

GOVERNMENT NOTICES • GOEWERMENTSKENNISGEWINGS

AUDITOR-GENERAL OF SOUTH AFRICA

NO. 1580

23 DECEMBER 2016

DIRECTIVE ISSUED IN TERMS OF THE PUBLIC AUDIT ACT, 2004

Under the powers vested in me by section 13(3)(b) of the Public Audit Act, 2004 (Act No. 25 of 2004) (hereafter referred to as the PAA), I, Thembekile Kimi Makwetu, Auditor-General of the Republic of South Africa (hereafter referred to as the AGSA), hereby issue the following directive.

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AUDIT FUNCTIONS PERFORMED IN TERMS OF THE PAA

ANNUAL AUDIT

1. Financial and performance management and compliance with legislation are audited as part of the annual audit process. The auditor's report reflects an opinion or material findings on the following:
 - Financial information, through the auditor's opinion on the financial statements or similar financial reporting.
 - Reported information on performance against predetermined objectives, if applicable.
 - Compliance with applicable legislation relating to financial matters, financial management and other related matters.
 - Internal control deficiencies that resulted in:
 - qualifications of the opinion on the financial statements
 - findings on the reported information on performance against predetermined objectives
 - findings on compliance with legislation.

AUDITING STANDARDS AS WELL AS THE NATURE AND SCOPE OF AUDITS – SECTION 13(1)(a) AND (b) OF THE PAA

Auditing standards

2. Collectively, the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements issued by the International Auditing and Assurance Standards Board (IAASB)¹ of the International Federation of Accountants (IFAC), as well as the *Code of ethics for professional accountants* issued by IFAC's International Ethics Standards Board for Accountants (IESBA)² are applied in the audits.
3. In addition, relevant principles contained in the International Standards of Supreme Audit Institutions (ISSAIs) published by the International Organization of Supreme Audit Institutions (INTOSAI)³ are applied.

Audit of financial statements or similar financial reporting – section 20(2)(a) of the PAA

4. In terms of section 20(2)(a) of the PAA, the auditor's report must reflect whether the annual financial statements fairly present, in all material respects, the financial position and results of operations and cash flow in accordance with the applicable financial reporting framework and legislation. This assurance is provided in the auditor's report.
5. The audit is performed in accordance with the International Standards on Auditing (ISAs).

¹ <http://www.ifac.org/IAASB>

² <https://www.ifac.org/ethics>

³ <http://www.intosai.org> and <http://www.issai.org>

Audit of compliance with applicable legislation relating to financial matters, financial management and other related matters – sections 20(2)(b) and 28(1)(b) of the PAA

6. In terms of sections 20(2)(b) and 28(1)(b) of the PAA, the auditor's report must reflect an opinion or conclusion on the auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters. Currently, the auditor's report only reflects material findings on non-compliance identified.
7. The audit of compliance with legislation is performed in accordance with principles in the applicable ISSAIs and the International Standard on Assurance Engagements (ISAE) 3000, *Assurance engagements other than audits or reviews of historical financial information*.
8. The determination of compliance subject matters to be included in the scope of the compliance audit is undertaken on an annual basis as follows:
 - Predetermined at AGSA level for each category of auditee.
 - Further refinement at engagement level taking into account the specific circumstances of the auditee, including the nature and extent of its business and operations, and the impact of specific actions, transactions or events.
9. The AGSA applies the following scoping criteria in selecting the subject matters for the audit of compliance:
 - Specific areas of relevance to intended users; matters of significant national, community or public interest – as identified through consultation with internal and external parties.
 - Government priorities in all three spheres of government – as communicated in the state of the nation address, the national budget speech, the Medium Term Strategic Framework or other similar documents.
 - Results of previous assurance engagements (i.e. past experience) and how this may affect intended users' expectations about compliance, including improvement.
 - Enhancement of effective legislative oversight; enhancement of transparency, accountability and good governance; focus on continuous improvement and public confidence.
10. The auditor's report reflects material findings on compliance with relevant legislation in respect of the following subject matters, selected in accordance with the criteria in paragraph 9:
 - Strategic planning and performance management
 - Budgets
 - Financial statements, performance reports and annual reports
 - Procurement and contract management – including procurement and contract management functions performed on behalf of another organ of state (e.g. as procurement or implementing agents)
 - Human resource management and compensation
 - Expenditure management
 - Transfer of funds
 - Utilisation of conditional grants
 - Revenue management
 - Asset management
 - Liability management

- Consequence management
11. Annexure A contains details on the applicability of the subject matters to the different categories of auditees.
 12. The criteria used to evaluate the above subject matters are derived from the applicable legislation, with specific focus on the following:
 - Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and regulations and instructions issued in terms of the act
 - Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and regulations issued in terms of the act
 - Financial Management of Parliament and Provincial Legislatures Act, 2009 (Act No. 10 of 2009) (FMPPLA) and regulations issued in terms of the act
 - Division of Revenue Act (DoRA)
 - Appropriation Act
 - Municipal Structures Act, 1998 (Act No. 117 of 1998) and regulations and instructions issued in terms of the act
 - Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and regulations and instructions issued in terms of the act
 - Municipal Property Rates Act, 2004 (Act No. 6 of 2004) and regulations and instructions issued in terms of the act
 - Companies Act, 2008 (Act No. 71 of 2008) and regulations and instructions issued in terms of the act
 - Public Service Act, 1994 (Act No. 103 of 1994) and regulations issued in terms of the act
 - Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and regulations and instructions issued in terms of the act
 - Construction Industry Development Board Act, 2000 (Act No. 38 of 2000) and regulations issued in terms of the act
 - State Information Technology Agency Act, 1998 (Act No. 88 of 1998) and regulations issued in terms of the act
 - Prevention and Combating of Corrupt Activities Act, 2004 (Act No. 12 of 2004)
 - Auditee-specific enabling legislation

Audit of reported information on performance against predetermined objectives – sections 20(2)(c) and 28(1)(c) of the PAA

13. In terms of sections 20(2)(c) and 28(1)(c) of the PAA, the auditor's report must reflect an opinion or conclusion on the auditee's reported information on performance against predetermined objectives. Assurance in the form of an audit conclusion on the usefulness and reliability of the reported information on performance against predetermined objectives is currently included in the report to management, with material findings being reported in the auditor's report.
14. Material findings on the usefulness of the information reported by universities will only be included in the management report and not in the auditor's report.
15. The level of assurance provided may be reasonable or limited as predetermined by the AGSA based on the following:

