

Guide (Revised August 2019)



Guide for Registered Auditors

**AUDITING IN THE PUBLIC SECTOR
(REVISED AUGUST 2019)**

This *Guide for Registered Auditors: Auditing in the Public Sector (Revised August 2019)* (this Revised Guide) has been developed by the Committee for Auditing Standards (CFAS), a statutory committee of the Independent Regulatory Board for Auditors (IRBA), jointly with the Auditor-General of South Africa (AGSA). It provides information that will assist registered auditors from audit firms (auditors)¹ in understanding the public sector environment, within which public sector audits are conducted. This Revised Guide was approved for issue in August 2019 and replaces the previous IRBA Guide – *Guide for Registered Auditors: Auditing in the Public Sector* – that has been withdrawn.

This Revised Guide is approved by the IRBA for joint publication with the AGSA to help improve the understanding and enhance the performance of quality public sector audits by registered auditors in public practice (registered with the IRBA), who are contracted by the AGSA or appointed as auditors of public institutions where the AGSA has opted not to perform the audit, in accordance with Section 4(3) and 4(3A) of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

Section 12(3)(a) of the PAA requires the AGSA to determine “the minimum qualifications, experience and competence for authorised auditors”. Auditors performing public sector engagements shall ensure that they have the professional competence to perform such audit engagements in accordance with the applicable professional standards, additional extensive legal and regulatory requirements as well as the unique circumstances of the public sector. The guidance herein is intended to assist auditors to meet these requirements.

The information included in this Revised Guide, with regard to the audit of financial statements, only refers to reasonable assurance engagements performed in accordance with the International Standards on Auditing and excludes other types of engagements which may be performed in accordance with Section 20(2)(a) of the PAA.

As this is only a guide, auditors should refer to the legislation, which is the primary source of information in order to obtain a comprehensive understanding regarding the requirements for public sector audits.

This *Guide for Registered Auditors: Auditing in the Public Sector (Revised August 2019)* may be downloaded free of charge in both Word and PDF formats from the IRBA website.

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¹ The term “auditor” is generally used in this Revised Guide when referring to registered auditors from audit firms. In certain instances, reference is made to an “audit firm”, where appropriate.

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FOREWORD

1. In general, public sector auditing can be described as a systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions conform to established criteria. Public sector auditing is essential in that it provides legislative and oversight bodies, those charged with governance and the general public with information as well as independent and objective assessments concerning the stewardship and performance of government policies, programmes or operations².
2. The mandate of the AGSA³ to audit public sector institutions, is derived from the Constitution of the Republic of South Africa (Constitution). In addition, the Public Audit Act (PAA) prescribes the functions of the AGSA. The scope of the annual audit in the public sector includes the audit of the financial statements, reported performance information and compliance with key legislation. Furthermore, the AGSA may perform discretionary engagements such as performance audits, investigations and special audits.
3. The International Organisation of Supreme Audit Institutions (INTOSAI)⁴ operates as an umbrella organisation for the external government audit community. It provides an institutionalised framework for supreme audit institutions (SAIs) to promote development, transfer knowledge and improve government auditing worldwide. The AGSA is a member of INTOSAI and is South Africa's SAI.
4. Key stakeholders in the public sector include Parliament, provincial legislatures and their respective committees, national and provincial treasuries, executive authorities, municipal councils, accounting officers 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, i.e. national, provincial and local, and how they interact with one another.
5. Public sector institutions operate within a complex legislative framework. Therefore, it is important for public sector auditors to understand the legislation applicable to the institutions they audit.
6. The term "auditor" is generally used in this Revised Guide when referring to registered auditors from firms. In certain instances, reference is made to a "firm", where appropriate.
7. Audits are generally undertaken in various legislative cycles, for example, national and provincial governments are subject to the Public Finance Management Act, 1999 (Act No.1 of 1999) (PFMA), while local government is subject to the Local Government: Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA). In order to conduct these audits within the prescribed timeframes, the AGSA works in conjunction with auditors to help achieve its mandate.

² Definition of public sector auditing as per International Standards on Supreme Audit Institutions (ISSAI) 100, paragraph 18. ISSAIs can be located at <http://www.issai.org>.

³ <http://www.agsa.co.za>.

⁴ <http://www.intosai.org>.

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8. This Revised Guide is complemented by further guidance that explains the various ways in which firms may be involved in the audits of public sector institutions. This additional guidance also addresses the process for consulting the AGSA on technical matters. The additional guidance is outlined below:
- Engagements where audits are performed on behalf of the AGSA. These are dealt with in the *Guide for Registered Auditors: Guidance on performing audits on behalf of the AGSA*⁵.
 - Engagements where the AGSA has opted not to perform the audit of a public sector institution. The relationship with registered auditors is dealt with in the *Guide for Registered Auditors: Guidance on performing audits where the AGSA has opted not to perform the audit*⁶.
 - Engagements where auditors are contracted in by, or seconded to, the AGSA from firms. This relationship with the auditors is managed by the responsible AGSA engagement manager from whom additional guidance can be sourced.
9. The role of the IRBA regarding all auditors including those who perform public sector engagements, is to:
- Develop and maintain auditing and ethics standards which are internationally comparable;
 - Monitor compliance with professional standards;
 - Monitor compliance with reportable irregularities and anti-money laundering; and
 - Investigate and take appropriate action against auditors in respect of improper conduct.

⁵ <http://www.agsa.co.za> and <http://www.irba.co.za>.

⁶ <http://www.agsa.co.za> and <http://www.irba.co.za>.

1. AUDITING IN THE PUBLIC SECTOR IN SOUTH AFRICA

Introduction

- 1.1 This Revised Guide provides information that will assist auditors in understanding the public sector environment within which public sector audits are conducted. Auditors performing public sector engagements should ensure that they have the appropriate knowledge to perform the audit in accordance with the applicable professional standards as well as legal and regulatory requirements, taking cognisance of the unique demands of the public sector.
- 1.2 SAIs are generally 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, general responsibilities as well as 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. The International Standards on Supreme Audit Institutions (ISSAIs) are the international standards on public sector auditing. The AGSA is South Africa's SAI and was established by the Constitution.
- 1.3 The AGSA adopted ISSAI 12⁷ principles that are constructed around the fundamental expectation of SAIs making a difference to the lives of citizens. The extent to which a SAI is able to make a difference to the lives of citizens depends on the SAI; but the overall objectives are:
- Strengthening the accountability, transparency and integrity of government and public sector institutions.
 - Demonstrating ongoing relevance to citizens, Parliament and other stakeholders.
 - Being a model organisation through leading by example.
- 1.4 The ISSAI 12⁸ principles are set out in the diagram below.

⁷ Refer to <http://www.intosai.org> for the full standard.

⁸ Refer to <http://www.intosai.org>, ISSAI 12, Annexure B (page 13).

The 12 principles of the value and benefits of SAIs under each of the three objectives are:



2. SCOPE OF AUDITING IN THE PUBLIC SECTOR IN SOUTH AFRICA

Mandate of the AGSA

- 2.1 The AGSA⁹ is a Chapter 9 institution because its mandate is derived from Chapter 9 of the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996)¹⁰. In terms of Section 181(1) of the Constitution, the Auditor-General is a state institution that supports constitutional democracy in the Republic.
- 2.2 In terms of Section 188 of the Constitution, the Auditor-General is responsible for auditing and reporting on the accounts, financial statements and financial management of the public sector.

⁹ <http://www.agsa.co.za>.

¹⁰ The Constitution can be obtained from <https://www.gov.za>.

