), City of eThekwini (Durban), City of Johannesburg, Mangaung Municipality (Bloemfontein), Msunduzi Municipality (Pietermaritzburg), Nelson Mandela Metropolitan Municipality (Port Elizabeth) and City of Tshwane (Pretoria).

  These municipalities are broken into wards. Half the councillors are elected through a proportional representation ballot, where voters vote for a party. The other half are elected as ward councillors by the residents in each ward.

- *Local municipalities (category B)*

  Areas that fall outside of the six metropolitan municipal areas are divided into local municipalities, which are further categorised as high-, medium- or low-capacity municipalities by the National Treasury. There are a total of 231 of these local municipalities and each municipality is broken into wards. The residents in each ward are represented by a ward councillor.

  Only people who live in low population areas, like game parks, do not fall under local municipalities. The areas are called district management areas (DMAs) and fall directly under the district municipality.

  In local municipalities, half the councillors are elected through a proportional representation ballot, where voters vote for a party. The other half are elected as ward councillors by the residents in each ward.

- *District municipalities (category C)*

  District municipalities are made up of a number of local municipalities that fall in one district. There are usually between three and six local municipalities that come together in a district council and there are 47 district municipalities in South Africa. Some district municipalities also include nature reserves and the areas where few people live, i.e. DMAs. These fall directly under the district council and have no local council. The district municipality has to coordinate development and delivery in the whole district. It plays a stronger role in areas where local municipalities lack capacity to deliver. It has its own administration (staff).

  The district council is made up of two types of councillors:

  - Elected councillors – they are elected for the district council on a proportional representation ballot by all voters in the area (40% of the district councillors)
  - Councillors who represent local municipalities in the area – they are local councillors sent by their council to represent it on the district council (60% of the district councillors)

  While metropolitan municipalities are responsible for all local services and development and delivery in the metropolitan area, local municipalities share these responsibilities with district municipalities. This is especially the case in very rural areas, where district municipalities will have more responsibility for development and service delivery.

Functions of municipalities

4.29 Municipalities are responsible for the following functions, amongst others:

- Electricity delivery
- Sewage and sanitation
- Refuse removal
- Municipal health services
- Municipal roads
- Street trading
- Parks and recreational areas
- Local tourism
- Water for household use
- Storm water systems
- Fire fighting services
- Decisions around land use
- Municipal public transport
- Abattoirs and fresh food markets

- Libraries and other facilities

Municipal entities

4.30 A municipal entity is a mechanism used by a municipality to deliver services to its community. Each municipal entity is an 'organ of state' and must comply with the legislative framework, which ensures accountability, transparency and consultative processes, similar to requirements that apply to a municipality in its own right.

4.31 Municipal entities are accountable to the municipality or municipalities that established them. Entities must perform according to a service delivery agreement and performance objectives set by the municipality. As their debts, liabilities and decisions are made on behalf of the municipality, they may be disestablished if they fail to perform satisfactorily or if they experience serious or persistent financial problems.

4.32 A legislative framework relating to municipal entities came into effect through amendments to the MSA and the enactment of the MFMA.

4.33 The MSA defines three types of entities that may be established by a municipality with effect from 1 August 2004 (private company, service utility or multi-jurisdictional service utility). Prior to the MSA and MFMA requirements taking effect, municipalities used various arrangements to deliver services and manage the functions they performed. These included the formation of trusts, section 21 companies and private companies.

4.34 It is a requirement for municipalities to review these structures in view of the amended legislative framework and either convert them to an entity as per the amended legal framework or disestablish them if they are no longer required.

Intergovernmental relations and cooperative governance

4.35 'Intergovernmental relations' means the relationships between the three spheres of government. The Constitution states that the three spheres of government are distinctive, interdependent and interrelated. Local government is a sphere in its own right, and no longer a function or administrative implementing arm of national or provincial government. Although the three spheres of government are autonomous, they exist in a unitary South Africa and they have to work together on decision-making and must coordinate budgets, policies and activities, particularly for those functions that cut across the spheres.

4.36 'Cooperative governance' means that the three spheres of government should work together to provide citizens with a comprehensive package of services. The Constitution states that the three spheres have to assist and support each other, share information and coordinate their efforts. The Intergovernmental Relations Framework Act sets the structure for cooperation. At provincial level, municipal and provincial government meet regularly in a premier's intergovernmental forum.

4.37 Local government is represented in the NCOP and other important institutions like the Financial and Fiscal Commission. The Financial and Fiscal Commission is an independent body that is set up under the Constitution to advise government on the amount of money that should go to provincial and local government to subsidise services to poor people.

4.38 DoRA states how the total government income should be divided and allocated between the spheres of government and within government.

4.39 Local government is also represented on the Budget Council where the minister of finance discusses the proposed budget with provincial and local government. SALGA is the official representative of local government.

4.40 SALGA has nine provincial offices. Local municipalities join SALGA at provincial level. Executive elections and decisions on policies and programmes happen at provincial or national general meetings. SALGA is also an employers' organisation for all municipal workers, and sits as the employer in the South African Local Government Bargaining Council. SALGA's main source of funding is membership fees payable by municipalities.

Public entities

4.41 To improve the quality and cost of services available to citizens, government is committed to 'do more with less'. One mechanism has been to create semi-autonomous entities at arm's length from parent ministries. Public entities are established in the public sector, but outside the public service, typically for reasons of:

- strategic, social or economic intervention by the state or to deal with strategic risks and dangers that the state or society faces to its security, health, prosperity or wellbeing;
- adopting commercial and business principles in service delivery when it is required; and
- signalling that there is need for objectivity and more operational autonomy, yet retaining accountability in the delivery of services.