- The importance of the auditee
 - The size and nature of the auditee's business
16. The audit of reported information on performance against predetermined objectives is performed in accordance with ISAE 3000 and the criteria developed from the Performance Management and Reporting Framework (PMRF), consisting of the following:
- Legislation applicable to performance planning, management and reporting, which includes the following:
 - PFMA
 - Treasury Regulations (TR), 2005, issued in terms of the PFMA
 - National Treasury (NT) Practice Note 4 of 2009/10
 - Public Service Regulations, 2001, issued in terms of the Public Service Act, 1994 (Act No.103 of 1994)
 - MFMA
 - MSA
 - Regulations for Planning and Performance Management, 2001, issued in terms of the MSA
 - Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006, issued in terms of the MSA
 - FMPPLA
 - Framework for the Managing of Programme Performance Information (FMPPI), issued by the NT. This framework is applicable to all spheres of government.
 - Framework for Strategic Plans and Annual Performance Plans (FSAPP), issued by the NT. This framework is applicable to all national and provincial departments, constitutional institutions and those public entities listed in parts A and C of schedule 3 of the PFMA.
 - Circulars and guidance issued by the NT and the Department of Planning, Monitoring and Evaluation regarding the planning, management, monitoring and reporting of performance against predetermined objectives.
17. The criteria applicable to the different categories of auditees, as derived from the PMRF, are detailed in annexure B.
18. The AGSA applies the following scoping criteria in selecting the subject matters (programmes / objectives / development priorities) for the audit:
- Qualitative and quantitative considerations such as the following considered individually and in combination:
 - Subject matters that are a requirement of a law, regulation or sector determination.
 - Subject matters that relate to the primary functions or purposes of the entity; i.e. its reason for being.
 - Subject matters that could be of significant national, community or public interest.
 - Subject matters that relate to outputs of significant importance to the public, such as those with an impact on public health, safety as well as social, economic or environmental well-being.

- Any individual subject matter with a budgeted or actual expenditure or revenue amount constituting 30% or more of the total budgeted or actual expenditure or revenue amount.

Internal control deficiencies, as indicated by the reference to financial management in section 4(1) and (3) of the PAA

19. In terms of section 4(1) and (3) of the PAA, financial management must be audited and reported on. Deficiencies in internal control that resulted in the qualification of the opinion on the financial statements and in material findings on the reported information on performance against predetermined objectives and compliance with legislation are included in the auditor's report.
20. The criteria used to evaluate internal control are set out in annexure C.

Focus areas – section 13(1)(b) of the PAA

21. Additional specific audit focus areas are identified based on an annual risk assessment and are included in the AGSA's *R3: Reporting guide*. Significant findings arising from the audits are included in the reports to management and in the AGSA's general reports.

Discretionary engagements – section 5(1)(a) and (d) of the PAA

22. The AGSA may, at its discretion, perform audit-related services and special audits, including performance audits, investigations and other defined types of engagements. In addition to the International Standard on Quality Control (ISQC) 1, *Quality control for firms that perform audits and reviews of financial statements, and other assurance and related services engagements*, the following standards guide these audits:
 - Performance audits
These audits are conducted in accordance with ISSAI 300, *Fundamental principles of performance auditing* and the *Performance audit manual* developed by the AGSA.
 - Investigations
Investigations are conducted in accordance with *Standards and guidelines: Investigations* developed by the AGSA.
 - Other defined engagements
These audits are conducted in accordance with ISA 805, *Audits of single financial statements and specific elements, accounts or items of a financial statement*, ISAE 3000, *Assurance engagements other than audits or reviews of financial information* or International Standard on Related Services (ISRS) 4400, *Engagements to perform agreed-upon procedures regarding financial information*, as appropriate.

Complaints against the AGSA - section 13(1)(c) of the PAA

23. The AGSA's complaints mechanism in terms of section 13(1)(c) of the PAA accommodates complaints pertaining to the following:
 - The exercising of powers, the performance of duties and the administration of the AGSA pertaining to the performance of audits and any other functions in terms of section 11 of the PAA.

- Work performed during an audit by the AGSA, authorised auditors and other personnel where it is alleged that such work does not meet professional standards and regulatory and legal requirements.
- Complaints of non-compliance by the AGSA, authorised auditors and other personnel with the AGSA's internal system of quality control.
- Complaints pertaining to the auditor-general as a person.

24. Complaints against the AGSA should be addressed in writing to the:

Complaints manager, Auditor-General of South Africa

Physical address: 300 Middel Street, New Muckleneuk, Pretoria

Postal address: PO Box 446, Pretoria, 0001

Email: ethics@agsa.co.za

AUDITS OF PUBLIC ENTITIES AND OTHER INSTITUTIONS NOT PERFORMED BY THE AGSA – SECTION 4(3) OF THE PAA

Audits that the AGSA has opted not to perform – section 25(1)(a) of the PAA

25. 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.
26. In terms of section 25(1)(a) of the PAA, the AGSA opts not to perform the audits of any auditees referred to in section 4(3) of the PAA, which are not already being audited by the AGSA for the 2016-17 and following financial years, unless the auditee is advised otherwise before the start of its financial year.

Appointment of registered auditors – section 25(1)(b), (2), (3) and (4) of the PAA

27. An auditee should proceed to appoint an audit firm registered with the Independent Regulatory Board for Auditors (IRBA) as stipulated by section 25(1)(b), read with section 25(4), of the PAA, if not advised before the start of the financial year that the AGSA will perform the audit.
28. Before appointing the auditor, the auditee must, in terms of section 25(2) of the PAA, notify the AGSA via email to section4@agsa.co.za of the suggested appointment, including information on the extent of other services that will be provided during the period of the appointment. In this regard, the document entitled *Consultation with the Auditor-General of South Africa on the appointment or discharge of the registered auditor*, attached as annexure D, must be completed and the required supporting documentation supplied. The AGSA may consult with the responsible executive authority on the appointment of the audit firm.
29. If the AGSA, within 14 days of receiving a notice by the auditee of the suggested appointment of an auditor, or such longer period as may be agreed to, rejects the auditee's appointment, the auditee must in terms of section 25(3) of the PAA recommence the process to appoint another person as its auditor.

30. If an audit firm is contracted by the auditee for a period longer than one financial year, the appointment must be reaffirmed with the AGSA for each financial year in terms of section 25(4) of the PAA.
31. The auditee may not appoint alternative auditors if the AGSA has opted to perform the audit or if auditee-specific legislation prescribes that the audit should be conducted by the AGSA.