- 2.3 Section 181, subsections (2) to (5) of the Constitution provides for the following in respect of the AGSA's independence:
- The AGSA is independent and subject only to the Constitution and other relevant legislation, it must be impartial and must exercise its powers and perform its functions without fear, favour or prejudice.
 - Other organs of state, through legislative and other measures, must assist and protect the AGSA to ensure the independence, impartiality, dignity and effectiveness of the AGSA.
 - No person or organ of state may interfere with the functioning of the AGSA.
 - The AGSA is accountable to the National Assembly (NA) and must report on its activities and the performance of its functions to the NA at least once a year.
- 2.4 In 1993 the AGSA gained autonomy from government; it is independent and reports directly to Parliament. The AGSA is regulated by its own Act, the Public Audit Act (PAA) and the Constitution. The Auditor-General is an individual who is appointed by the President on the recommendation of the NA.
- 2.5 The reputation promise of the AGSA states that the AGSA has a constitutional mandate and exists to strengthen our constitutional democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

Public Audit Act

- 2.6 In terms of Section 39 of the PAA the oversight mechanism established in terms of Section 10(3) of the PAA must annually appoint an auditor to audit the accounts, financial statements, and financial management and performance information of the Auditor-General.
- 2.7 In addition to the Constitution, the requirements of the PAA set out below prescribe the functions of the AGSA.
- 2.8 The PAA¹¹ requires the AGSA 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 Auditor-General.
- 2.9 The AGSA is further required¹² 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.

¹¹ PAA, Section 4(1).

¹² PAA, Section 4(2).

- A parent municipality and all municipal entities under its sole or effective control, as required by Section 122(2) of the MFMA.
- 2.10 In terms of Section 4(3)(a) and (b) of the PAA, the AGSA may 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 Section 4(1) of the PAA and which is:
- Funded from the national revenue fund or a provincial revenue fund or by a municipality; or
 - Authorised in terms of any legislation to receive money for a public purpose.
- 2.11 In terms of Section 4(3A) of the PAA, the discretion of the Auditor-General as contemplated in Section 4(3) of the PAA applies to any public entity contemplated in subsection 4(3)(a) and any other institution contemplated in subsection 4(3)(b) of the PAA that meets the prescribed criteria. Prescribed criteria refer to criteria included in the regulations.
- 2.12 In terms of Section 25(1)(a) of the PAA, the AGSA may opt not to perform the audit of an auditee, in accordance with Section 4(3) of the PAA.
- 2.13 An audit report, as required by the PAA, 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 at least reflect an opinion, conclusion or findings on¹³:
- The financial statements of the auditee in accordance with the applicable financial reporting framework and legislation (referred to as the audit of financial statements in this Revised Guide).
 - Compliance with any applicable legislation relating to financial matters, financial management and other related matters (referred to as the audit of compliance with key legislation in this Revised Guide).
 - Reported performance of the auditee against its predetermined objectives (referred to as the audit of reported performance information in this Revised Guide).
- 2.14 Consequently, the scope of an annual audit in the public sector is broader than in the private sector and includes the audit of financial statements, reported performance information and compliance with key legislation.
- 2.15 The AGSA may perform performance audits (refer to paragraph 3.25), investigations, special audits and other audit-related services. The AGSA may also provide audit and audit related services commonly performed by an independent audit institution to an international association, body, institution or organisation¹⁴. The AGSA may not perform non-audit or consulting services.
- 2.16 In addition to the AGSA mandate to audit and report, the AGSA can also take specific action in response to material irregularities identified during the audits. The extended mandate is included in the PAA (as detailed below) and the processes and requirements in this regard are prescribed in the regulations relating to material irregularities.
- 2.17 In terms of Section 5(1A) of the PAA, the Auditor-General may, as prescribed, refer any suspected material irregularity¹⁵ identified during an audit, to a relevant public body for

¹³ PAA Section 20(2).

¹⁴ PAA Section 5(1)(a).

¹⁵ PAA Section 1 (definitions).

investigation, and the relevant public body must keep the Auditor-General informed of the progress and the final outcome of the investigation.

- 2.18 In terms of Section 5A(1) of the PAA, the Auditor-General must, within a reasonable time after the issuing of an audit report in terms of Section 20 of the PAA, follow up on whether the accounting officer or accounting authority has implemented the recommendations contained in the audit report relating to any material irregularity, within the timeframe stipulated in the audit report.
- 2.19 In terms of Section 5A(2) of the PAA, if the accounting officer or accounting authority has failed to implement the recommendations contained in the audit report referred to in subsection (1), the Auditor-General must take appropriate remedial action to address the failure to implement the recommendations.
- 2.20 In terms of Section 5A(3) of the PAA, where a material irregularity resulted in a financial loss to the State, and the accounting officer or accounting authority failed to implement the recommendations contained in the audit report referred to in subsection (1), the remedial action taken by the Auditor-General in terms of subsection (2) must include a directive to the accounting officer or accounting authority to determine the amount of the loss, if not yet determined, and to recover such loss as required in terms of any applicable legislation, from the responsible person.
- 2.21 In terms of Section 5B(1) of the PAA, the Auditor-General is further mandated to issue a certificate of debt if the directive was not implemented and requires the accounting officer or authority to repay the amount stipulated in the certificate of debt to the State. Such a certificate is only issued after a number of processes are completed in accordance with the PAA and the relevant regulations to ensure a fair process.

3. CONDUCTING AUDITS IN THE PUBLIC SECTOR

Quality control

- 3.1 The AGSA maintains a system of quality control to ensure it complies with all the relevant requirements of the International Standards on Quality Control issued by the International Auditing and Assurance Standards Board (IAASB)¹⁶. This is achieved through the implementation of the AGSA's policy on quality control. The requirements of this policy can be sourced from each responsible AGSA engagement manager.
- 3.2 The AGSA's quality control system does not in any way absolve auditors from maintaining their own systems of quality control at firm, network firm and engagement level, in accordance with the International Standards on Quality Control, when performing audits in the public sector.

The Directive, regulations and powers of the AGSA

- 3.3 In terms of the PAA, and to promote consistency in reporting in the public sector, the Auditor-General may clarify or prescribe the following matters, inter alia, through issuing a Directive (referred to as the Directive)¹⁷ or regulations:
 - The standards to be applied for audits performed by the Auditor-General.

¹⁶ <http://www.ifac.org/IAASB>. ISAs (International Standards on Auditing) can also be located at <http://www.irba.co.za>.

¹⁷ <http://www.agsa.co.za>.

- The frequency, nature and scope of such audits.
 - The criteria and processes for performing audits in the public sector.
 - The responsibilities of auditors and their firms and the manner in which such auditors are required to perform audits in the public sector¹⁸.
 - Procedures for the handling of complaints against the AGSA when performing such audits.
 - The material irregularity process.
 - Scope and level of assurance for specific engagements.
 - The criteria to opt in or out of discretionary audits.
- 3.4 Auditors and their firms are, therefore, required to exercise their functions and powers subject to the Directive and regulations issued by the Auditor-General.
- 3.5 The Directive is updated from time to time, as needed, and remains effective until a new one is issued. Auditors need to ensure that they apply the requirements of the Directive effective for the financial year or period subject to the audit.

Standing Committee on the Auditor-General (SCOAG)

- 3.6 The SCOAG is the mechanism provided by the NA to maintain oversight over the AGSA. This committee oversees the performance of the AGSA on behalf of the NA.

Annual audits

- 3.7 The Public Audit Manual developed by the AGSA provides detailed guidance on conducting annual audits. All the information relevant to these audits is available on the AGSA's website¹⁹ for auditors and their firms performing audit work in the public sector. The information available on the website includes:
- The Act and Regulations.
 - The Directive.
 - Technical updates.
 - The Public Audit Manual.
 - Working papers.

Applicability of professional standards to audits in the public sector

- 3.8 The International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements issued by the IAASB are applied in the annual audits.
- 3.9 While Section 22 of the PAA provides for other types of engagements such as a review to be performed on the financial statements, this Revised Guide only addresses an audit performed in accordance with the ISAs as this is the current approach of the AG.
- 3.10 Auditors performing audits in the public sector are subject to the IRBA *Code of Professional Conduct for Registered Auditors (Revised November 2018)*, as amended (IRBA Code), which is consistent with the *International Code of Ethics for Professional*

¹⁸ In terms of Section 12(3)(a) of the PAA, the AGSA must determine the minimum qualifications, experience and competence for authorised auditors, as defined in the PAA.

¹⁹ <http://www.agsa.co.za>.

Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA)²⁰. Relevant ethical principles contained in the ISSAI 30, *Code of Ethics* (ISSAI 30),²¹ published by the INTOSAI are also applicable.

Audit of financial statements

- 3.11 The objective of an audit of financial statements is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting and regulatory framework²².