4.42 The formal definition of a national public entity as set out in section 1 of the PFMA is as follows:

- A board, commission, company, corporation, fund or other entity (other than a national business enterprise) which is:
  - established in terms of national legislation
  - fully or substantially funded from either the NRF or by way of tax, levy or other money imposed in terms of national legislation
  - accountable to Parliament.
- A national government business enterprise means an entity[13] which:
  - is a juristic person under the ownership control of the national executive
  - has been assigned financial and operational authority to carry on a business activity
  - as its principal business, provides goods or services in accordance with ordinary business principles
  - is financed fully or substantially from sources other than
    - the NRF or
    - by way of a tax, levy or other statutory money.

4.43 '*Ownership control'*, in relation to an entity, means the ability to exercise any of the following powers to govern the financial and operating policies of the entity in order to obtain benefits from its activities:

- To appoint or remove all, or the majority of, the members of that entity's board of directors or equivalent governing body
- To appoint or remove that entity's chief executive officer

[13] Defined as a "state-owned entity" in the Companies Act No 71 of 2008 as Amended

- To cast all, or the majority of, the votes at meetings of that board of directors or equivalent governing body
- To control all, or the majority of, the voting rights at a general meeting of that entity

4.44 Public entities in accordance with their formats have different levels of autonomy. Government business enterprises, which generate their own income, have the most autonomy as these entities operate in a competitive market place and decisions are made in accordance with business principles. These entities normally pay tax and could in future be required to pay dividends.

4.45 Public entities, other than the government business enterprises, are normally extensions of a department with the mandate to fulfil a specific economic or social responsibility of government. These entities are more reliant on government funding and public money, either by means of a transfer from a revenue fund or through statutory money. As such, these entities have the least autonomy and are also accountable to government for this money. In addition, the relevant minister has the responsibility to approve these entities' annual budget.

5: LAWS AND REGULATIONS RELATING TO PUBLIC SECTOR ENTITIES

5.1 Certain important laws and regulations applicable in the public sector are the following:

5.1.1 Constitution

The act introduces the Constitution of the Republic of South Africa. The Constitution establishes, inter alia:

- Cooperative government
- Parliament
- The president and the National Executive
- Provinces
- Local government
- State institutions supporting constitutional democracy
- Public administration

5.1.2 Public Finance Management Act and Treasury Regulations

The act promotes the objective of good financial management in order to maximise delivery through the efficient and effective use of limited resources. The act forms the basis for a more effective corporate governance framework and covers inter alia, the following:

- The establishment of the National Treasury and provincial treasuries and the ASB and their functions and powers.
- The national and provincial budgets and the appropriation of money by Parliament and provincial legislatures for each financial year for the requirements of the state and the provinces, respectively.
- The requirements for departments and constitutional institutions regarding the responsibilities and powers of accounting officers.
- The fiduciary duties, general responsibilities, annual budgets, information to be submitted and annual reports and financial statements to be prepared by accounting authorities of public entities.
- The financial responsibilities of executive authorities.
- The submission of financial statements by departments, trading entities and constitutional institutions within two months after the end of the financial year to the AG and relevant treasury.
- The submission of an auditor’s report by the AG on the above financial statements within two months of receipt of the financial statements.
- The submission of an annual report, financial statements and the AG’s auditor’s report by departments, trading entities and constitutional institutions within five months after the end of the financial year, to the relevant treasury and in the case of a department and trading entity, also to the executive authority.

- The submission of the annual report, financial statements and auditor's report by a constitutional institution to Parliament within one month of receipt of the AG's auditor's report.
- The submission of financial statements by public entities within two months after the financial year-end to their auditors. If the public entity is a business enterprise or under the ownership control of a national or provincial government, the financial statements must also be submitted to the relevant treasury.
- The submission of an annual report, financial statements and the auditor's report by public entities within five months after financial year-end, to the relevant treasury, executive authority and the AG if the AG is not the auditor of the entity.

5.1.3 Division of Revenue Act

The act provides for the equitable division of revenue raised nationally among the national, provincial and local spheres of government and the responsibilities of all three spheres pursuant to such division.

5.1.4 Municipal Finance Management Act and its regulations

The act aims to modernise budget and financial management practices by placing local government finances on a sustainable footing in order to maximise the capacity of municipalities to deliver services to all its residents, customers, users and investors. The MFMA covers, inter alia, the following:

- The requirements for opening, control and withdrawals of municipal bank accounts.
- The appropriation of funds for expenditure and annual budgets of municipalities.
- The responsibilities of mayors and municipal officers.
- The establishment, financial governance and accounting officers of municipal entities.
- The submission of the financial statements by the accounting officer of a municipality within two months after the financial year end to the AG (three months for consolidated financial statements).
- The submission of the financial statements by the accounting officer of a municipal entity within two months after the financial year-end to the AG and the parent municipality.
- The submission of the auditor's report by the AG within three months after receipt of the financial statements of a municipality or municipal entity.
- The submission of the annual report by the accounting officer of a municipal entity within six months after the financial year-end to the municipal manager of the parent municipality.
- The tabling of the annual report by the mayor of a municipality and any municipal entity under the municipality's control within seven months after the financial year-end in the municipal council.

5.1.5 Municipal Systems Act

The act provides for the following:

- The core principles, mechanisms and processes that are necessary to enable municipalities to move progressively towards the social and economic upliftment of local communities, and ensure universal access to essential services that are affordable to all.
- The legal nature of a municipality as including the local community within the municipal area, working in partnership with the municipality's political and administrative structures.
- The manner in which municipal powers and functions are exercised and performed to provide for community participation.
- A simple and enabling framework for the core processes of planning, performance management, resource mobilisation and organisational change which underpin the notion of developmental local government.
- A framework for local public administration and HR development.
- Empowerment of the poor and ensuring that municipalities put in place service tariffs and credit control policies that take their needs into account by providing a framework for the provision of services, service delivery agreements and municipal service districts.
- Credit control and debt collection.
- A framework for support, monitoring and standard setting by other spheres of government in order to progressively build local government into an efficient, frontline development agency capable of integrating the activities of all spheres of government for the overall social and economic upliftment of communities in harmony with their local natural environment.