Discharge of registered auditors – section 26 of the PAA

32. In terms of section 26(1) of the PAA, an auditee may discharge an auditor before the term of appointment expires with the consent of the AGSA and the relevant executive authority, where applicable.
33. Before discharging the auditor, the auditee must provide the auditor with:
 - a written notice setting out the reasons for the discharge
 - an opportunity to make written representations to the AGSA within 20 days of receipt of the notice.
34. The auditee must at the same time notify the AGSA of its intention to discharge the appointed auditor by completing the document entitled *Consultation with the Auditor-General of South Africa on the appointment or discharge of the registered auditor*, attached as annexure E, and submit it via email to section4@agsa.co.za.
35. The AGSA will consider the document and communicate its consent or otherwise to the auditee. The AGSA may consult with the relevant executive authority on this matter.
36. The AGSA will report any discharge of an audit firm to the relevant legislature.

Responsibilities of registered auditors – part 2 of chapter 3 of the PAA

37. When auditing in the public sector, the auditor must do so in accordance with the requirements, duties and responsibilities as legislated and assigned to him/her in part 2 of chapter 3 of the PAA. The auditor must take cognisance of the content of the PAA and must adhere to the following requirements when auditing auditees where the AGSA has opted not to perform the audit:
 - Appointment of auditors – section 25 of the PAA
 - Discharge of auditors – section 26 of the PAA
 - Duties and powers of auditors – section 27 of the PAA
 - The format and content of the auditor's report, as set out in the AGSA's *R3: Reporting guide* and any other guidance that may be published by the AGSA from time to time to conduct audits in the public sector– section 28(1) and (2) of the PAA
 - Submission of the auditor's report to the AGSA – section 28(3)(c) of the PAA
 - The requirements of this notice, as applicable
38. To assist auditors in conducting audits in the public sector, they should consider the following documents made available by IRBA that provide a perspective on auditing in the public sector:
 - *A guide for registered auditors: Auditing in the public sector*
 - *A guide for registered auditors: Audit of predetermined objectives*
 - *Guide for registered auditors: Guidance on performing audits on behalf of the AGSA*

- *Guide for registered auditors: Guidance on performing audits where the AGSA has opted not to perform the audit*
- South African Auditing Practice Statement (SAAPS) 2, *Financial reporting frameworks and the auditor's report*
- SAAPS 3, *Illustrative reports*

Reference may also be made to the AGSA's website⁴ for additional information.

39. The AGSA monitors compliance with the provisions of the PAA and this notice in conducting an audit in terms of section 25(1)(b) of the PAA. In this regard, the appointed auditor must complete the document entitled *Monitoring checklist for audits not conducted by the AGSA*, attached as annexure E.

Request for information – sections 27(5) and 28(3)(c) of the PAA

40. The AGSA interacts proactively with executive authorities 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 enhance effective public governance.
41. The audit firm may be invited to such meetings. In terms of section 27(5) of the PAA, the AGSA may further request the audit firm to submit any information regarding the audit relevant to such meetings, including the auditor's communications with those charged with governance. The invitation to meetings and/or request for information will be communicated by the contact person at the AGSA business unit responsible for the audit of the controlling department to which the auditee reports.
42. Due to the role of the AGSA in establishing the duties and powers of appointed auditors in the public sector, the AGSA may, in addition to the above, request to attend meetings with those charged with governance of the auditee.
43. In terms of the requirements of section 28(3)(c) of the PAA, read with section 55(1)(d) of the PFMA, and in order to facilitate reporting on the full ministerial portfolio and reporting and analysis in the AGSA's general reports, the audit firm must furnish the responsible contact person, either in hard copy or electronically, with the following as soon as the annual report has been finalised but not later than five months after the financial year-end or as otherwise agreed with the responsible contact person:
- A copy of the auditor's report, together with a copy of the audited financial statements of the auditee
 - Three copies of the auditee's annual report
 - The completed monitoring checklist (annexure E)

Complaints against registered auditors

44. Should a registered auditor appointed in terms of section 25(1)(b) of the PAA be found to be in contravention of the requirements in this notice or any provision of the PAA, the Auditing Profession Act, 2005 (Act No. 26 of 2005) (APA) or any act with which it is his/her duty to comply in his/her capacity as a registered auditor, the AGSA may lodge a complaint of improper conduct against such auditor with IRBA.
45. In addition, a complaint of improper conduct may be lodged with IRBA against a registered auditor appointed in terms of section 25(1)(b) of the PAA if it comes to the attention of the AGSA that the auditor has conducted himself/herself in a manner that is

⁴ <http://www.agsa.co.za>

improper, discreditable, unprofessional, dishonourable or unworthy or which brings the accounting profession into disrepute.

AUDITEES FOR WHICH LEGISLATION IS NOT PRESCRIPTIVE IN RESPECT OF THE FINANCIAL STATEMENTS – SECTION 14(2)(b) OF THE PAA

46. The financial statements of an auditee, as defined in section 1(1) of the PAA, that are not subject to the PFMA, the MFMA or any other legislation that is prescriptive in respect of the financial statements, must:
- be prepared in accordance with the Generally Recognised Accounting Practice (GRAP) reporting framework issued by the Accounting Standards Board (ASB)⁵
 - comply with the PFMA requirements applicable to entities as they pertain to the information to be contained in the financial statements, as well as the period within which the financial statements are to be submitted for auditing.
47. The above requirement regarding the application of the GRAP reporting framework is not applicable where the auditee is not required to prepare full financial statements comprising a statement of financial position, a statement of financial performance, a statement of changes in net assets, a cash flow statement and notes, including a summary of significant accounting policies and other explanatory notes.
48. Where an entity is not listed in the PFMA, even though they appear to comply with the criteria of a public entity, they should comply with the above paragraphs.

TIMING AND SUBMISSION OF INFORMATION FOR AUDIT PURPOSES – SECTION 15(2)(b) OF THE PAA

49. In compliance with applicable legislated submission, auditing and tabling deadlines in the PFMA and the MFMA, as well as to allow adequate time for conducting the audit in accordance with the relevant auditing standards, auditees must adhere to the following:
- The annual performance reports must be submitted not later than the legislated submission date for the financial statements.
 - The trial balance and general ledger that agree to the financial statements, together with the supporting asset register, inventory register and subsidiary ledgers for receivables and payables, must be submitted together with the financial statements. All information in support of disclosures in the financial statements not included in the general and subsidiary ledgers must also be submitted concurrently with the financial statements.
 - All documentation and information in support of the financial statements, reported performance against predetermined objectives and compliance with legislation must be available on request and be retrievable within a reasonable time, as agreed per the engagement letter. If this information is not provided in the time agreed, it will be regarded as a limitation on the audit, which could result in a modification of the audit opinion.
 - As agreed in the audit engagement letter, the other financial and non-financial information to be included in the annual report should be made available on or before the date contained therein. If this other information is not provided before the date of the auditor's report, management will be requested to provide written representation that the information will be provided as soon as possible and before the annual report is published. The fact that the other information is not provided before the date of the auditor's report does not prevent the auditor from issuing the

⁵ <http://www.asb.co.za>

auditor's report, but the other information will be read and considered when it becomes available, which may require amendments to the auditor's report if inconsistencies are identified.

