REPORT ON STUDY VISIT TO REPUBLIC OF SOUTH AFRICA

January 28-30, 2014.

IA COP Executive Committee aimed to study public sector internal audit system in Republic of South Africa (RSA) which managed to establish a strong system different from those applied in EU countries. RSA has successfully advanced IA reforms in public sector and represents one of the world good practices; furthermore RSA has a modern PFM system that compares with most developed countries. The main goal of the study visit was to understand how this was made possible in a developing country.

The overall objective of the study visit was to examine how a specific aspect of the IA system has been successfully dealt with following topics:

➢ *public sector legislation for Internal Audit Activities (IIA);*
➢ *establishment of the Audit Committee (AC);*
➢ *establishment of IAA;*
➢ *nature of work;*
➢ *audit process;*
➢ *consulting activities;*
➢ *professional organisation of auditors and its role in strengthening capacity.*

In summary the expected outputs of study visit were achieved entirely:

➢ *to understand PIFC reform implementation process in South Africa;*
➢ *to receive knowledge of establishment Audit Committee;*
➢ *to get to know IA practical experience and good practices of RSA;*
➢ *to establish professional contacts with peers.*

The above mentioned objectives of the study visit were overmet because we observed a very good public, private and citizen partnership in strengthening accountability and good governance professional organisations, such as The Institute of Directors and IIASA.

This report and all presentations of the study visit are published on our wikispace: http://pempaltc.wikispaces.com/2014-01+study+visit+ExCom

Official photos of Study Visit:
https://plus.google.com/photos/103802352707290132840/albums/59832896195812 16177?authkey=CJHY3_-2q5TkzQE

On the first day our delegation was welcomed by National Treasury, the colleagues of National Treasury gave us well-structured presentations with a lot of useful information.

Our Chair introduced our community in RSA:

First of all we understood that the role of National Treasury (which includes the Office of Accountant General) is equal with Ministry of Finance, and the head of National Treasury (head of department of Finance) is Minister of Finance. It is very important to mention in order to understand the structure of RSA administration. In their case "departments" are ministries.

The National Treasury has an Internal Audit Support Unit which is responsible for supporting the establishment and effectiveness of Internal Audit (IA) Units and Audit Committees in the South African public sector, which we found similar to the role of Central Harmonisation Unit (CHU). The National Treasury working in cooperation with IIA South Africa in developing internal audit system, especially in the field of training of internal auditors.

The reform of Public Internal Control started in 1994 in RSA.

The Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999) (as amended by Act No. 29 of 1999) is one of the most important pieces of legislation passed by the first democratic government in South Africa. The Act promotes the objective of good financial

management in order to maximise service delivery through the effective and efficient use of the limited resources.

The key objectives of the Act may be summarized as being to:

> *Modernise the system of financial management in the public sector;*
> *Enable public sector managers to manage, but at the same time be held more accountable;*
> *Ensure the timely provision of quality information; and*
> *Eliminate the waste and corruption in the use of public assets.*

The Act, which came into effect from 1 April 2000, gives effect to sections 213 and 215 to 219 of The Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) for the national and provincial spheres of government. These sections require national legislation to establish a national treasury, to introduce uniform treasury norms and standards, to prescribe measures to ensure transparency and expenditure control in all spheres of government, and to set the operational procedures for borrowing, guarantees, procurement and oversight over the various national and provincial revenue funds.

The PFMA adopts an approach to financial management, which focuses on outputs and responsibilities rather than the rule driven approach of the previous Acts. The Act is part of a broader strategy on improving financial management in the public sector.

<p style="text-align:center">Financial Management Capability Maturity Model</p>

The Financial Management Capability Maturity Model is based on a Canadian model. The measurement of level of maturity is based on a questionnaire about risk and controls. It can be used as a diagnostic tool and as a benchmark tool, also. It is a very good tool, because it highlights the problematic areas at a glance.