5.1.6 Municipal Structures Act

The act provides for the establishment of municipalities in accordance with the requirements relating to categories and all types of municipality. It further establishes criteria for determining the category of municipality to be established in an area and defines the types of municipality that may be established within each category. It also provides for an appropriate division of functions and powers between categories of municipality. It regulates the internal systems, structures and office-bearers of municipalities and provides for the appropriate electoral systems.

5.1.7 Public Service Act

The act provides for the organisation and administration of the public service of South Africa as well as the regulation of the conditions of employment, terms of office, discipline, retirement and discharge of members of the public service.

5.1.8 National Environment Management Act

The act provides for cooperative, environmental governance by establishing principles for decision-making on matters affecting the environment, institutions that will promote cooperative governance, and procedures for coordinating environmental functions exercised by organs of state.

5.1.9 Companies Act

The act provides for the incorporation, registration, organisation and management of companies. Certain public entities and municipal entities are constituted as companies.

5.1.10 Income Tax Act

The act consolidates the law relating to taxation of income and donations and provides for the recovery of taxes on persons, the deduction by employers of amounts from the remuneration of employees in respect of certain tax liabilities, the making of provisional tax payments and for payment of portions of the normal tax and interest and other charges in respect of such taxes into the NRF.

5.1.11 Value-Added Tax Act

The act provides for taxation in respect of the supply of goods and services and the importation of goods.

5.1.12 Preferential Procurement Policy Framework Act

The act provides a framework for the implementation of the procurement policy contemplated in section 217(2) of the Constitution.

5.1.13 Specific enabling legislation of an entity (if any)

Entity-specific legislation that establishes the mandate of the entity, such legislation could define certain functions or disclosures.

Legislation governing the mandate and operational activities of the entity (if any).

Financial reporting frameworks applicable in the public sector

5.2 The following financial reporting frameworks are applicable in the public sector:

Entity	**Financial reporting framework as referred to in the auditor's report**
National and provincial departments	The Departmental Financial Reporting Framework prescribed by the National Treasury
Parliament and provincial legislatures	The Departmental Financial Reporting Framework prescribed by the National Treasury **Or** South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) set out in appendix D to ASB Directive 5
Schedule 2, 3B and 3D public entities	South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP)[14]
Schedule 3A and 3C public entities	South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) set out in appendix C to ASB Directive 5
Constitutional institutions	South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) set out in appendix C to ASB Directive 5

[14] Only schedule 2 public entities, whose ordinary shares, potential ordinary shares or debt is publicly tradeable on the capital markets may, in consultation with the National Treasury, apply IFRS.

Entity	**Financial reporting framework as referred to in the auditor's report**
Trading entities	South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP)
Entities for which legislation is not prescriptive in respect of the financial reporting framework and that fall under the scope of the 2011 AG Directive	South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) set out in appendix C to ASB Directive 5[15]
Entities for which a departure/exemption from the applicable financial reporting framework has been granted in terms of section 79 or 92 of the PFMA	The basis of accounting, as set out in [accounting policy note xx / note xx to the financial statements]

[15] Refer to paragraph 33 of the 2011 AG Directive

GLOSSARY OF ABBREVIATIONS AND TERMS

Abbreviations

AG:	Auditor-general
AGSA:	Auditor-General of South Africa
ARD:	Audit Research and Development
ASB:	Accounting Standards Board
DMA:	District management area
DoRA:	Division of Revenue Act, 2007 (Act No. 2 of 2008)
DPSA:	Department of Public Service and Administration
GRAP:	South African Standards of Generally Recognised Accounting Practice
HR:	Human resources
IFAC:	International Federation of Accountants
IFRS:	International Financial Reporting Standards
INTOSAI:	International Organization of Supreme Audit Institutions
IPSAS:	International Public Sector Accounting Standards
IRBA:	Independent Regulatory Board for Auditors
ISAs:	International Standards on Auditing
ISSAIs:	International Standards on Supreme Audit Institutions
MEC:	Member of the executive council
MFMA:	Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
MPL:	Member of the provincial legislature
MSA:	Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000)
NCOP:	National Council of Provinces
NEMA:	National Environmental Management Act, 1998 (Act No. 107 of 1998)
NRF:	National Revenue Fund
OAG:	Office of the Accountant General
PAA:	Public Audit Act, 2004 (Act No. 25 of 2004)
PC:	Portfolio committee
PFMA:	Public Finance Management Act, 1999 (Act No. 1 of 1999)
PPPFA:	Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)
PSA:	Public Service Act, 1994 (Act No. 103 of 1994)
RDPF:	Reconstruction and Development Fund
SA GAAP:	South African Statements of Generally Accepted Accounting Practice
SAAPS:	South African Auditing Practice Statements
SAI:	Supreme audit institution

SAICA:	South African Institute of Chartered Accountants
SAIGA:	Southern African Institute of Government Auditors
SCOAG:	Standing Committee on the Auditor-General
SCOPA:	Standing Committee on Public Accounts

