

## Public Sector Audit Committees - role in the external audit

Public sector audit committees are responsible for governance oversight at the organisation that they serve within the national, provincial and local government. This involves a responsibility to oversee all assurance providers in terms of the Combined Assurance Framework and model ensuring that it is optimally implemented.

The Auditor-General South Africa (AGSA) is the supreme audit institution of South Africa and is responsible, in terms of the Constitution, to express an opinion on the financial statements, report on the performance report of public institution against their objectives and report any material non-compliance with laws and regulations according to the mandate provided by Public Audit Act, 2004 (Act N. 25 of 2004 as amended by Public Audit Act No.5 of 2018) (PAA). Most audits conducted in the public sector are performed by the AGSA.

One of the important relationships to be formed by the audit committee (AC) is with the external auditors. This relationship will enable the AC to gain insight into the audit process. This is a symbiotic relationship, where on one hand, input is obtained from the AC and on the other, the AC is evaluated by the auditors.

On the one hand there is the presentation of the engagement letter which sets out the details of how the audit will be conducted. In the public sector this often includes additional focus areas and responsibilities other than those normally covered in a private sector audit. Another aspect is the audit strategy which is presented to the AC prior to the commencement of the audit with the objective of obtaining insight on the assessment of significant risks ensuring that they are adequately addressed during the audit.

On the other hand, an important aspect of this relationship is the evaluation by the external auditors, of the assurance provided by the AC, amongst other assurance providers, in ensuring that internal control processes adequately address risks. This assessment is presented in the published annual audit outcomes report for the PFMA and MFMA cycles.

This creates an interesting dynamic to the relationship between these two critical role players which must be carefully managed in order that neither role is negatively impacted. This can be achieved in several ways:

1. Public Sector Audit Committee Forum (PSACF) guidance
  - The PSACF has published *The role of audit committees in relation to the external and internal audit process* paper that provides guidance to AC members in their role, especially with added audit focus in the public sector, helping to navigate the issues that the AC faces in the external audit process”.
2. The appointment of external auditors
  - Section 4(3) of the PPA allows at AGSA the discretion to opt out of auditing certain public institutions. Where the AGSA has exercised this discretion, it is the responsibility of the AC to appoint the auditor and the AGSA must concur with the appointment.
  - It is important to note that as with any service provider in the public sector, the procurement processes of the entity should be followed with regards to the appointment of the auditor. The engagement letter covering the terms and conditions of the audit engagement is agreed between the external auditors and management. It will also contain the legislated dates that the auditor’s report should be issued, and specific

focus areas determined by the AGSA, which may also be contained in the Directive issued by the AGSA on an annual basis.

### 3. Audit engagement performance and conclusion

- An audit strategy which contains further information on the following, will be developed:
  - Assessment of the significant risks raised by the auditors which should correspond with those observed by the AC during the period.
  - Understanding of any potential material irregularities that the AGSA has raised in the prior and current audit period. The amount of reliance on work performed by other assurance providers including use of work by the internal audit.
- During the performance of the audit, the AC's role should be one of oversight to ensure that there is progressing in terms of the agreed timelines. In addition, the AC's role includes:
  - Performing a high-level review of the financial statements and performance reports to be submitted for audit, including obtaining assurance from internal audit or other assurance providers that the financial statements and performance report have been prepared in accordance with the applicable frameworks and agree to the underlying schedules as prepared by management.
  - Engaging with management and the auditors to ensure that the documentation and explanations required by the auditors are being submitted in a timely manner.
  - Availing themselves to management and the auditors to resolve any disagreements or disputes, where required.
- Once the audit is concluded, the audit outcomes are communicated to management through the management and audit reports. At this stage of the audit, the AC should:
  - Thoroughly review the management and audit report, focusing on areas of disagreement between the auditors and management, limitations placed on the audit, findings that are impacting the auditor's report and risks areas.
  - Discuss the findings with management and the auditors to identify the root causes and the remedies for compilation of the audit action plan.
  - Assist management, where necessary, on management representations, subsequent events matters and going concern issues.
  - Assess the findings from previous years as well as from other assurance providers for consistency and potential remedies.
  - Review the correspondence with respect to any material irregularities that have been raised and advise the accounting officer/ authority on the actions to be taken.

Comment on its evaluation of the controls, the financial statements and the performance report in the *Audit Committee Report* included in the annual report

The *Audit Committee Report* plays a critical role in informing the view of users on the financial performance reporting of the public institutions and their general states of internal control in place. It is of importance that the various stakeholders in the oversight and assurance process play their roles and hold each other accountable. The AGSA and the AC have a critical role to play in the public institutions to ensure that the services are delivered according to their stated mandates.