Level	Outline
1 – Start-up level	No proper internal control framework exits.
2 – Development level	Proper internal control framework is starting to be developed, e. g. approved policies and procedures are in place but typically not implemented and adhered to.
3 – Control level *Control level is the*	Focus on compliance and control. Statutory and Regulatory reporting requirements are met. Internal control framework fully developed, implemented

minimum requirement for all government institutions in RSA, it should become the explicit goal of all organisations within the public sector to achieve this level.	and adhered to. Adequate resources (human, physical, technical and financial) are available. Assets are safeguarded. Data is reliable and its integrity supports operational planning and monitoring. Operations are monitored and controlled.
4 – Information level	Focus on cost and quality on the goods and services produced and how resources are used. Senior management explicitly demand and promote effective financial management and demonstrate its value. Consistent, comparable financial and operational information and reports meet the needs of operational managers.
5 – Managed level	The organisation is not only capable of analysing the cost and quality of the goods and services produced but should also capable of assessing whether the production was conducted in the most-effective way.
6 – Optimising level	Focus on continuous improvement and learning.

We found the following topics as best practices which from we can learn a lot and use to our work to develop our countries' internal audit system:

- ➢ *audit committees;*
- ➢ *maturity model of financial management and controls;*
- ➢ *different questionnaire on performance;*
- ➢ *developed standards;*
- ➢ *relationship between internal and external audit.*

National Treasury provided us very useful documents which are available in English on web (if a window asks username and password – just hit "Cancel" – and you will be able to open the page):

General page of National Treasury: http://www.treasury.gov.za/

Page for Internal Audit Support: http://oag.treasury.gov.za/Pages/InternalAudit.aspx

The Public Finance Management Act: http://www.treasury.gov.za/legislation/pfma/act.pdf

Internal Audit Framework:
http://oag.treasury.gov.za/Publications/07.%20Internal%20Audit/Treasury%20Internal%20Audit%20Framework%20Revised%202009.pdf

Page for Risk Assessment Support:
http://oag.treasury.gov.za/Pages/RiskManagementSupport.aspx

Treasury Regulations – Section 3 and 27 – Internal control, Audit Committees, Internal audit:
http://www.treasury.gov.za/legislation/pfma/regulations/gazette_23246.pdf

Internal Audit and Audit Committee:
http://mfma.treasury.gov.za/Circulars/Documents/MFMA%20Circular%2065%20-%20Internal%20Audit%20and%20Audit%20Committee.pdf

Audit Committees Reporting Framework:
http://oag.treasury.gov.za/Publications/07.%20Internal%20Audit/Reporting%20Framework%20Guide%20-%20The%20Report%20of%20the%20Audit%20Committee.pdf

Financial Management Capability Maturity Model (FMCMM):
http://db3sqepoi5n3s.cloudfront.net/files/docs/130326progress.pdf

Risk Assessment:
http://oag.treasury.gov.za/RMF/Pages/s101ExecutiveSummary.aspx

Risk Assessment Framework:
http://oag.treasury.gov.za/RMF/RMF%20Documents/Downloads/01.%20Condensed%20Public%20Sector%20Risk%20Management%20Framework.pdf

Day 2: Wednesday, January 29th, 2014: Meeting with Institute of Internal Auditors South Africa

The Institute of Internal Auditors South Africa (IIA SA) is part of an international network representing the interests of Internal Auditors worldwide. As a part of this international network, the IIA SA upholds and supports the fundamental tenets of the profession - the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing.

The IIA SA supports the profession by providing a wide range of services dedicated to the education and advancement of internal auditors and dynamically promoting and developing the profession in South Africa. The IIA SA's objectives are to build the profession, its credibility and a thriving business environment in South Africa. The IIA SA offering Technical Guidance, Professional Training Programs, Certification Programs, Continuing Professional Development Opportunities, Conferences and Networking Opportunities. The IIA SA has over 8000 members, around 6000 members from public sector. 40% of auditors are member of IIA SA in RSA.

We found really interesting the followings which could be useful for our work:

> *training & certification programs;*
> *relationship and cooperation with public sector.*

Useful links:

The IIA SA website: http://www.iiasa.org.za/

Annual Report 2012 of The IIA SA:
http://c.ymcdn.com/sites/www.iiasa.org.za/resource/collection/C5C738FA-61EF-4D19-A8E8-19EF54CE40BE/IIA_SA_Integrated_Report_(2012).pdf

Training & Certification Program: http://www.iiasa.org.za/?page=Cert_CP_Overview

Publications: http://www.iiasa.org.za/?page=Public_Resources

Meeting with Institute of Directors

The Institute of Directors in Southern Africa (IoDSA) is a non-profit organisation that is unique in that it represents directors, professionals, business leaders and those charged with governance duties in their individual capacities in southern Africa. As the primary decision-makers in the private and public sectors, these individuals hold a special position of leadership and trust and are responsible — both legally and morally — for the balanced direction and proper reward of all participants in economic enterprises.