- The withdrawal and re-submission of financial statements and performance reports submitted for auditing are not permitted; the financial statements and performance reports may only be adjusted for matters identified during the audit.

ASSESSMENT AND RECOGNITION OF THE FINANCIAL REPORTING FRAMEWORKS APPLICABLE IN THE PUBLIC SECTOR – SECTION 20(2)(a) OF THE PAA

50. The applicable financial reporting framework provides the criteria against which the auditor audits the financial statements. As one of the preconditions for an audit, the auditor is required to determine whether the financial reporting framework applied in preparing the financial statements is acceptable. This is done by considering the requirements of the ISAs and the guidance set out in SAAPS 2, *Financial reporting frameworks and the auditor's report*. The following financial reporting frameworks are recognised in the public sector and are considered fair presentation frameworks:
- International Financial Reporting Standards (IFRS)
 - South African Statements of Generally Accepted Accounting Practice (SA GAAP), until such time as they are withdrawn from application in the public sector by the ASB
 - Standards of GRAP
 - Modified Cash Standard (MCS) prescribed by the NT
51. Departures or exemptions from the applicable financial reporting framework are granted in terms of sections 79 and 92 of the PFMA, respectively, and sections 170 and 177 of the MFMA, respectively.
52. Should an auditee be granted a departure or exemption from the applicable financial reporting framework in accordance with the requirements of the PFMA or the MFMA, additional disclosure of the nature and reasons for, the period of, and the items affected by, the departure or exemption from the applicable financial reporting framework is required in the financial statements to mitigate any possible misunderstanding by the users of the financial statements.
53. The departure or exemption may affect the acceptability of the financial reporting framework and, as a consequence, the wording of the audit opinion. This is assessed on a case-by-case basis in terms of the ISAs.

REPEAL OF PREVIOUS GOVERNMENT GAZETTES

54. General Notice 574, issued in Government Gazette No. 40021 of 27 May 2016, is hereby withdrawn and replaced by the requirements as set out in this notice.

EFFECTIVE DATE

55. This notice is effective for financial periods beginning on or after 1 April 2016 and is applicable until further notice. A similar notice will not necessarily be issued annually.

ENQUIRIES

56. Any enquiry related to this notice should be addressed to the following office:

Business executive: Audit Research and Development, Auditor-General of South Africa

Telephone: 012 426 8000

Fax: 012 426 8333

Email: ARDsupport@agsa.co.za

Signed and approved:

TK Makwetu

Auditor-General

ANNEXURE A: APPLICABILITY OF COMPLIANCE SUBJECT MATTERS TO DIFFERENT CATEGORIES OF AUDITEES

SUBJECT MATTER	OBJECTIVE	APPLICABLE TO							
		(General applicability rule: compliance audits do not apply to dormant entities) (All references to materiality include both quantitative and qualitative aspects)							
		Departments	Constitutional institutions	Trading entities	Public entities	Parliament & legislatures	Municipalities	Municipal entities	Higher learning institutions
Budgets	Budgets and budgetary processes that promote transparency, accountability and effective financial management of funds in the public sector.	Yes	N/A	Yes	Yes	Yes	Yes	Yes	Yes
Annual financial statements, performance reports and annual reports	Transparency and accountability through reporting on an annual basis on the state of affairs of the institution, its business, its financial results, its performance against predetermined objectives and its financial positions for the year.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Expenditure management	Management of expenditure to ensure that resources are used in an effective, efficient, economical and transparent manner and that all expenditure is necessary, appropriate and paid promptly and is adequately recorded and reported. Effective / reasonable measures to prevent unauthorised, irregular as well as fruitless and wasteful expenditure.	Yes	Yes	Yes	Yes – except if total expenditure is not material	Yes	Yes	Yes – except if total expenditure is not material	Yes
Revenue management	Effective and efficient revenue management that provides for the identification, collection, recording and reconciliation of revenue.	Yes – only departments that generated material revenue other than voted and donor funds	N/A	Yes – only entities that generated material revenue other than voted and donor funds	Yes – only public entities that generated material revenue	N/A	Yes – only municipalities that generated any revenue from municipal services	Yes – only municipal entities that generated any revenue from municipal services	Yes
Asset	Effective asset management,	N/A	N/A	N/A	Yes –	N/A	Yes	Yes –	Yes

SUBJECT MATTER	OBJECTIVE	APPLICABLE TO							
		(General applicability rule: compliance audits do not apply to dormant entities) (All references to materiality include both quantitative and qualitative aspects)							
		Departments	Constitutional institutions	Trading entities	Public entities	Parliament & legislatures	Municipalities	Municipal entities	Higher learning institutions
management	including the safeguarding and maintenance of assets to eliminate theft, losses, wastage and misuse and a management and accounting information system that accounts for the assets. The disposal of significant assets is properly dealt with in terms of applicable legislation.				except if it is a small auditee			except if it is a small auditee	
Liability management	Effective liability management, including an accounting information system that accounts for liabilities. The focus is on borrowings (long term and short term), credit cards, guarantees, indemnities and securities.	N/A	N/A	N/A	Yes – except if the entity has no liabilities	N/A	Yes – except if the municipality has no liabilities	Yes – except if the entity has no liabilities	N/A
Strategic planning and performance management	Strategic planning that identifies strategically important outcome-orientated goals and objectives against which the institution's medium-term results can be measured and evaluated. Effective system for performance planning, monitoring, measurement, review, reporting and improvement.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Procurement and contract management	Procurement of goods and services in accordance with a system that is fair, equitable, transparent, competitive and cost effective.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Human resource management	Effective human resource management to ensure that adequate and sufficiently skilled resources are in place.	N/A	N/A	N/A	N/A	N/A	Yes	Yes – unless if it is a small auditee	Yes
Transfer of funds	Transfers are made after ensuring that the entity has the capacity to comply with the agreement and has effective, efficient and transparent systems to manage	Yes – only departments that transferred funds to other institutions	N/A	N/A	N/A	Yes	Yes – only municipalities that transferred funds to other institutions	N/A	N/A