Audit of compliance with key legislation

- 3.12 The overall objective of an audit of compliance with key legislation is to obtain assurance about whether the auditee, with respect to the individual compliance subject matters scoped into the audit, has complied with specific provisions of key legislation that have been selected as the compliance requirements/criteria for the engagement. This will enable the auditor to express a conclusion on whether, based on the procedures performed and the evidence obtained, anything has come to the auditor's attention to cause the auditor to believe that the auditee has not complied, in all material respects, with the identified compliance requirements/criteria.
- 3.13 The compliance subject matters that form part of the audit of compliance with key legislation are determined by the AGSA and communicated through the Directive. Auditors should not include any other subject matters in the audit of compliance with key legislation.
- 3.14 The audit of compliance with key legislation is performed in accordance with the standards determined in the Directive.
- 3.15 The respective criteria for each compliance subject matter are included in the work programmes issued by the AGSA. Although no additional compliance subject matters/focus areas may be determined at auditee level, the auditor may decide that it is appropriate to scope in additional provisions from entity specific legislation that fall within the prescribed subject matter. This decision may be based on their importance in terms of the mandate or service delivery objectives of the entity.
- 3.16 Auditors should ensure that they consistently apply the principles in ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* (ISA 250 (Revised)), in executing any audit of financial statements, and should not confuse the objectives of that standard with the audit of compliance with key legislation.
- 3.17 Auditors need to understand how the relevant legislation links with the audit of compliance with key legislation, as explained above. The PAA necessitates the audit of compliance with key legislation²³ over and above what may have been considered under ISA 250 (Revised). Auditors should refer to the Directive for more information in this regard.

²⁰ <https://www.ifac.org/ethics>.

²¹ ISSAI 30 can be located at <http://www.issai.org>.

²² ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

²³ PAA, Section 20.

- 3.18 Auditors should further consider any professional responsibilities in respect of identified instances of non-compliance with laws and regulations, including the IRBA Code and the Auditing Profession Act, 2005 (Act No. 26 of 2005) (APA).

Audit of reported performance information

- 3.19 The objective of the audit is to obtain assurance on whether the reported performance information for the selected programmes/objectives/development priorities presented in the annual performance report is free from material misstatement, i.e. the reported performance information is useful and reliable in all material respects, in accordance with the applicable criteria as developed from the performance management and reporting framework set out in the Directive.
- 3.20 Relevant audit procedures are performed to determine whether the reported performance information was properly presented; the reported performance was consistent with the approved performance planning documents; the indicators and related targets were measurable and relevant; and to assess the reliability of the reported performance information to determine whether it was valid, accurate and complete.
- 3.21 The audit of reported performance information is performed in accordance with the standards determined in the Directive.

Material irregularities

- 3.22 Material irregularities may be identified during the annual audits. The identification, consideration, reporting and subsequent processes relating to remedial action and the referral process in accordance with the PAA are defined in the relevant regulations on material irregularities, the Directive, PAM and policies and procedures of the AGSA. Where auditors perform audits of public sector auditees that the AGSA opted not to perform, the process as outlined in Section 45 of the APA in respect of reportable irregularities should be followed.

National and provincial consolidation

- 3.23 The relevant treasury is responsible for preparing consolidated financial statements on behalf of the national or provincial government, in accordance with the PFMA. The AGSA audits the consolidated financial statements. In support of this process, auditors and their firms should follow the instructions received from the AGSA.

Specific focus areas

- 3.24 In order to improve the efficiency and effectiveness of audits in the public sector, specific audit focus areas are identified annually by the AGSA. This process is based on an annual risk assessment performed by the AGSA and careful consideration of areas on which the AGSA could focus for additional useful information to be brought across in reports for users such as oversight bodies. Guidance on the scoping of the focus areas is provided annually in technical updates issued by the AGSA.

Performance audits

- 3.25 Performance audits might be confused with the audit of reported performance information due to similar terminology being used. However, a performance audit is different from the three components of the annual audit set out in the preceding paragraphs. It is described as an audit to determine whether appropriate and adequate

measures have been implemented by management to ensure that resources are procured economically and are utilised efficiently and effectively.

- 3.26 Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. Performance audits provide new knowledge or value by:
- Providing new analytical insights (broader or deeper analysis or new perspectives).
 - Making existing information more accessible to various stakeholders.
 - Providing an independent and authoritative view or conclusion based on audit evidence.
 - Providing recommendations based on an analysis of audit findings.
- 3.27 External performance audits in the public sector are only conducted by the AGSA. These audits are conducted in accordance with the relevant standards, as adopted by the AGSA.

Understanding the difference between the audit of reported performance information and performance auditing

- 3.28 Audit of reported performance information is a mandatory audit (refer to Sections 20(2)(c) and 28(1)(c) of the PAA and paragraphs 3.19 to 3.21 of this Revised Guide).
- 3.29 Performance auditing is a discretionary audit (refer to Section 5(1)(aA) of the PAA). The following are the main elements to note regarding performance auditing:
- Reporting is based on findings and does not include an opinion.
 - Reporting is not limited to annual information and can cover more than one financial year.
 - The audit is conducted by performance auditors and may include subject matter experts.
 - Focus on a specific government programme, project or management process.
 - Performance audit criteria are designed to evaluate and assess the economy, efficiency and effectiveness of operations.
 - A report on whether goods and services have been acquired economically, applied efficiently and managed effectively towards achieving the desired goals.

Identification of internal control deficiencies

- 3.30 As part of the annual audit the auditor evaluates the implementation of internal controls in the areas of financial statements, reported performance information and compliance with key legislation, and the outcome of this is included in the management report of the auditee.
- 3.31 The auditor's report includes reporting on internal controls that resulted in the basis for a modified opinion on financial statements, the findings on the annual performance report and the findings on compliance with key legislation.

Stakeholder engagements

- 3.32 In line with principle 6 of the *Value and Benefits of SAIs*²⁴ regarding effective communication, stakeholder engagements take place on a regular basis. Meaningful and continual engagements with stakeholders have become an important instrument for the AGSA to encourage and enable actions for improvements in the public sector. For this purpose, accounting officers/authorities are engaged on the status of the key controls at their institutions, among other relevant matters, on a regular basis. These engagements are performed at certain auditees as identified through stakeholder engagement planning.
- 3.33 These engagements are in addition to the annual audit and are aimed at assisting the accounting officer/authority in improving the audit outcomes or maintaining the status quo (in instances where the auditee has a clean audit²⁵ outcome) by communicating the key areas of concern that may affect the auditee's progress in relation to the preparation of their financial and performance reports, including compliance with the relevant legislation, well in advance to enable them to take the necessary corrective action or put measures in place to prevent key risks from materialising. For additional guidance on what is expected to be discussed at these engagements, refer to the guidance provided by the AGSA on engaging accounting officers/authorities²⁶. The requirements for these engagements can be sourced from each responsible AGSA engagement manager.
- 3.34 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, effective accountability and, ultimately, clean administration.

General report and other reports

- 3.35 The AGSA annually produces audit reports on all public institutions. In addition to these auditee-specific reports, the AGSA collates and analyses the audit outcomes of public institutions. It then issues reports on the audit outcomes and progress made since the previous financial years in the financial and performance management of the public sector in general²⁷. A general report may also be issued to the NA as additional information. The AGSA has the discretion to issue reports related to specific sectors and focus areas that need to be communicated to stakeholders.

Legislated dates

- 3.36 Generally, legislation requires that the financial statements and the audit thereof be finalised within certain deadlines. For example, the PFMA and MFMA prescribe clear deadlines in this regard for the entities to which they apply.
- 3.37 The following table provides the legislated dates prescribed by the PFMA, MFMA and other relevant Acts.

²⁴ Refer to <http://www.intosai.org> for the full ISSAI 12 in which principle 6 can be located.

²⁵ The AGSA categorises a clean audit as an annual audit where there was an unqualified opinion on the annual financial statements and no material findings from the audit of compliance with key legislation and reported performance information.

²⁶ <http://www.agsa.co.za>.

²⁷ General reports and other reports can be obtained from <http://www.agsa.co.za>.