Terms

Executive authority:	The cabinet member who is accountable to Parliament for a national department. The member of the executive council of a province who is accountable to the provincial legislature for a provincial department. The cabinet member who is accountable to Parliament for a national public entity. The member of the provincial executive council who is accountable to the provincial legislature for a provincial public entity.
Municipal council:	The council of a municipality that makes decisions concerning the exercise of all the powers and the performance of all the functions of the municipality.
Accounting officer:	The head of a department or the chief executive officer of a constitutional institution. The municipal manager of a municipality or the chief executive officer of a municipal entity.
Accounting authority:	The board or controlling body of a public entity. If the public entity does not have a board or controlling body, the chief executive officer of the public entity.
Fruitless and wasteful expenditure:	For PFMA and MFMA audits – expenditure which was made in vain and would have been avoided had reasonable care been exercised.
Irregular expenditure:	For PFMA audits – expenditure incurred in contravention of, or that is not in accordance with, a requirement of any applicable legislation. For MFMA audits – - Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA, and which has not been condoned in terms of section 170 of the MFMA. - Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of the Municipal Systems Act. - Expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act. - Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality’s by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of ‘unauthorised expenditure’.
Unauthorised expenditure:	For PFMA audits – overspending of a vote or a main division within a vote. Expenditure that is not in accordance with the purpose of a vote or a main division within a vote.

For MFMA audits –

- Overspending of the total amount appropriated in the municipality's approved budget.
- Overspending of the total amount appropriated for a vote in the approved budget.
- Expenditure from a vote unrelated to the department or functional area covered by the vote.
- Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose.
- Spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of 'allocation' otherwise than in accordance with any conditions of the allocation.
- A grant by the municipality otherwise than in accordance with the MFMA.

Vote: One of the main segments into which an appropriation act is divided.

ACKNOWLEDGEMENTS

- Johannesburg Accords, 27 November 2010
- Lima Declaration of Guidelines on Auditing Precepts
- Mexico Declaration on SAI Independence
- Induction for Public Service Managers: Learner Guide – Public Administration Leadership and Management Academy
- Chief Financial Officer's Handbook National Treasury 1st Edition

APPENDIX 1

Table of ISSAIs and ISAs paragraphs applicable to public sector audit engagements

ISSAIs	
Level 1: Founding Principles	
ISSAI 1	The Lima Declaration
Level 2: Prerequisites for the Functioning of Supreme Audit Institutions	
ISSAI 10	Mexico Declaration on SAI Independence – Appendix
ISSAI 11	INTOSAI Guidelines and Good Practices Related to SAI Independence
ISSAI 20	Principles of Transparency and Accountability
ISSAI 21	Principles of Transparency - Good Practices
ISSAI 30	Code of Ethics
ISSAI 40	Quality Control for SAIs
Level 3: Fundamental Auditing Principles	
ISSAI 100	INTOSAI Auditing Standards - Basic Principles
ISSAI 200	INTOSAI Auditing Standards - General Standards
ISSAI 300	INTOSAI Auditing Standards - Field Standards
ISSAI 400	INTOSAI Auditing Standards - Reporting Standards
Level 4: Auditing Guidelines	
ISSAI 1000-2999 Implementation Guidelines on Financial Audit	
ISSAI 1200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards of Auditing
ISSAI 1210	Terms of an Engagement
ISSAI 1220	Quality Control for Audits of Historical Financial Information
ISSAI 1230	Audit Documentation
ISSAI 1240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
ISSAI 1250	Consideration of Laws and Regulations in an Audit of Financial Statements
ISSAI 1260	Communication with Those Charged with Governance
ISSAI 1265	Communicating Deficiencies in Internal Control to Those Charged with Governance
ISSAI 1300	Planning an Audit of Financial Statements
ISSAI 1315	Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment
ISSAI 1320	Materiality in Planning and Performing an Audit
ISSAI 1330	The Auditor’s Responses to Assessed Risks
ISSAI 1402	Audit Considerations Relating to Entities Using Service Organisations
ISSAI 1450	Evaluation of Misstatements Identified During the Audit
ISSAI 1500	Audit Evidence

ISSAIs	
ISSAI 1501	Audit Evidence - Specific Considerations for Selected Items
ISSAI 1505	External Confirmations
ISSAI 1510	Initial Audit Engagements - Opening Balances
ISSAI 1520	Analytical Procedures
ISSAI 1530	Audit Sampling
ISSAI 1540	Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures
ISSAI 1550	Related Parties
ISSAI 1560	Subsequent Events
ISSAI 1570	Going Concern
ISSAI 1580	Written Representations
ISSAI 1600	Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)
ISSAI 1610	Using the Work of Internal Auditors
ISSAI 1620	Using the Work of an Auditor's Expert and Management
ISSAI 1700	Forming an Opinion and Reporting on Financial Statements
ISSAI 1705	Modifications to the Opinion in the Independent Auditor's Report
ISSAI 1706	Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report
ISSAI 1710	Comparative Information - Corresponding Figures and Comparative Financial Statements
ISSAI 1720	The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements
ISSAI 1800	Special Considerations - Audits of Special Purpose Financial Statements
ISSAI 3000-3999 Implementation Guidelines on Performance Audit	
ISSAI 3000	Implementation Guidelines for Performance Auditing
ISSAI 3100	Performance Audit Guidelines – Key Principles
ISSAI 4000-4999 Implementation Guidelines on Compliance Audit	
ISSAI 4000	General Introduction to Guidelines on Compliance Audit
ISSAI 4100	Compliance Audit Guidelines for Audits Performed Separately from the Audit of Financial Statements
ISSAI 4200	Compliance Audit Guidelines Related to Audit of Financial Statements
ISSAI 5100-5199 Guidelines on Environmental Audit	
ISSAI 5110	Guidance on Conducting Audits of Activities with an Environmental Perspective
ISSAI 5120	Environmental Audit and Financial Auditing
ISSAI 5130	Sustainable Development: The Role of Supreme Audit Institutions
ISSAI 5140	How SAIs May Co-Operate on the Audit of International Environmental Accords