SUBJECT MATTER	OBJECTIVE	APPLICABLE TO							
		(General applicability rule: compliance audits do not apply to dormant entities) (All references to materiality include both quantitative and qualitative aspects)							
		Departments	Constitutional institutions	Trading entities	Public entities	Parliament & legislatures	Municipalities	Municipal entities	Higher learning institutions
	those funds.	(DoRA or non-DoRA transfers)							
Utilisation of conditional grants (DoRA)	Utilisation of grants in accordance with the conditions of the allocation.	Yes – only departments that received / utilised DoRA conditional grants	N/A	N/A	N/A	N/A	Yes – only municipalities that received DoRA conditional grants	N/A	N/A
Consequence management	Allegations of financial misconduct (including possible fraud and improper conduct relating to supply chain management); unauthorised, irregular as well as fruitless and wasteful expenditure; and other transgressions are investigated and appropriate action is taken based on the outcome of the investigation.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

ANNEXURE B: APPLICABILITY OF CRITERIA DEVELOPED FROM THE PERFORMANCE MANAGEMENT AND REPORTING FRAMEWORK TO DIFFERENT CATEGORIES OF AUDITEES

The criteria developed from the above framework are applicable to audits in all three spheres of government unless otherwise indicated.

CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY				
	Departments / constitutional institutions / trading entities	Public entities	Municipalities	Municipal entities	Parliament / provincial legislatures
Consistency: Objectives, performance measures / indicators and targets are consistent between planning and reporting documents					
1. Reported strategic or development objectives are consistent or complete when compared to planned objectives	Section 40(3)(a) of the PFMA TR 5.2.4	Section 55(2)(a) of the PFMA TR 28.2.2 TR 30.1.3(g)	Section 121(3)(f) of the MFMA Sections 41 (a) – (c) & 46 of the MSA	Section 121(4)(d) of the MFMA	Section 55(3)(d) of the FMPPLA
2. Changes to strategic or development objectives are approved	TR 5.1.1 Chapter 4.1 of the FSAPP	Applicable to schedule 3A & 3C public entities: TR 30.1.1 Chapter 4.1 of the FSAPP Applicable to schedule 2, 3B & 3D public entities: TR 29.1.1 TR 29.2	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA	Section 15(2)(b) of the FMPPLA
3. Reported measures or indicators are consistent or complete when compared to planned measures or indicators	Section 40(3)(a) of the PFMA TR 5.2.4	Section 55(2)(a) of the PFMA TR 28.2.2 TR 30.1.3(g)	Section 121(3)(f) of the MFMA Sections 41 (a) – (c) & 46 of the MSA	Section 121(4)(d) of the MFMA	Section 55(3)(d) of the FMPPLA
4. Changes to measures or indicators are approved	TR 5.1.1	TR 30.1.1	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA	Section 15(2)(b) of the FMPPLA
5. Reported targets are consistent or complete when compared to planned targets	Section 40(3)(a) of the PFMA TR 5.2.4	Section 55(2)(a) of the PFMA TR 28.2.2 TR 30.1.3(g)	Section 121(3)(f) of the MFMA Sections 41 (a) – (c) & 46 of the MSA	Section 121(4)(d) of the MFMA	Section 55(3) of the FMPPLA
6. Changes to targets are approved	TR 5.1.1	TR 30.1.1	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA	Section 15(2)(b) of the FMPPLA

CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY				
	Departments / constitutional institutions / trading entities	Public entities	Municipalities	Municipal entities	Parliament / provincial legislatures
Measurability: Performance measures / indicators are well defined and verifiable, and targets are specific, measurable and time bound					
1. A performance measure or indicator is well defined when it has a clear definition so that data will be collected consistently and is easy to understand and use	Chapter 3.2 of the FMPPi issued by the NT				
2. A performance measure / indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator	Chapter 3.2 of the FMPPi issued by the NT				
3. A target is specific when the nature and the required level of performance of the target are clearly identifiable	Chapter 3.2 of the FMPPi issued by the NT				
4. A target is measurable when the required performance can be measured	Chapter 3.2 of the FMPPi issued by the NT				
5. A target is time bound when the time frames for the achievement of the target are indicated	Chapter 3.2 of the FMPPi issued by the NT				
Relevance: Performance measures / indicators relate logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives					
1. The performance measure / indicator and target relate logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives	Chapters 3.2 and 4 of the FMPPi issued by the NT				
Presentation and disclosure: Performance information in the annual performance report is presented and disclosed in accordance with the requirements contained in legislation, frameworks, circulars and guidance					
1. Reasons for variances between planned and actual performance are disclosed	The NT's annual report guide for the presentation of the annual report	Applicable to schedule 3A & 3C public entities: The NT's annual report guide for the presentation of the annual report	Criteria not applicable	Criteria not applicable	Criteria not applicable
2. Reasons for variances are supported by corroborating source	The NT's annual report guide for the	Applicable to schedule 3A & 3C public entities:	Criteria not applicable	Criteria not applicable	Criteria not applicable

CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY				
	Departments / constitutional institutions / trading entities	Public entities	Municipalities	Municipal entities	Parliament / provincial legislatures
documentation	presentation of the annual report Chapter 5 of the FMPPI issued by the NT	The NT's annual report guide for the presentation of the annual report Chapter 5 of the FMPPI issued by the NT			
Reliability: Recording, measuring, collating, preparing and presenting information on actual performance / target achievements that is valid, accurate and complete					
1. Reported performance occurred and pertains to the reporting entity	Section 40(3)(a) of the PFMA Chapter 5 of the FMPPI issued by the NT	Section 55(2)(a) of the PFMA Chapter 5 of the FMPPI issued by the NT	Section 45 of the MSA Chapter 5 of the FMPPI issued by the NT	Section 45 of the MSA Chapter 5 of the FMPPI issued by the NT	Section 55 of the FMPPLA Chapter 5 of the FMPPI issued by the NT
2. Reported performance is recorded and reported accurately					
3. All actual performance is recorded and included in the reported performance information					

ANNEXURE C: CRITERIA USED TO EVALUATE INTERNAL CONTROL**LEADERSHIP**

- Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the auditee.
- Exercise oversight responsibility regarding financial and performance reporting, compliance and related internal controls.
- Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.
- Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.
- Develop and monitor the implementation of action plans to address internal control deficiencies.
- Establish an information technology (IT) governance framework that supports and enables the business, delivers value and improves performance.

FINANCIAL AND PERFORMANCE MANAGEMENT

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Implement controls over daily and monthly processing and reconciling of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Review and monitor compliance with applicable legislation.
- Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

GOVERNANCE

- Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
- Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.
- Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation.