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	Date of financial year-end	Date of submission of the financial statements and annual performance report (where applicable) for auditing	Date of the auditor's report	Submission to the executive authority/council	Tabling of the annual report
PFMA	31 March	31 May	31 July (refer to Note 1)	31 August by the accounting officer/authority to the executive authority	30 September by the executive authority in Parliament/ provincial legislature
Technical and vocational education and training (TVET) colleges (CET Act, refer to Note 2)	31 December	31 March	31 May	1 June	Not applicable (annual reports only need to be sent to the Minister of the Department of Higher Education and Training (DHET) by 30 September)
Public higher education institution (HE Act, refer to Note 3)	31 December	Not prescribed	Not prescribed	30 June	Not applicable (annual reports only need to be sent to the Minister of the DHET by 30 June)
MFMA	30 June	31 August/30 September (consolidated)	30 November/31 December (consolidated)	31 January tabled by the mayor in the council	In the provincial legislature within seven days after the council has adopted the relevant oversight reports

Note 1: For public entities, although the date is not legislated, cognisance should be taken of any deadlines set by National Treasury (NT).

Note 2: The date is gazetted by the Minister of Higher Education and Training in accordance with the Continuing Education and Training Act, No. 16 of 2006 (CET Act) on a yearly basis.

Note 3: The dates are as per the regulations dated 9 June 2014 for Reporting by Public Higher Education Institutions in terms of Section 41, read with Section 69, of the Higher Education Act, No. 101 of 1997.

4. AUDITS NOT PERFORMED BY THE AGSA

4.1 In terms of Section 4(3) of the PAA, if the AGSA has opted not to perform the audit of an auditee, the auditee appoints a firm to perform the audit. In this regard, the Directive and regulations set out the process to be followed.

- 4.2 When electing not to perform an audit of a public institution in terms of Section 4(3) of the PAA, the AGSA imposes certain duties on the auditors and their firms appointed by these auditees. For more information, auditors and their firms may refer to the PAA, read with the Directive and regulations. Further guidance on the relationship with auditors and their firms where the AGSA has opted not to perform the audit of a public sector institution is included in the *Guide for Registered Auditors: Guidance on Performing Audits where the AGSA has Opted not to Perform the Audit*²⁸.

5. LEGISLATION, GUIDANCE, CIRCULARS AND REPORTING FRAMEWORKS APPLICABLE IN THE PUBLIC SECTOR

- 5.1 ISA 250 (Revised) deals with the auditor's responsibility to consider laws and regulations in an audit of financial statements.
- 5.2 Legislation is particularly important in the public sector as it prescribes the operations of public sector institutions, ensuring that taxpayers' money is spent effectively and efficiently for the benefit of the public.
- 5.3 It is essential that auditors of public sector institutions obtain an understanding of legislation applicable to the auditee during the planning phase of the audit.

Common applicable legislation

- 5.4 Legislation listed in this section is not an exhaustive list, but examples of some of the most common legislation applicable to the public sector are provided. Auditors must identify and familiarise themselves with the relevant legislation that is applicable to the auditee being audited. Due to there being different types of auditees, care must be taken to ensure that only relevant sections of the applicable Act are referred to.

5.4.1. *Constitution of the Republic of South Africa*²⁹

The Constitution establishes, inter alia, the following:

- Cooperative government;
- Parliament;
- The President and the national executive;
- Provinces;
- Local government;
- State institutions supporting constitutional democracy; and
- Public administration.

5.4.2. *PFMA, regulations and instructions issued in terms of this Act*

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

- The establishment of the NT, provincial treasuries and the Accounting Standards Board (ASB) as well as their functions and powers.

²⁸ <http://www.agsa.co.za> and <http://www.irba.co.za>.

²⁹ The Constitution can be obtained from <https://www.gov.za>.

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- The national and provincial budgets and the appropriation of money by Parliament and the 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 as well as 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 AGSA and relevant treasury.
- The submission of an auditor's report by the AGSA on the above financial statements within two months of their receipt.
- The submission of an annual report, financial statements and the AGSA'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, 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 AGSA'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 the financial year-end to the relevant treasury, executive authority and the AGSA, if the AGSA is not the auditor of the auditee.

In general, auditees to which the PFMA applies are listed in the schedules to the Act, which may be updated from time to time and published on the NT's website.

5.4.3. Appropriation Act (changes regularly)

This Act provides for the appropriation of money from the National Revenue Fund (NRF) for the requirements of the state.

5.4.4. Division of Revenue Act (changes regularly) (DORA)

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.

5.4.5. MFMA and regulations issued in terms thereof

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, among other things, the following:

- The requirements for the opening and control of, and withdrawals from, 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 AGSA (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 AGSA and the parent municipality.
- The submission of the auditor's report by the AGSA 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.

5.4.6. *Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)*

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 ensures universal access to essential services that are affordable for all.
- The legal nature of a municipality, 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 human resource 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.

5.4.7. Municipal Structures Act, 1998 (Act No. 117 of 1998)

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

5.4.8. Municipal Property Rates Act, 2004 (Act No. 6 of 2004)

The Act regulates the power of a municipality to impose rates on properties and exclude certain properties from rating in the national interest. It also makes provision for municipalities to implement a transparent and fair system of exemptions, reductions and rebates through their rating policies, fair and equitable valuation methods of properties as well as an objections and appeals process.

5.4.9. Public Service Act, 1994 (Act No. 103 of 1994) (PSA)

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.

5.4.10. Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)

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

5.4.11. Construction Industry Development Board Act, 2000 (Act No. 38 of 2000)

The Act provides for the establishment of the Construction Industry Development Board and the implementation of an integrated strategy for the reconstruction, growth and development of the construction industry.

5.4.12. State Information Technology Agency Act, 1998 (Act No. 88 of 1998)

The Act provides for the establishment of a company that will provide information technology, information systems and related services to, or on behalf of, participating departments and, with regard to these services, act as an agent of the South African government.

5.4.13. Continuing Education and Training Act, 2006 (Act No. 16 of 2006)

The Act provides for the regulation of continuing education and training; the establishment, governance and funding of public technical and vocational education and training colleges, in addition to public community education and training colleges; the employment of staff at those colleges; and the registration of private colleges that offer continuing education and training qualifications and part qualifications.

5.4.14. Higher Education Act, 1997 (Act No. 101 of 1997)

The Act provides for the regulation of higher education; the establishment, composition and functions of a Council on Higher Education; the establishment, governance and funding of public higher education institutions; the appointment and functions of an independent assessor; the registration of private higher education institutions; and quality assurance and quality promotion in higher education.

5.4.15. South African Schools Act, 1996 (Act No. 84 of 1996)

The Act provides for a uniform system for the organisation, governance and funding of schools and matters connected therewith.

5.4.16. Specific enabling legislation of an auditee (if any)

This is auditee-specific legislation that establishes the mandate, the governing of the mandate and operational activities of the auditee. Such legislation could define functions or disclosures that impact the annual audit.

Guidance and circulars issued by the NT

- 5.5 The NT issues instruction notes, handbooks, guidance, practice notes, frameworks and circulars on various topics from time to time, and these should be taken into consideration when auditing public sector institutions. These can generally be obtained from the NT website.

6. FINANCIAL REPORTING FRAMEWORKS APPLICABLE IN THE PUBLIC SECTOR

- 6.1 It is important for auditors to identify the financial reporting framework applicable to the institution being audited and ensure they have sufficient experience and knowledge about the financial reporting framework to perform the audit.
- 6.2 The financial reporting frameworks recognised in the public sector are set out in the South African Auditing Practice Statements (SAAPS) 2, *Financial Reporting Frameworks and the Auditor's Report*³⁰ (Revised 2018) issued by the IRBA.

7. KEY STAKEHOLDERS AND ROLE PLAYERS IN THE PUBLIC SECTOR

- 7.1 The key stakeholders and role players in the public sector are discussed in summary below; however, applicable legislation and the websites listed below may be referred to for more details on their roles and responsibilities. The list below is not intended to be exhaustive.
- <https://www.gov.za> – South African government.
 - <https://www.parliament.gov.za> – Parliament.
 - <http://www.treasury.gov.za> – National Treasury.
 - <http://www.dpsa.gov.za> – Department of Public Service and Administration.

³⁰ <http://www.irba.co.za>.

- <http://www.asb.co.za> – Accounting Standards Board
- <http://www.cogta.gov.za> – Department of Cooperative Governance and Traditional Affairs.