ISSAIs	
ISSAI 5300-5399 Guidelines on IT Audit	
ISSAI 5310	Information System Security Review Methodology - A Guide for Reviewing Information System Security in Government Organisations
ISSAI 5400-5499 Guidelines on Audit of Public Debt	
ISSAI 5410	Guidance for Planning and Conducting an Audit of Internal Controls of Public Debt
ISSAI 5411	Debt Indicators
ISSAI 5420	Public Debt: Management and Fiscal Vulnerability: Potential Roles for SAIs
ISSAI 5421	Guidance on Definition and Disclosure of Public Debt
ISSAI 5422	An Exercise of Reference Terms to Carry Out Performance Audit of Public Debt
ISSAI 5430	Fiscal Exposures: Implications for Debt Management and the Role for SAIs
ISSAI 5440	Guidance for Conducting a Public Debt Audit - The Use of Substantive Tests in Financial Audits
ISSAI 5600-5699 Guidelines on Peer Reviews	
ISSAI 5600	Peer Review Guidelines
INTOSAI Guidance for Good Governance (INTOSAI GOV)	
INTOSAI GOV 9100-9199 - Internal Control	
INTOSAI GOV 9100	Guidelines for Internal Control Standards for the Public Sector
INTOSAI GOV 9110	Guidance for Reporting on the Effectiveness of Internal Controls: SAI Experiences in Implementing and Evaluating Internal Controls
INTOSAI GOV 9120	Internal Control: Providing a Foundation for Accountability in Government
INTOSAI GOV 9130	Further Information on Entity Risk Management
INTOSAI GOV 9140	Internal Audit Independence in the Public Sector
INTOSAI GOV 9150	Coordination and Cooperation between SAIs and Internal Auditors in the Public Sector
INTOSAI GOV 9200-9299 - Accounting Standards	
INTOSAI GOV 9200	Accounting Standards Framework
INTOSAI GOV 9210	Accounting Standards Framework Implementation Guide: Departmental and Government-wide Reporting
INTOSAI GOV 9220	Accounting Standards Framework Implementation Guide for SAIs: Management Discussion and Analysis of Financial Performance and Other Information
INTOSAI GOV 9230	Guidance on Definition and Disclosure of Public Debt

List of ISAs that include considerations specific to the public sector	Paragraphs
ISA 200	A11, A57
ISA 210	A27, A37
ISA 220	A7, A9, A12, A30, A31
ISA 240	A6, A57, A67
ISA 250	A6, A20
ISA 260	A10, A23, A35, A44
ISA 265	A27
ISA 315	A21, A35, A65, A113
ISA 320	A2, A9
ISA 330	A17
ISA 402	A10, A11
ISA 450	A19, A20
ISA 510	A1, A2
ISA 520	A11
ISA 540	A11
ISA 550	A8
ISA 560	A5, A10, A14, A17
ISA 570	A1
ISA 580	A9
ISA 600	A18
ISA 705	A14
ISA 720	A7

APPENDIX 2

ANNEXURE A TO THE JOHANNESBURG ACCORDS - FRAMEWORK FOR COMMUNICATING AND PROMOTING THE VALUE AND BENEFITS OF SUPREME AUDIT INSTITUTIONS

PREAMBLE

1. Accountability is an indispensable part of a democracy.
2. In a democracy structures are created and elected representatives are empowered to implement the will of the people and act on their behalf, through legislative and executive bodies. An important point of departure in constructing democratic institutions is that power and resources can be misused, leading to an erosion of trust that can undermine the essence of the democratic system. It is therefore critical that the citizens of a country should be able to hold their representatives accountable. The democratically elected representatives can only be held accountable if they, in turn, can hold accountable those who have to implement their decisions. Legislatures therefore need a body in the form of a Supreme Audit Institution (SAI) that can scrutinise or audit the fulfilment of accountability. Such a body has to be independent in order to be trustworthy.
3. Auditing should have a positive impact on trust in society because custodians of the public purse could act differently if they know that they can be scrutinised. Such awareness supports desirable values and underpins accountability mechanisms, which leads to better decisions and enhances good behaviour in governmental organisations.
4. The overall objective of independent audits is therefore to make a difference in the lives of citizens by contributing to trust, efficiency and effectiveness. An independent and effective SAI is accordingly a necessary precondition for democracy. This does imply that the mandate of an independent auditor in the public sector goes far beyond the traditional definition of external auditing because it also addresses matters of public interest – the interest of the citizens.
5. Acting in the public interest places a further responsibility on SAIs to be exemplary in responding to the challenges of societies, the changing environments in which audits are conducted, and the needs of different stakeholders in the democratic process, all within the parameters of their independence.
6. To be able to fulfil their functions and ensure their potential value to a democratic society, the SAIs must be seen as trustworthy. The audit institutions can only deserve trust if they themselves are objectively judged as being credible, independent and accountable. In order to make this possible they have to set an example to the rest of the public sector and the auditing profession at large, as leaders in public finance management, related governance and performance management. It is only with such a solid foundation in their own functioning that SAIs can add value and make a difference in the lives of citizens.
7. The Framework for Communicating and Promoting the Value and Benefits of Supreme Audit Institutions is therefore constructed around two objectives: an external focus to make a difference to the lives of citizens; and an internal focus to lead by example by being a model institution. Each objective is explained with reference to a number of fundamental requirements, which in turn are supported by a number of guiding principles. It is important to note that the two objectives are interrelated. For ease of use and assessment, however, each fundamental requirement has been linked to the objective with which it appears to have the most direct relation.