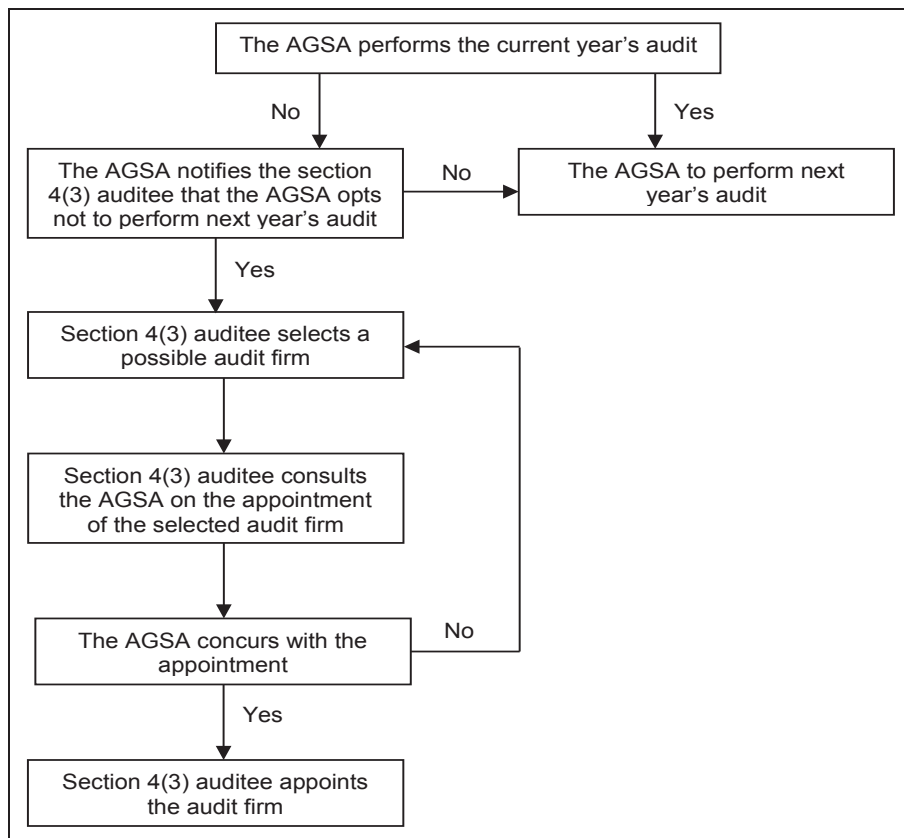
ANNEXURE D: CONSULTATION WITH THE AUDITOR-GENERAL OF SOUTH AFRICA ON THE APPOINTMENT OR DISCHARGE OF THE REGISTERED AUDITOR IN TERMS OF SECTIONS 25 AND 26 OF THE PUBLIC AUDIT ACT

INSTRUCTIONS FOR COMPLETION

1. This checklist should be completed and submitted with supporting documentation to the AGSA business executive responsible for the audit of the controlling department to which the auditee reports.
2. The checklist should be accompanied by a copy of the auditee's policy on the appointment of auditors and the allocation of non-audit services to auditors.

PARTICULARS OF AUDITEE

Name		
Postal address		
Physical address		
Fax number		
Telephone number		
Email address of chief financial officer		
Accounting authority chairperson	Name	
	Contact details	
Responsible minister (executive authority)	Name	
	Contact details	
Responsible department		
Contact person at department		
Financial year in question		
PFMA schedule (2, 3A, 3B, 3C or 3D)		
Name of holding entity (if applicable)		

SCHEMATIC ILLUSTRATION OF THE AUDITOR APPOINTMENT PROCESS**APPOINTMENT OF NEW AUDITORS**

3. Name of the new audit firm:

Insert details

4. Contact details of engagement partner responsible for audit:

Insert details

5. Anticipated date of appointment:

Insert details

6. Nature of other services to be performed:

Insert details

7. Details of any prior involvement with the auditee, including the costs:

Insert details

8. Details of how the quality of the audit firm's work has been assessed, e.g. results of IRBA reviews; as well as confirmation from IRBA that the appointed audit firm is in good standing at IRBA and is registered to practise:

Insert details

9. Matters that may influence a decision regarding the independence, objectivity or perceived independence of the audit firm:

Insert details

10. Confirmation from the accounting authority / board that a procurement process was followed and no exceptions were noted:

Insert details

11. Costs of audit and non-audit services provided by the audit firm during the last three years:

Financial year			
Audit fees			
Fees for other services			
Total fees			
Non-audit fees as a percentage of total fees			
Nature of services performed			

REAPPOINTMENT OF AUDITORS

12. Name of audit firm to be reappointed:

Insert details

13. Contact details of engagement partner responsible for the audit:

Insert details

14. Financial year(s) previously appointed:

Insert details

15. Provide details of the audit committee's assessment of the effectiveness and efficiency of the performance of the external auditors, including IRBA review results:

Insert details

16. Provide details of significant disagreements between the external auditors and the accounting authority during the preceding financial year, if any:

Insert details

17. Indicate any matter that may influence a decision regarding the independence, objectivity or perceived independence of the auditors:

Insert details

18. Name of partner in charge of the audit for the last five years:

Year	Name of partner
1	
2	
3	
4	
5	

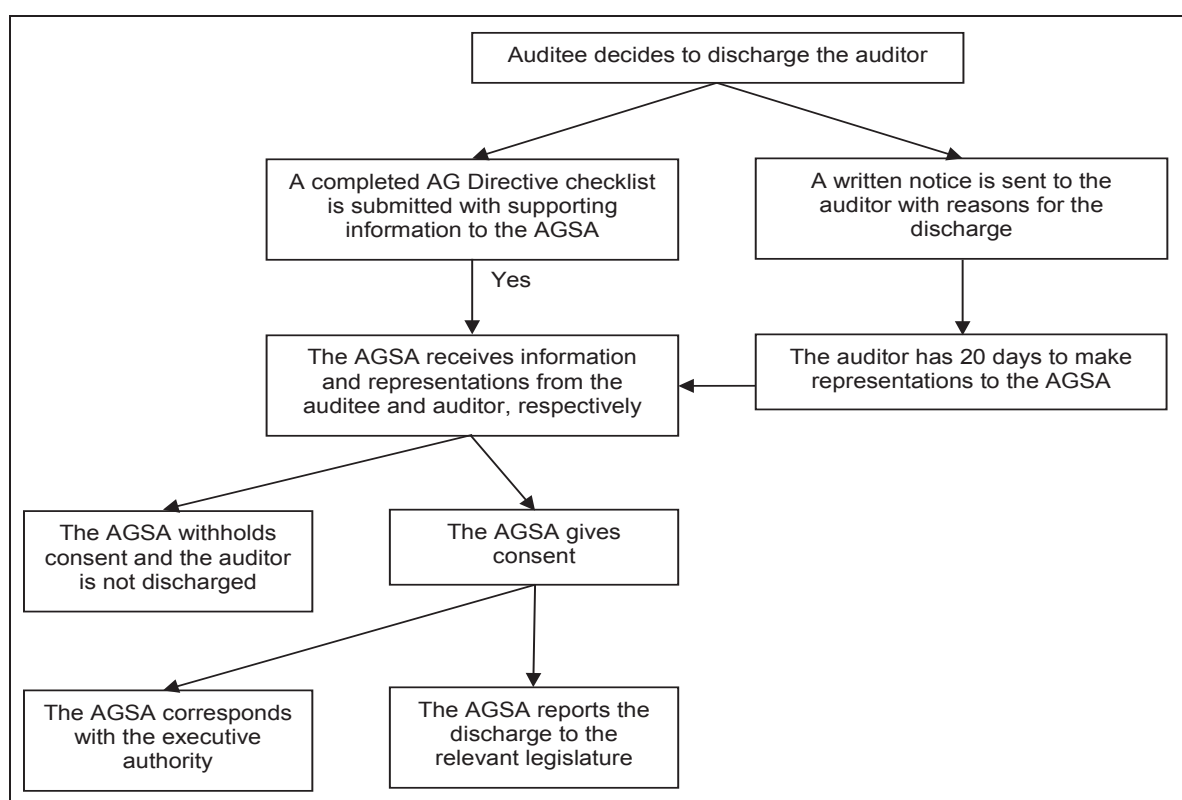
19. Name of senior audit manager in charge of the audit for the last five years:

Year	Name of senior audit manager
1	
2	
3	
4	
5	

20. Costs of audit and non-audit services provided by the audit firm during the last three years:

Financial year			
Audit fees			
Fees for other services			
Total fees			
Non-audit fees as a percentage of total fees			
Nature of services performed			

SCHEMATIC ILLUSTRATION OF THE AUDITOR DISCHARGE PROCESS



DISCHARGE OF AUDITOR

21. Name of the audit firm discharged:

Insert details

22. Number of years engaged on the audit to date:

Insert details

23. Costs of audit and non-audit services provided by the audit firm during the last three years:

Financial year			
Audit fees			
Fees for other services			
Total fees			
Non-audit fees as a percentage of total fees			
Nature of services performed			

24. Provide the notice to the auditor, giving the reasons for the impending discharge.

25. Provide written concurrence by the executive authority for the planned discharge.

Signature:

Completed by:

Name:

Designation:

Date:

ANNEXURE E: MONITORING CHECKLIST FOR AUDITS NOT CONDUCTED BY THE AUDITOR-GENERAL OF SOUTH AFRICA

INSTRUCTIONS

1. This checklist should be completed by the appointed audit firm for each audit it has conducted and should be submitted to the contact person at the AGSA business unit responsible for the audit of the controlling department to which the auditee reports within five months after the financial year-end, i.e. 31 August.

INFORMATION REQUIRED

Name of auditee	
Controlling department	
Type of auditee (schedule number)	
Holding company (if applicable)	
Subsidiaries (if applicable)	
Audit business unit	
Business executive	
Engagement firm	
Engagement firm's address	
Engagement firm's contact details	
Engagement partner	
Engagement partner's contact details	

No.	Requirements	Complied Yes / no* / not applicable	Remarks / comments
Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)			
1.	All the requirements of the PAA and this general notice were complied with		
2.	The auditor's report to the accounting authority was submitted within the time frame prescribed by the PFMA		
3.	A copy of the auditor's report, together with a copy of the financial statements, was submitted to the AGSA by 31 August		
4.	Three copies of the annual report were submitted to the AGSA by 31 August		

No.	Requirements	Complied Yes / no* / not applicable	Remarks / comments
Auditor's report			
5.	The auditor's report was addressed to the appropriate addressee as per the AGSA guidance		
6.	The auditor's report distinguished between the supplementary information that has not been audited and the financial statements that have been audited by indicating the page numbers relating to the financial statements		
7.	The auditor's report correctly referred to the accounting authority as the party responsible for the preparation of the financial statements or consolidated financial statements		
8.	The auditor's report made reference to the correct financial reporting framework for the type of auditee		
9.	<p>The auditor's report complied with the AG Directive and the <i>R3: Reporting guide</i> of the AGSA on the following matters to be included in the auditor's report:</p> <ul style="list-style-type: none"> Findings on performance against predetermined objectives Findings on compliance with applicable legislation A narrative discussion on the internal control deficiencies identified during the audit as they relate to the qualifications on the financial statements, as well as the findings on the reported information on performance against predetermined objectives and findings on compliance with applicable legislation Information on other engagements conducted by various parties that have or could potentially have an impact on the matters reported on the [type of auditee]'s financial-, performance- and compliance-related matters 		

No.	Requirements	Complied Yes / no* / not applicable	Remarks / comments
10.	Separate financial statements were prepared and audited for all subsidiaries		
* Where a 'no' answer is provided, comments must be included below.			

11. General comments by the appointed auditor:

Insert details

Signature:

**Completed by
engagement partner:**

Name:

Date:

CONCLUSION (to be completed by the audit business unit)

No.	Requirements	Complied Yes / no*	Remarks / comments
1.	Did the auditors and the auditee satisfy the requirements of sections 25 to 27 of the PAA, relating to the following:		
	• Appointment of auditors		
	• Discharge of auditors		
	• Duties and powers of auditors		
2.	Has the engagement firm satisfied the reporting requirements of the following:		
	• The PAA		
	• This general notice		
	• The AGSA's R3: Reporting guide		
* Where a 'no' answer is provided, comments must be included below.			