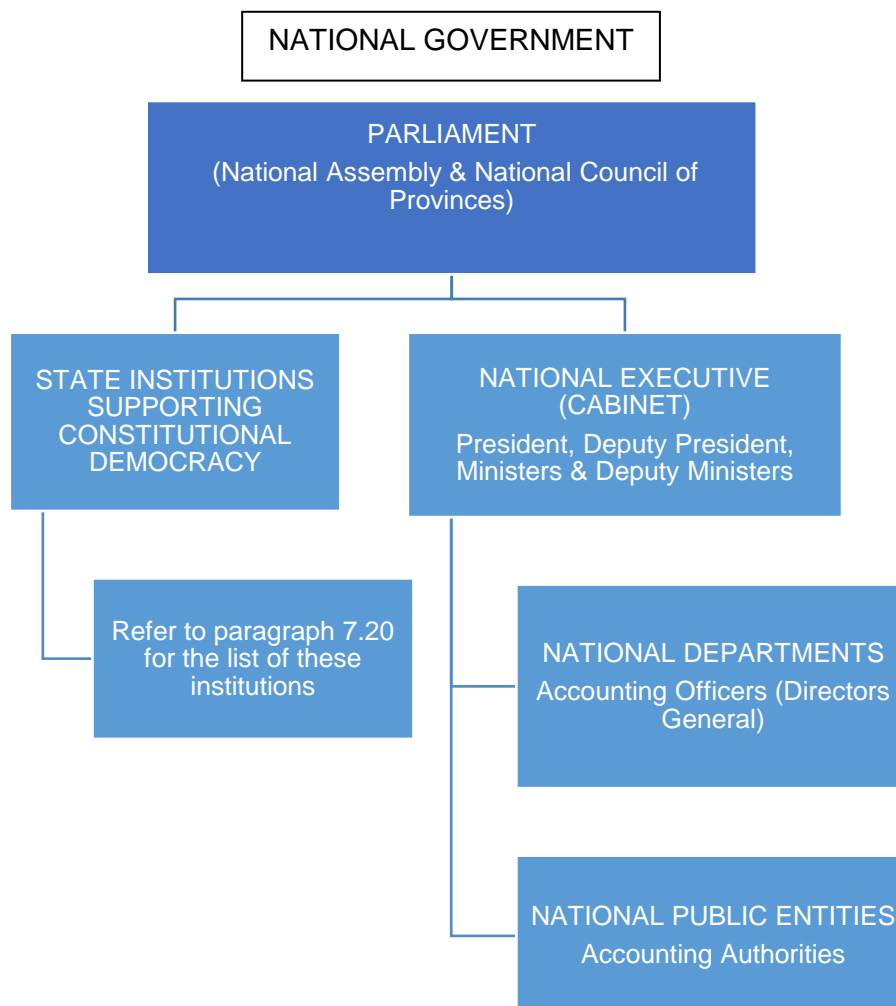
7.2 The Constitution sets out the values and rights of our society and the role, powers and functions of government. The government is responsible for making policies and legislation about the rights and responsibilities of citizens and the delivery of government services. The government collects revenue (income) from taxes and uses this money to provide services and infrastructure to improve the lives of citizens.

7.3 There are three spheres of government in South Africa:

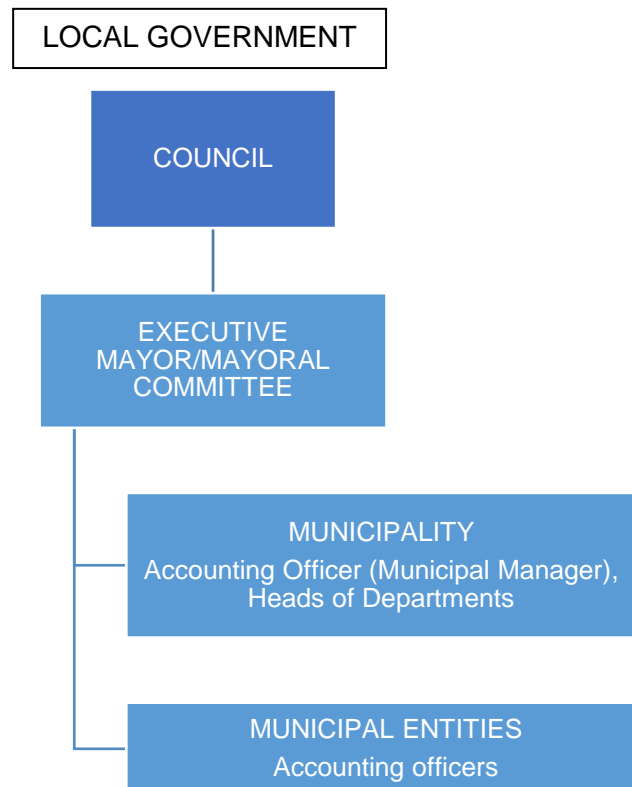
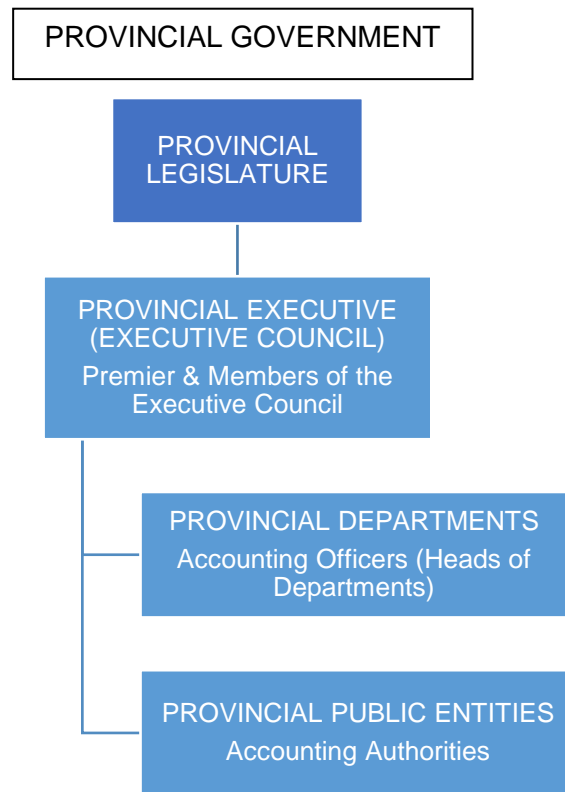
- National government;
- Provincial government; and
- Local government.

7.4 The Constitution states that the spheres of government are distinctive, interrelated and interdependent. Different spheres of government have different functions and responsibilities.

7.5 The national, provincial and local governance structures are depicted in the figures below.



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- 7.6 Relevant legislation and policies should be referred to in order to obtain an understanding of the relevant roles and responsibilities of government employees or officials, as may be applicable to the auditee.
- 7.7 The government is made up of three parts:
- The elected members (legislatures) – who represent the public, approve policies and legislation, and monitor the work of the executive and departments.
 - The cabinet or executive committee (executive) – which coordinates the making of policies and legislation and oversees implementation by government departments.
 - The public servants – who are responsible for doing the work of government and account to the executive.
- 7.8 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 in this document since it is not formally part of the policymaking or implementation machinery of government.
- 7.9 The government typically plans strategically for its electoral term based on commitments made in its election manifesto.

National government

Parliament

- 7.10 Parliament consists of the NA and the National Council of Provinces (NCOP), which participate in the legislative process in the manner set out in the Constitution.

National assembly and the NCOP

- 7.11 The NA is made up of members of Parliament who get elected every five years to represent the people. It elects the President, provides a national forum for public consideration of issues, passes legislation as well as scrutinises and oversees the actions of the executive.
- 7.12 The NCOP represents the provinces to ensure that provincial and local government interests are taken into account in the national sphere of government. It does this mainly by participating in the national legislative process and by providing a national forum for public consideration of issues affecting provinces and local government.
- 7.13 In exercising legislative powers, the NA and the NCOP may consider, pass, amend or reject any legislation before them and initiate or prepare any legislation except for money bills.
- 7.14 The NA and the NCOP, or any of their committees, may:
- Summon any persons to appear before them to give evidence on oath or affirmation, or to produce a document
 - Require any persons or institution to report to them
 - Compel, in terms of national legislation or rules of orders, any person or institution to comply with a summons or request to appear before them
 - Receive petitions, representations or submissions from any interested persons or institutions.