8. SAIs operate under different mandates and models. The fundamental requirements and related guiding principles may not apply equally to all SAIs. However, they are intended to serve as a basis for SAI self-assessment and improvement, as well as enabling SAIs to communicate and promote the value and benefits that a SAI can bring to the democracy in a country.

OBJECTIVE 1: TO BE RECOGNIZED AS AN INSTITUTION THAT MAKES A DIFFERENCE TO THE LIVES OF CITIZENS

In order to meet **Objective 1,** there are **six fundamental requirements** that SAIs must fulfil. These requirements are set out below, along with compelling reasons for each of them to be included in the framework as a fundamental requirement, and the guiding principles that SAIs must follow in order to fulfil the fundamental requirements.

FUNDAMENTAL REQUIREMENT 1: *Responsiveness to changing environments and stakeholder expectations, without compromising independence*

Compelling reasons for inclusion as a fundamental requirement

- SAIs are in a position to proactively assess risks in the environment and identify stakeholder expectations in order to remain relevant, but without compromising independence.
- Strategic planning processes of SAIs are cognizant of the changing environment and stakeholder expectations.
- The ability of SAIs to adjust and adapt activities to maximise the potential of beneficial impact and reduce the risk of unforeseen and unintended adverse impacts.
- The ability to be responsive will strengthen national and international networking through improved knowledge sharing, thereby positioning SAIs to be more responsive globally.

Guiding principles

- SAIs should enhance staff's awareness of stakeholders' expectations to enable them to factor these into strategic, business and audit plans, as appropriate.
- SAIs should establish mechanisms for information gathering and decision making to promote better communication with stakeholders.
- SAIs should evaluate changing and emerging risks in the audit environment and respond to these in a timely manner.
- SAIs should establish self-assessment systems whereby a SAI obtains feedback from key stakeholders in order to gauge their responsiveness.
- SAIs should participate in domestic and international debates and forums on topical matters.

FUNDAMENTAL REQUIREMENT 2: *Ensuring that government is held accountable for using resources legally and responsibly, for the purposes intended, and economically, efficiently and effectively*

Compelling reasons for inclusion as a fundamental requirement

- This requirement is the fundamental reason why SAIs exist: to provide assurance and credible information to stakeholders in the interest of the public.

Guiding principles

- SAIs should submit audit reports to the legislature that has an interest in the audit.
- SAIs should make audit reports available to the public in an accessible media format.
- SAI mandates should address the following:
  - Forming an opinion, concluding, or performing a judicial review on financial information
  - Forming an opinion, concluding, or performing a judicial review on financial management and internal control
  - Forming an opinion, concluding, or performing a judicial review on performance information
  - Forming an opinion, concluding, or performing a judicial review on compliance with legislation and regulations
  - Conducting performance audits
  - Performing any other form of audit, review, or investigation on matters where public funds are being used or the public interest is at stake

FUNDAMENTAL REQUIREMENT 3: *Credible source of independent and objective insight and guidance to facilitate foresight and continuous improvements in government*

Compelling reasons for inclusion as a fundamental requirement

- SAIs provide an objective basis for decision making.
- SAIs' shared insight improves the foresight of decision makers with regard to continuous improvements and government reforms.
- SAIs assess readiness for government reforms (such as the readiness to migrate to the accrual basis of accounting).
- Audit outcomes foster the opportunity for continuous learning and professional development in a wide variety of disciplines.
- SAIs are capable of auditing key programmes of respective governments that impact the lives of its citizens.

Guiding principles

- SAIs should stand out for being independent, objective and transparent in their work, which is based on facts, figures and knowledge.
- As active partners in the national and international audit network, SAIs should constantly advocate innovations and reforms, sharing their knowledge and insights in a manner that does not compromise independence.
- Results of SAIs' audit work should provide a basis for reforms in the public administration sector.

FUNDAMENTAL REQUIREMENT 4: *Empowering the public to hold government accountable and responsive, through objective information, simplicity and clarity of the message, and convenient access to audit reports and messages in relevant languages* 29

Compelling reasons for inclusion as a fundamental requirement

- Draw attention to SAI messages and make these easily actionable.
- Avoid misinterpretation of SAI messages.
- Facilitate focused feedback to SAIs, allowing them to be responsive to the expectations of stakeholders.
- Facilitate understanding and dialogue among the public.

Guiding principles

- SAIs should be free to decide on the content of their reports.
- Legislation should specify minimum audit reporting requirements of SAIs and, where appropriate, specific matters that should be subject to a formal audit, review, or certification.
- SAIs should make their reports public in a timely fashion.
- SAIs should present a combined analysis of their individual audit reports based on common findings, trends, root causes and audit recommendations and discuss this with key stakeholders.
- SAIs should report in a language that is understood by their stakeholders, allowing them to action these reports.
- SAIs should ensure appropriate access to reports by all stakeholders.
- SAIs should use the media appropriately to communicate effectively to the public.

FUNDAMENTAL REQUIREMENT 5: *Enabling the legislature, one of its commissions, or those charged with governance to discharge their different responsibilities in responding to audit findings and recommendations and taking appropriate corrective action*

Compelling reasons for inclusion as a fundamental requirement

- The effectiveness with which SAIs fulfil their role of holding government to account for the use of public money not only depends on the quality of their work, but also on how effectively they are working in partnership with the accountability functions of the legislature as well as the executive arm of government in making use of audit findings and enacting change.
- The relationship with Parliament is particularly crucial in ensuring the effective use of audit findings, as SAIs and the legislature can mutually support each other in ensuring effective governance.
- While SAIs provide Parliament with the necessary information and evidence to exert their oversight function effectively, Parliament provides an important forum for the use and discussion of SAIs' findings and is also a partner in encouraging corrective action and monitoring progress.
- Ideally SAIs also need to be an important catalyst for change, being a source of information about areas for corrective action as well as good practice.