3. General comments:

Insert details

4. Recommended further action in terms of this notice:

Insert details

**Evaluated by
business executive /
senior manager:**

Signature: _____

Name: _____

Date: _____

ANNEXURE F: RELEVANT EXTRACTS FROM THE PUBLIC AUDIT ACT**2. Objects of this act**

The objects of this Act are -

- (b) to provide for the auditing of institutions and accounting entities in the public sector;

4. Constitutional functions

- (1) The Auditor-General must audit and report on the accounts, financial statements and financial management of -
 - (a) all national and provincial state departments and administrations;
 - (b) all constitutional institutions;
 - (c) the administration of Parliament and of each provincial legislature;
 - (d) all municipalities;
 - (e) all municipal entities; and
 - (f) any other institution or accounting entity required by other national or by provincial legislation to be audited by the Auditor-General.
- (2) The Auditor-General must audit and report on the consolidated financial statements of -
 - (a) the national government as required by section 8 of the PFMA;
 - (b) all provincial governments as required by section 19 of the PFMA; and
 - (c) a parent municipality and all municipal entities under its sole or effective control as required by section 122 (2) of the MFMA.
- (3) The Auditor-General may audit and report on the accounts, financial statements and financial management of -
 - (a) any public entity listed in the PFMA; and
 - (b) any other institution ... which is -
 - (i) funded from the National Revenue Fund or a Provincial Revenue Fund or by a municipality; or
 - (ii) authorised in terms of any legislation to receive money for a public purpose.

5. Other functions

- (1) The Auditor-General may, at a fee, and without compromising the role of the Auditor-General as an independent auditor, provide -
 - (a) audit-related services to an auditee ... or other body, which is commonly performed by a supreme audit institution on condition that -
 - (i) no services may be provided in respect of any matter that may subsequently have to be audited by the Auditor-General;
 - (ii) such service will not directly result in the formulation of policy; and

- (iii) there must be full and proper disclosure of (the categories of) such services (in the report annually submitted by the Auditor-General to the National Assembly).
 - (d) carry out an appropriate investigation or special audit of any institution ..., if the Auditor-General considers it to be in the public interest or upon the receipt of a complaint or request.
- (3) The Auditor-General may, in the public interest, report on any matter within the functions of the Auditor-General and submit such a report to the relevant legislature and to any other organ of state with a direct interest in the matter.

11. Application of this part

This part applies to all audits of auditees which the Auditor-General -

- (a) must perform in terms of section 4 (1) or (2); or
- (b) opts to perform in terms of section 4 (3).

13. Standards for audits

- (1) The Auditor-General, after consulting the oversight mechanism, must determine -
 - (a) the standards to be applied in performing audits ...
 - (b) the nature and scope of such audits; and
 - (c) procedures for the handling of complaints when performing such audits.
- (3) The Auditor-General may -
 - (a) make different determinations on the matters mentioned in subsection (1) for different categories of audits based on recognised best practice; or
 - (b) issue specific directives on those matters in any specific case.

14. Submission of financial statements

- (2) Financial statements submitted by an auditee which is not subject to the PFMA or the MFMA must be submitted within the period, be in a format, contain the information and otherwise comply with any requirements determined -
 - (a) by any legislation applicable to that auditee; or
 - (b) in the absence of such legislation, by the Auditor-General.

15. General auditing powers

- (2) The Auditor-General or an authorised auditor may for the purpose of an audit -
 - (b) direct a person to produce or to deliver at a specified place and time and in a specified format -
 - (i) any such document, book or written or electronic record or information ...

20. Audit reports

- (2) An audit report must reflect such opinions and statements as may be required by any legislation applicable to the auditee which is the subject of the audit, but must reflect at least an opinion or conclusion on -
 - (a) whether the annual financial statements of the auditee fairly present, in all material respects, the financial position at a specific date and results of its operations and cash flow for the period which ended on that date in accordance with the applicable financial framework and legislation;
 - (b) the auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters; and
 - (c) the reported information relating to the performance of the auditee against predetermined objectives.
- (3) In addition, the Auditor-General may report on whether the auditee's resources were procured economically and utilised efficiently and effectively.

25. Appointment of auditors

- (1) If the Auditor-General has opted not to perform the audit of an auditee ...
 - (a) the Auditor-General must give notice of his or her decision to that auditee before the start of the auditee's financial year for which the appointment is to be made; and
 - (b) the auditee must appoint as its auditor a person registered in terms of the Public Accountants' and Auditors' Act as an accountant and auditor and engaged in public practice as such.
- (2) Before appointing an auditor in terms of subsection (1), the auditee must give notice of the suggested appointment to the Auditor-General, including information on the extent to which the auditor would provide other services than audit services during the duration of the appointment, and any other information required by the Auditor-General.
- (3) If the Auditor-General, within 14 days of receiving a notice in terms of subsection (2) or such longer period as may be agreed to, rejects the auditee's appointment, the auditee must in terms of that subsection recommence the process to appoint another person as its auditor.
- (4) Appointments in terms of this section may not be for a longer period than one financial year of the auditee.

26. Discharge of auditors

- (1) An auditee ... may discharge an auditor ... before the expiry of that auditor's term of appointment, but only with the consent of the Auditor-General and, if that auditee has an executive authority within the meaning of the PFMA, also of the relevant executive authority.
- (2) If such an auditee intends discharging an auditor in terms of subsection (1), it must -
 - (a) give the auditor notice, in writing, setting out the reasons for the discharge; and
 - (b) give the auditor an opportunity to make representations, in writing, to the Auditor-General within 20 days of receipt of the notice.
- (3) The Auditor-General must report any discharge of an auditor in terms of subsection (1) to the relevant legislature.

27. Duties and powers of auditors

- (1) An auditor ... must perform the functions of office as auditor in terms of section 20 of the Public Accountants' and Auditors' Act.
- (2) In performing those functions as the auditor of an auditee, the auditor has the powers assigned to the Auditor-General in terms of section 15 (of the PAA).
- (3) An auditor may consult the Auditor-General or a person designated by the Auditor-General concerning any matter relating to the auditing of the auditee concerned.
- (4) An auditor -
 - (a) must be given notice of every meeting of the auditee's audit committee, if the auditee has such a committee; and
 - (b) may attend, and participate in, any meeting of such an audit committee at the expense of the auditee.
- (5) The Auditor-General or a person designated by the Auditor-General may request information regarding the audit from an auditor ...

28. Audit reports and other reports

- (1) The report of an auditor ... must reflect such opinions and statements as may be required by any legislation applicable to the auditee which is the subject of the audit, but must reflect at least an opinion or conclusion on -
 - (a) whether the financial statements of the auditee fairly present, in all material respects, the financial position at a specific date and results of its operations and cash flow for the period which ended on that date in accordance with the applicable financial framework and legislation;
 - (b) the auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters; and
 - (c) the reported information relating to the performance of the auditee against predetermined objectives.
- (3) The auditor must submit copies of the audit report referred to in subsection (1) -
 - (a) to the auditee;
 - (b) if the auditee has an executive authority within the meaning of the PFMA, to that executive authority for submission to the relevant legislature;
 - (c) to the Auditor-General; and
 - (d) to the National Treasury or the relevant provincial treasury, as may be appropriate.