The President

- 7.15 The executive authority of the republic is vested in the President, who is elected by Parliament and appoints a cabinet of ministers. The cabinet of ministers acts as the executive committee of government.
- 7.16 The President exercises the executive authority, together with the other members of the cabinet, by:
- Implementing national legislation, except where the Constitution or an act of Parliament provides otherwise.
 - Developing and implementing national policy.
 - Coordinating the functions of state departments and administrations.
 - Preparing and initiating legislation.
 - Performing any other executive function provided for in the Constitution or in national legislation.

Constitutional institutions

- 7.17 These are institutions listed in Schedule 1 of the PFMA.
- 7.18 These institutions are independent and subject only to the Constitution and the law; and they must be impartial, exercise their powers and perform their functions without fear, favour or prejudice.
- 7.19 These institutions are accountable to the NA and must report on their activities and the performance of their functions to the NA at least once a year.

State institutions that strengthen constitutional democracy

- 7.20 The following state institutions strengthen constitutional democracy in South Africa³¹:
- The Public Protector;
 - The South African Human Rights Commission;
 - The Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities;
 - The Commission for Gender Equality;
 - The Auditor-General; and
 - The Electoral Commission.

Department

- 7.21 Means a national department, a national government component, the office of a premier, a provincial department or a provincial government component, as defined in the PSA.

National departments

- 7.22 Means a national department referred to in Section 7(2) of the PSA.
- 7.23 Each department is responsible for implementing the legislation and policies decided on by Parliament or the cabinet.

³¹ The Constitution can be obtained from <https://www.gov.za>.

Coordinating, regulating, and/or monitoring departments

7.24 Certain departments play a coordinating, regulating and/or monitoring role, as defined in legislation and in their mandates. These departments include, for example, the NT, provincial treasuries, offices of the premiers, the Department of Planning, Monitoring and Evaluation (DPME) and the Department of Cooperative Governance (DCoG). Provincial governments may include different structures.

*National Treasury*³²

7.25 The NT is responsible for coordinating macroeconomic policy and promoting the national fiscal policy framework. Its role is defined by the Constitution and in the PFMA. The NT coordinates intergovernmental financial relations, manages the budget preparation process and exercises control over the implementation of the annual national budget, including any adjustment budgets. The NT also performs functions assigned to it in other legislation.

7.26 The Office of the Accountant-General (OAG) is a directorate within the NT and its responsibility 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. The OAG also develops policies and guidelines on accounting and related matters.

7.27 The NT, through the Office of the Chief Procurement Officer (OCPO), regulates procurement. The purpose of the OCPO is to:

- modernise the state supply chain management system and ensure it is fair, equitable, transparent, competitive and cost-effective. It also has to enable the economic, effective and transparent utilisation of financial and other state resources, including assets, for improved service delivery
- promote, support and enforce the transparent and effective management of state supply chain and the sound stewardship of government assets and resources.

Accounting Standards Board

7.28 The ASB determines the financial reporting framework for public sector entities. It sets (and publishes) standards of generally recognised accounting practice (GRAP) for the annual financial statements of public institutions listed in Section 89 of the PFMA. The ASB also:

- Promotes the adoption of Standards of GRAP
- Monitors the implementation of Standards of GRAP
- Influences development of international standards

National government component

7.29 A national government component is an auditee listed in Part A of Schedule 3 to the PSA.

7.30 Government components may be established subject to the requirements of the PSA in support of a departmental mandate.

³² <http://www.treasury.gov.za>.

Key committees of Parliament

7.31 The key committees are detailed below.

Standing Committee on Appropriations

7.32 The Standing Committee on Appropriations (SCoA) considers and reports on:

- Spending issues
- Amendments to the Division of Revenue Bill, the Appropriation Bill, Supplementary Appropriations Bill and the Adjustment Appropriations Bill
- Actual expenditure published by the NT.

National portfolio committees

7.33 These are appointed from members of the legislature to shadow the work of the various government departments.

7.34 A portfolio committee:

- Deals with bills and other matters falling within its portfolio and that are referred to it, where applicable
- Maintains oversight of:
 - The exercise of the executive authority within its portfolio, including the implementation of legislation
 - Any executive organ of state falling within its portfolio
 - Any constitutional institution falling within its portfolio
 - Any other body or institution in respect of which oversight was assigned to it
- May monitor, investigate, enquire into and make recommendations concerning any such executive organ of state, constitutional institution or other body or institution, including the legislative programme, budget, rationalisation, restructuring, functioning, organisation, structure, staff and policies of such organ of state, institution or other body or institution.

Standing Committee on Public Accounts

7.35 The Standing Committee on Public Accounts (SCOPA) is the mechanism through which the NA exercises oversight over the expenditure of public money that it annually appropriates to executive organs of state in the national sphere of government.

7.36 SCOPA:

- Considers the financial statements of all executive organs of state and constitutional institutions or other public bodies when those statements are submitted to Parliament
- Considers any audit reports issued on those statements
- Considers any reports issued by the Auditor-General on the affairs of any executive organ of state, constitutional institution or other public body
- Considers any reports reviewing the expenditure of public funds by any executive organ of state and constitutional institution or other public body
- Considers any other financial statements or reports referred to the committee in terms of the NA rules

- May report on any of those financial statements or reports to the NA
- May initiate any investigation within its area of competence.

Provincial government

Provincial legislatures

- 7.37 There are nine provincial governments. Every province has a legislature made up of between 30 and 80 members of the provincial legislature (MPLs). The legislative authority of a province is vested in its provincial legislature.
- 7.38 The provincial legislature is assigned legislative powers in accordance with the Constitution and may establish a constitution for its province.
- 7.39 A provincial legislature provides for mechanisms to ensure that all provincial executive organs of state in the province are accountable to it and maintain oversight of the exercise of the provincial executive authority in the province, and any provincial organ of state, including the implementation of legislation.
- 7.40 The provincial legislature or any of its committees may:
- Summon any persons to appear before it to give evidence on oath or affirmation, or to produce a document
 - Require any person or institution to report to it
 - Compel, in terms of national legislation or rules of orders, any person or institution to comply with a summons or request to appear before it
 - Receive petitions, representations or submissions from any interested persons or institutions.
- 7.41 A premier is elected by the legislature and appoints MECs to be the political heads of each provincial department. The executive council of a province consists of the premier as head of the council and members appointed by the premier from among the members of the provincial legislature.
- 7.42 Provincial departments are headed by an accounting officer who is the head of the department.
- 7.43 In each of the nine provinces, there are multiple provincial departments. The names may differ slightly and combinations of the functions in each province may also differ from one province to another.

Premier

- 7.44 The executive authority of a province is vested in the premier of a province who is elected by the legislature.
- 7.45 Together with the executive council, the premier exercises the executive authority by, among others:
- Implementing provincial legislation in a province
 - Implementing all national legislation within the functional areas listed in Schedules 4 and 5 of the Constitution
 - Administering, in the province, national legislation outside the functional areas in Schedules 4 and 5 assigned to the provincial executive in terms of an act of Parliament
 - Developing and implementing provincial policy

- Coordinating the functions of the provincial administration and its departments
- Preparing and initiating provincial legislation
- Performing any other functions assigned to the provincial executive in terms of the Constitution
- Facilitating the assistance by the national government to ensure that the province has the necessary administrative capacity for the effective exercising of its powers and performance of its functions.

Provincial departments

7.46 Means a provincial department referred to in Section 7(2) of the PSA.

7.47 Each department is responsible for implementing legislation and policies.

Provincial treasury

7.48 Each province has its own provincial treasury department headed by the MEC for finance. The provincial treasury is the department responsible for managing and allocating financial resources on behalf of the provincial government. Similar to the role of NT, it also monitors and regulates the implementation of procurement legislation for provincial government, prepares the provincial government budget and consolidated financial statements, as well as promotes and supports financial management in the province.

Provincial government component

7.49 A provincial government component is an entity listed in Part B of Schedule 3 to the PSA.

7.50 Government components may be established subject to the requirements of the PSA and in support of a departmental mandate.