Guiding principles

- SAIs should develop strong relationships with relevant parliamentary oversight committees and auditees' governing boards to help them better understand the audit reports and conclusions and take appropriate actions.

- SAIs should provide the legislature, one of its commissions, or auditees' governing boards with relevant, objective, and timely information.
- SAIs should actively assist the recipients of their audit findings in using these to the greatest effect.
- SAIs should assist in ensuring a cycle of accountability, with systematic follow-up of appropriate parliamentary recommendations.

FUNDAMENTAL REQUIREMENT 6: *Following up on audit findings and implementation of recommendations*

Compelling reasons for inclusion as a fundamental requirement

- Enable auditees and governments to action audit findings, thereby strengthening accountability.
- Assist SAIs to demonstrate the impact of findings.
- Facilitate learning and continuous improvement, within both SAIs and governments.
- Demonstrate how keen SAIs are to promote improvement and reforms in government and in the broader society.

Guiding principles

- SAIs should regularly meet with officials to ensure follow-up of audit findings.
- SAIs should report on the follow-up measures taken with respect to their recommendations.
- SAIs should assist those who implement changes through the provision of tailored guidance and good practice, without compromising their independence.

OBJECTIVE 2: TO BE RECOGNIZED AS AN INDEPENDENT MODEL INSTITUTION

In order to meet **Objective 2**, there are **seven fundamental requirements** that SAIs must fulfil. The following are these requirements, along with compelling reasons for them to be included in the framework as fundamental requirements, and the guiding principles that SAIs must follow in order to fulfil the fundamental requirements.

FUNDAMENTAL REQUIREMENT 7: *Independence*

Compelling reasons for inclusion as a fundamental requirement

- Independence of SAIs is an essential prerequisite in a democracy.
- SAIs need to be trustworthy, ensuring that stakeholders remain confident in the SAIs' work and the audit conclusions reached.
- Independence provides the necessary credibility required by providers of donor funding to ensure that intended benefits from donor-funded projects reach the ordinary citizen.
- An independent review or audit needs to provide sufficient credibility for multiple users of the information reviewed or audited.
- SAIs need to be accountable to legislatures, on behalf of citizens, and not to the administration.

- Independence is defined as a fundamental prerequisite for all SAIs in the International Standards of Supreme Audit Institutions (ISSAIs).

Guiding principles

- The existence of an appropriate and effective constitutional / statutory / legal framework and of de facto application provisions of this framework.
- The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties.
- A sufficiently broad mandate and full discretion, in the discharge of SAI functions.
- Unrestricted access to information.
- The right and obligation to report on their work.
- The freedom to decide on the content and timing of audit reports and to publish and disseminate them.
- The existence of effective follow-up mechanisms on SAI recommendations.
- Financial and managerial / administrative autonomy and the availability of appropriate human, material and monetary resources.

FUNDAMENTAL REQUIREMENT 8: *Transparency and accountability*

Compelling reasons for inclusion as a fundamental requirement

- Accountability and transparency are important tools to balance a perceived fundamental contradiction in democratic societies. In such societies, structures are created and elected officials are empowered to implement the will of the people and act on their behalf. This creates the potential for abuse of power, leading to mistrust that can reduce the efficiency of the service delivery process, thereby undermining the whole democratic system.
- This contradiction can only be solved by enhancing accountability. Institutions that, in an independent manner, scrutinize governmental activities are therefore essential. These audit institutions can only fulfil their function if they themselves can be scrutinized and be held accountable.
- The audit institutions can only deserve trust if they allow themselves to be judged by others and if they are transparent in such a way that it is possible for different audiences to discuss their strategies, methods and actual impact. In doing this, they further set an important example to the rest of the public sector and the auditing profession at large and therefore further epitomize the accountability of SAIs.

Guiding principles

- SAIs perform their duties under a legal framework that provides for accountability and transparency.
- SAIs make public their mandate, responsibilities, mission and strategy.
- SAIs adopt audit standards, processes and methods that are objective and transparent.
- SAIs apply high standards of integrity and ethics for staff of all levels.
- SAIs ensure that these accountability and transparency principles are not compromised when they outsource their activities.

- SAIs manage their operations economically, efficiently, effectively and in accordance with laws and regulations and report publicly on these matters.
- SAIs report publicly on the results of their audits and on their conclusions regarding overall government activities.
- SAIs communicate timeously and widely on their activities and audit results through the media, websites and by other means.
- SAIs make use of external and independent advice to enhance the quality and credibility of their work.

FUNDAMENTAL REQUIREMENT 9: *Code of Ethics*

Compelling reasons for inclusion as a fundamental requirement

- It is absolutely essential, in the interest of effectiveness of SAIs and acceptance and credibility of the work done by SAIs, that their entire staff (auditors, support staff, officials, in-sourced specialists and other representatives) are looked upon as qualified, credible, reliable and trustworthy.
- A Code of Ethics is defined in the ISSAIs as a fundamental prerequisite for all SAIs.

Guiding principles

- SAIs should adopt a Code of Ethics that meets or exceeds the requirements of the INTOSAI standards and addresses at least the following issues:
  - Integrity
  - Independence, objectivity and impartiality
  - Political neutrality
  - Dealing with conflict of interest
  - Professional secrecy
  - Professional competence
  - Professional development
- SAIs should institute appropriate policies and processes to create awareness of the requirements of the Code of Ethics.
- SAIs should oversee adherence to the requirements of the Code of Ethics and consider appointing an Ethics Officer.