MEC

7.51 An MEC is a member of the executive council of a province.

Provincial Public Accounts Committee

7.52 Provincial public accounts committees (PPACs) are the provincial equivalents of the NA's SCOPA.

Provincial Portfolio Committee

7.53 Provincial Portfolio Committees are the provincial equivalents of the National Portfolio Committee.

Other national and provincial government role players

*Executive authority*³³

7.54 The executive authority:

- In relation to a national department, is the cabinet member who is accountable to Parliament for that department.
- In relation to a provincial department, is the MEC of a province who is accountable to the provincial legislature for that department.
- In relation to a national public entity, is 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, is the member of the provincial executive council who is accountable to the provincial legislature for that public entity or in whose portfolio it falls.

7.55 Executive authorities of departments must perform their statutory functions, which include oversight of the auditees within their portfolios.

7.56 The executive authority responsible for a department or public entity must table in the NA or provincial legislature, as may be appropriate, the annual report and financial statements, including the audit report on those statements.

Accounting officer

7.57 Every department and every constitutional institution must have an accounting officer. The head of a department must be the accounting officer for the department and the chief executive officer of a constitutional institution must be the accounting officer for that institution. The relevant treasury may, in exceptional circumstances, approve or instruct in writing that a person other than the person mentioned above be the accounting officer for a department or a constitutional institution or a trading entity within a department.

7.58 The accounting officer for a department, trading entity or constitutional institution must ensure that that institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Accounting authority

7.59 Every public entity must have an accounting authority which must be accountable for the requirements of the PFMA.

7.60 If the public entity has a board or other controlling body, that board or controlling body is the accounting authority for that entity. If the public entity does not have a controlling body, the chief executive officer or the other person in charge of the public entity is the accounting authority for that public entity, unless specific legislation applicable to that public entity designates another person as the accounting authority. The relevant treasury, in exceptional circumstances, may approve or instruct that another functionary of a public entity must be the accounting authority for that public entity.

³³ As defined in the PFMA. Also refer to the PSA for further guidance.

- 7.61 An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Other types of auditees in the public sector

Trading entity

- 7.62 A trading entity is an entity operating within the administration of a department for the provision or sale of goods or services. In the case of a national department, it is established with the approval of the NT; and in the case of a provincial department, with the approval of the relevant provincial treasury acting within a prescribed framework.

Public technical and vocational education and training colleges and public community education and training colleges

- 7.63 These offer basic adult education and further education contemplated in Section 29(1) of the Constitution, within the context of public accountability.
- 7.64 Public college means any college that provides continuing education and training on a full-time, part-time or distance basis; and which is established or regarded as having been established as a public college under Section 3 of the Continuing Education and Training Act, 2006 (Act No. 16 of 2006) or declared as a public college under Section 4 of this Act.
- 7.65 The council of the college (governing structure of a public college) must, with the concurrence of the academic board, develop a strategic plan for the public college. This must incorporate the mission, vision, goals and planning for funding of the college; address past imbalances as well as gender and disability matters; and include safety measures for a safe learning environment for students, lecturers and support staff. The plans need to be approved by the Minister of Higher Education and Training.

Higher education institution

- 7.66 Any institution that provides higher education on a full-time, part-time or distance basis, e.g. universities, and which is:
- Converted, merged, established or deemed to be established as a public higher education institution under the Higher Education Act, 1997 (Act No. 101 of 1997) (Higher Education Act); or
 - Declared as a public higher education institution under the Higher Education Act; or
 - Registered or provisionally registered as a private higher education institution under the Higher Education Act.

Basic education institution

- 7.67 Auditors should be aware that there are other educational institutions that fall under the basic education system, i.e. schools. Where auditors are appointed to audit such institutions, reference can be made to the relevant legislation to gain an understanding thereof.

Public entities

- 7.68 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 well-being
 - Adopting commercial and business principles in service delivery, when that is required
 - Signalling that there is a need for objectivity and more operational autonomy, yet retaining accountability in the delivery of services.
- 7.69 There are different types of public entities (including trusts and funds):
- Schedule 2 - Major public entities.
 - Schedule 3 A - National public entities.
 - Schedule 3 B - National government business enterprises.
 - Schedule 3 C - Provincial public entities.
 - Schedule 3 D - Provincial government business enterprises.
- 7.70 The definition of a national or provincial public entity, as set out in the PFMA, is as follows:
- A national or provincial government business enterprise; or
 - A board, commission, company, corporation, fund or other entity (other than a national or provincial government business enterprise) which is:
 - established in terms of national or provincial legislation or a provincial constitution
 - fully or substantially funded from either the NRF/Provincial Revenue Fund or by way of tax, levy or other money imposed in terms of legislation
 - accountable to Parliament or to a provincial legislature.
- 7.71 A national or provincial government business enterprise is an entity which:
- Is a juristic person under the ownership control of the national or provincial 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/Provincial Revenue Fund; or
 - by way of a tax, levy or other statutory money.
- 7.72 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 marketplace and decisions are made in accordance with business principles. These entities are usually registered as state-owned companies (SOCs), normally pay tax and could in future be required to pay dividends. However, it should be noted that such entities still have extensive legislative compliance requirements in line with the PFMA, among others. For example, their

procurement of goods and services is highly regulated and subject to oversight by the OCPO/relevant treasury.

7.73 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, and there are restrictions on their ability to retain surplus funds. In addition, the relevant minister has the responsibility to approve these entities' annual budgets.

Local (municipal) government

7.74 There are three kinds of municipalities in South Africa:

- Metropolitan municipalities
 - These exist in the biggest cities in South Africa. The metropolitan municipality coordinates the delivery of services to the whole area.
 - It is a municipality that has exclusive executive and legislative authority in its area, and which is described in Section 155(1) of the Constitution as a category A municipality.
- Local municipalities
 - Areas that fall outside the metropolitan municipal areas are divided into local municipalities.
 - Only people who live in low population areas, like game parks, do not fall under local municipalities. Such areas are called district management areas (DMAs) and fall directly under the district municipality.
 - A local municipality is a municipality that shares municipal executive and legislative authority in its area with a district municipality within whose area it falls, and which is described in Section 155(1) of the Constitution as a category B municipality.
- District municipalities
 - District municipalities are made up of a number of local municipalities that fall into one district. Usually, between three and six local municipalities form a district council. 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. A district municipality coordinates development and delivery in the whole district. It also has its own administration (staff) and plays a stronger role in areas where local municipalities lack capacity to deliver.
 - District municipalities have municipal executive and legislative authority in an area that includes more than one municipality, and are described in Section 155(1) of the Constitution as a category C municipality.

7.75 While metropolitan municipalities are responsible for all local development and service delivery in the metropolitan area, local municipalities share these responsibilities with district municipalities. This is especially the case in rural areas, where district municipalities will have more responsibility for development and service delivery. The executive and legislative authority of a municipality is vested in its municipal council.

Municipal council

- 7.76 Each municipality has a council where decisions are made. The council consists of elected members who approve policies and by-laws for their municipality. The work of the council is coordinated by a mayor who is elected by the council. The mayor is assisted by councillors in an executive committee (elected by the council) or a mayoral committee (appointed by the mayor). They oversee the work of the municipal manager and department heads. In some very small municipalities, the whole council forms the executive.
- 7.77 The objectives of a municipality under the direction of the council are to:
- 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.
- 7.78 The council considers the annual report of the municipality and of any municipal entity under the municipality's sole or shared control, no later than two months from the date on which the annual report was tabled in the council, in terms of Section 127 of the MFMA.
- 7.79 A municipal council may establish one or more committees that are necessary for the effective and efficient performance of any of its functions or the exercise of any of its powers.

Speaker

- 7.80 Each municipal council must have a chairperson who will be called the speaker. A municipal council must elect its speaker from among the councillors. The municipal manager of the municipality or, if the municipal manager is not available, a person designated by the MEC for local government in the province, presides over the election of a speaker.
- 7.81 The speaker of a municipal council has the following functions, among others:
- Presides at meetings of the council
 - Performs the duties and exercises the powers delegated to the speaker in terms of Section 59 of the Local Government: MSA
 - Ensures that the council meets at least quarterly
 - Ensures compliance by the council and council committees with the code of conduct set out in Schedule 1 to the Local Government: MSA
 - Ensures that council meetings are conducted in accordance with the rules and orders of the council.