FUNDAMENTAL REQUIREMENT 10: *Service excellence and quality considerations*

Compelling reasons for inclusion as a fundamental requirement

- SAIs need to be trustworthy, ensuring that stakeholders retain confidence in their work, as well as the audit opinions and conclusions reached.
- SAIs need to demonstrate achieving the highest standards in their own performance as institutions so that they maintain their credibility.
- SAIs need to be responsive at all times to current issues and stakeholder expectations.
- A commitment to audit quality, covering considerations both at the organizational level and per individual audit, is defined as a fundamental prerequisite for all SAIs in the ISSAIs.

Guiding principles

- The Head of the SAI should set policies and procedures that are designed to promote an internal culture that recognizes that quality is essential in performing all the SAI's work.
- SAIs' policies and procedures should require all personnel and all parties contracted to conduct work on behalf of the SAI to comply with the relevant ethical requirements.
- SAIs' policies and procedures should set out that the SAI will only undertake work that it is competent to perform, while managing the risks to quality.
- SAIs should ensure that they have sufficient and appropriate resources to perform their work in accordance with relevant standards and other requirements.
- SAIs' policies and procedures should promote consistency in the quality of work performed, including setting out supervision and review responsibilities.
- SAIs should establish a monitoring process that ensures the SAI's system of quality control is relevant, adequate and operating effectively.

FUNDAMENTAL REQUIREMENT 11: *Good governance*

Compelling reasons for inclusion as a fundamental requirement

- In keeping with the principle of "leading by example", SAIs need to adhere to the same, appropriate rules and philosophy that SAIs expect from auditees as a minimum.
- Good governance is applicable to any organization with a view to assisting its leadership to make better decisions and manage risks towards achieving the organization's objectives.
- Good governance and accountability are interrelated: SAIs need to epitomize accountability.
- Globally, good governance has been reconfirmed as a fundamental requirement for any successful organization.

Guiding principles

- The establishment, mandate and functioning of SAIs should be governed by a strong legislative framework that also promotes good governance principles.
- A process of independent oversight of a SAI's performance and accountability, either through an independent body or a committee of Parliament, should be formalized, without compromising independence of the SAI.
- SAIs should have an appropriate organizational management structure that will give effect to good governance processes.
- SAIs should assess organizational risk (risk internal to a SAI) on a regular basis and supplement this with appropriately implemented and regularly monitored risk management initiatives.
- An appropriately objective internal audit function should be an integral part of the SAI's operational risk management strategy to respond to organizational risk.
- SAIs should apply proper information technology governance.
- SAIs should consider sustainability issues within the SAI and within the legislative and regulatory framework in which the SAI operates and report appropriately thereon.

FUNDAMENTAL REQUIREMENT 12: *Learning and knowledge sharing*

Compelling reasons for inclusion as a fundamental requirement

- Learning and knowledge sharing within a SAI ensures that it can leverage on its collective knowledge to respond to the issues that confront it, its auditees and its stakeholders.
- International problems should be handled at an international level. Thus, SAIs can take joint action to handle issues of international concern. (The INTOSAI Ad Hoc Group on Disaster Relief and the Task Force on the Global Financial Crisis are excellent examples of how SAIs can add value by cooperating in describing global problems and creating a foundation for lessons learned, thus providing better instruments for dealing with future challenges.)
- Sharing learning and knowledge with other SAIs ensures that the excellence and authority of the world's audit community are available for the benefit of all, in line with INTOSAI's motto: "Mutual experience benefits all."
- Sharing knowledge with auditees and stakeholders ensures that the learning from the full breadth of audit activity is available to any individual auditee, thus helping the auditee to improve.

Guiding principles

- The propensity on the part of SAIs to learn from other SAIs and share knowledge and experience with other SAIs benefits the whole INTOSAI community.
- Collective knowledge is greater than that of any one individual and is applied to audit and other work conducted by the SAI.
- SAI leaders should understand that knowledge sharing supports delivery of outputs and outcomes. They should model the behaviour that makes it effective.
- Continual learning contributes to individual, team and organizational excellence.
- If challenged by an auditee or stakeholder, an individual auditor should be supported by the collective advice, guidance and authority of colleagues and SAI leaders.
- SAI staff should be confident that they have the skills to find, manage and share the information and knowledge they need to do their work.
- SAI staff should be confident that they have the latest and definitive version of an output of another SAI or of INTOSAI so that they can build on the work of others.
- Auditees should be confident that the information they provide to the SAI is held appropriately and treated with at least the same level of security and confidentiality they would apply themselves.
- SAIs should participate in INTOSAI activities and build networks with other SAIs and relevant institutions to keep abreast of topical issues and promote knowledge sharing.
- SAIs should share knowledge with the broader auditing profession.

FUNDAMENTAL REQUIREMENT 13: *Effective communication*

Compelling reasons for inclusion as a fundamental requirement

- It increases the visibility and prominence of SAIs.
- It adds to the reputation of and confidence in a SAI, confirming its credibility.

- It will contribute to stakeholders' acceptance of audit opinions and recommendations and their response thereto.
- A SAI's reputation is an intangible asset, vital for the SAI to create and realize public value.

Guiding principles

- SAIs should identify the expectations of stakeholders (including citizens and Parliament) and respond to these in a timely manner, without compromising their independence.
- SAIs should live their core values and commitment to professional ethics to the extent that it is recognized and valued by stakeholders.
- SAIs should strengthen communication with stakeholders for better understanding of the SAI's responsibilities, audit work, and results.
- SAIs should correct improper behaviours that impact negatively on the SAI's reputation, and publicize follow-up actions in time.
- SAIs should be actively involved in national and international audit affairs to lift the profile of and continuously develop the public sector external audit function.
- SAIs should periodically assess whether stakeholders believe the SAI is adding value and benefits.