Executive mayor

- 7.82 The executive mayor is responsible for identifying the needs of the municipality. The executive mayor recommends to the municipal council strategies, programmes and services to address needs, and recommends or determines the best way to deliver those strategies, programmes and services to the maximum benefit of the community.

The accounting officer

- 7.83 The accounting officer, in relation to a municipality, is the municipal manager (also referred to as a city manager). In relation to a municipal entity, it is the chief executive officer.
- 7.84 The municipal administration is headed by the municipal manager who is also responsible for employing staff and coordinating them to implement all programmes approved by the council.
- 7.85 The accounting officer of a municipality is further responsible for, among other things, managing the financial administration of the municipality. For this purpose, the accounting officer must take all reasonable steps to ensure, in summary:
- That the resources of the municipality are used effectively, efficiently and economically
 - That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards
 - That the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control
 - Compliance with all applicable legislation.

Functions of municipalities

- 7.86 Different types of municipalities may be responsible for different functions, which may be determined from time to time in regulations. The powers and functions of a municipality are established in the Constitution.
- 7.87 For example, municipalities are generally responsible for the following functions:
- Electricity delivery.
 - Sewage and sanitation.
 - Municipal health services.
 - Municipal roads.
 - Local tourism.
 - Water for household use.
 - Firefighting services.
 - Municipal public transport.
 - Abattoirs and fresh food markets.
 - Libraries and other facilities.

Municipal entities

- 7.88 A municipal entity is an entity that is established and controlled by a municipality. The MSA defines three types of entities that may be established by a municipality, namely, private company, service utility or multi-jurisdictional service utility. Each municipal entity must comply with the legislative framework applicable to local government.

Intergovernmental relations and cooperative governance

- 7.89 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. Although the three spheres of government are autonomous, they exist in a unitary South Africa, have to work together on decision-

making and must coordinate budgets, policies and activities for those functions that cut across the spheres.

- 7.90 Cooperative governance refers to the principles set out in Section 41 of the Constitution. Section 41, among other things, requires organs of state to cooperate with one another in mutual trust and good faith. The Intergovernmental Relations Framework Act, 2005 (Act No. 13 of 2005) sets out the structure for cooperation.
- 7.91 DoRA provides for, including matters connected therewith, the equitable division of revenue raised nationally among the national, provincial and local spheres of government for the financial year; the determination of each province's equitable share and allocations to provinces, local government and municipalities from national government's equitable share; and the responsibilities of all three spheres pursuant to such division and allocations.

8. AUDITORS' INTERACTIONS WITH GOVERNMENT AND GOVERNMENT OVERSIGHT MECHANISMS

- 8.1 The AGSA has developed guidance documents for stakeholder engagements which all auditors in the public sector should refer to. These include:
- The audit methodology.
 - Guides on visibility and interacting with accounting officers and authorities.
 - Procedures on interactions with constitutional stakeholders.
- 8.2 Every auditee will have a stakeholder engagement plan that addresses their specific needs. Guidance documents and stakeholder engagement plans may be sourced from the AGSA business unit responsible for the audit engagement.
- 8.3 Communication requirements within the public sector may be more complex than private sector audits and auditors should ensure that there is proper planning for this, taking into consideration any guidance provided, over and above the relevant auditing standards.
- 8.4 In general, the AGSA interacts proactively with the executive authority and oversight bodies such as the parliamentary portfolio and accounts committees. The aim of these engagements is to promote and encourage clean audit outcomes and to enhance public governance. The AGSA engagement manager facilitates these engagements.
- 8.5 The auditor provides the AGSA engagement manager with relevant information for such meetings, where required. It is recommended that the auditor includes this matter in their engagement letter with the auditee.

Interactions between the AGSA and national Parliament, provincial legislatures or council

- 8.6 Auditors should be aware of the important interactions between the AGSA and government oversight structures that may have an impact on the audit.
- 8.7 Government oversight structures annually set aside oversight time to engage institutions. As part of the process, oversight structures require the AGSA to provide audit insight emanating from the latest audit cycle.
- 8.8 Below are examples of some of the interactions that may occur. Auditors should consult the relevant AGSA engagement manager with regards to the scheduled interactions for a particular period.

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National Parliament

Parliament programme	Budgetary process, including the assessment of the annual performance plans (APPs) and strategic plans	Annual report tabling and review thereof	Medium-term budget – review of budget priorities	Annual performance assessments of the executive
AGSA interventions	For specific auditees, the AGSA does presentations on the audit of reported performance information (AOPO) findings to the portfolio committee chair	Discussion with the portfolio committee chair	Portfolio committees engage AGSA on PFMA audit outcomes to assist with informing medium-term budget review adjustments	Presentation on PFMA audit outcomes to the portfolio committee and SCOPA

Provincial legislature

Legislature programme	Budgetary process, including the assessment of APPs and strategic plans	Annual report tabling and review thereof	Medium-term budget –review of budget priorities	Annual performance assessments of the executive
AGSA interventions	For specific auditees, the AGSA does presentations on AOPO findings to the portfolio committee chair	Discussion with the portfolio committee chair	Portfolio committees may engage AGSA on PFMA audit outcomes to assist with informing medium-term budget review adjustments	Presentation on PFMA audit outcomes to the PPAC

Local government

Local government programme	Planning and budgeting: preparation of budgets, integrated development plans (IDPs) and the Service Delivery and Budget Implementation Plan (SDBIP)	Implementation of programmes and monitoring thereof	Evaluation and reporting: Review of performance
AGSA interventions		<p>If requested, the AGSA interventions may include:</p> <ul style="list-style-type: none"> • Engagements with the mayor and municipal managers on the monitoring of programmes that form part of the audit process, key control assessments and municipal audit outcomes. • Attending and possibly making presentations to council on municipal audit outcomes. • Engagements with the Municipal Public Accounts Committee (MPAC) on municipal audit outcomes. 	

9. CONCLUSION

- 9.1 Auditing in the public sector is a specialised field and auditors need to ensure that they have the necessary knowledge to conduct audits in accordance with the required quality standards, thereby ensuring the performance of high-quality public sector audits.
- 9.2 This Revised Guide should serve as a valuable reference for auditors who conduct audits in the public sector, as it introduces the public sector structure, environment, key legislation and standards to be applied; terminology; and other requirements/practices that inform the public sector audit process. Auditors should do further research over and above what is included in this Revised Guide to ensure they have a comprehensive understanding that is relevant to their auditee in accordance with the standards.
- 9.3 Auditors are reminded that this Revised Guide should be read with other pronouncements issued by the IRBA.

ABBREVIATIONS AND TERMS

AGSA	Auditor-General of South Africa
AOPO	Audit of reported performance information
APP	Annual Performance Plan
ASB	Accounting Standards Board
CoGTA	Department of Cooperative Governance and Traditional Affairs
CPO	Chief Procurement Officer
DCoG	Department of Cooperative Governance
DHET	Department of Higher Education and Training
DMA	District management area
DoRA	Division of Revenue Act
DPME	Department of Planning, Monitoring and Evaluation
Firm	A firm of registered auditors engaged in public practice as registered auditors
GRAP	Generally Recognised Accounting Practice
IAASB	International Auditing and Assurance Standards Board
IDP	Integrated Development Plan
INTOSAI	International Organization of Supreme Audit Institutions
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	Municipal Finance Management Act
MPAC	Municipal Public Accounts Committee
MPL	Member of the provincial legislature
MSA	Municipal Systems Act
NA	National Assembly
NCOP	National Council of Provinces
NRF	National Revenue Fund
NT	National Treasury

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OAG	Office of the Accountant-General
PAA	Public Audit Act
PFMA	Public Finance Management Act
PPAC	Provincial Public Accounts Committee
SAAPS	South African Auditing Practice Statements
SAI	Supreme audit institution
SCOAG	Standing Committee on the Auditor-General
SCOPA	Standing Committee on Public Accounts
SDBIP	Service Delivery and Budget Implementation Plan
TVET	Technical and vocational education and training