IoDSA membership represents over 5 500 prestigious and diverse South African business leaders, providing a unique opportunity for networking and business development in all sectors. In South Africa, the membership is widely representative of commerce, industry, government and the business professions.

The IoDSA is committed to the development of those charged with governance duties, directors, board learning and improving board effectiveness. Members of the IoDSA benefit from ongoing educational opportunities, leadership publications and updates featuring the latest developments in corporate governance, as well as unique networking opportunities.

The IoDSA established in July 1993 the **King Committee** on Corporate Governance. The King Committee produced the first King Report on Corporate Governance which was published 29 November 1994.

The first King Report was recognised internationally, when published, as the most comprehensive publication on the subject embracing the inclusive approach to corporate governance.

The Institute of Directors in Southern Africa (IoDSA) formally introduced the King Code of Governance Principles and the King Report on Governance (King III).

King III came into effect on 1 March 2010 – until then King II applied. The new Code and Report also falls in line with the Companies Act no 71 of 2008, which became effective on 1 May 2011.

King III has been written in accordance to the comply or explain principle based approach of governance, but specifically the apply or explain regime. This regime is currently unique in the Netherlands and now in South Africa. Whilst this approach remains a hotly debated issue globally, the King III Committee continues to believe it should be a non-legislative code on principles and practices.

We found interesting the followings:

 ➢ *improvement program for members of audit committees in public sector;*
 ➢ *King Code & King Reports.*

Useful links:

The IoDSA webpage: http://www.iodsa.co.za/

King Code of Governance:
http://www.iodsa.co.za/resource/collection/94445006-4F18-4335-B7FB-7F5A8B23FB3F/King_Code_of_Governance_for_SA_2009_Updated_June_2012.pdf

King III Amendment (2012): http://www.iodsa.co.za/resource/collection/94445006-4F18-4335-B7FB-7F5A8B23FB3F/King_III_Amendment_2_May_2012.pdf

King III Report: http://african.ipapercms.dk/IOD/KINGIII/kingiiireport/

King III Practice Notes: http://www.iodsa.co.za/?page=King3

Publications (position papers) of Audit Committee Forum (for private sector):
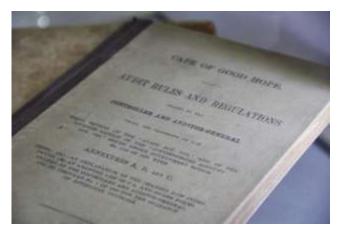http://www.acf.co.za/publications/

Public Sector Audit Committee Forum: http://www.iodsa.co.za/?page=ForumPSACF

Internal audit and Audit Committee:
http://www.iodsa.co.za/resource/collection/EF25A709-D8EE-4429-8E77-247F64177641/Public_Sector_Audit_Committee_role_in_overseeing_Internal_Audit.pdf

Term of Reference and Annual Planner for Audit Committees:
http://www.iodsa.co.za/resource/collection/EF25A709-D8EE-4429-8E77-247F64177641/Terms_of_Reference_and_Annual_Planner_for_National_and_Provincial_Government_Audit_Committees.pdf

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Day 3: Thursday, January 30th, 2014: Meeting with Auditor General (AGSA)

In the morning we had to chance to learn about history of external auditing in RSA at AGSA Museum.
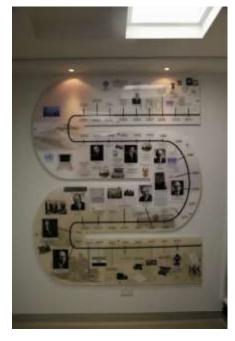
Chapter 9 of the Constitution of the Republic of South Africa, 1996 establishes the Auditor-General of South Africa as one of the state institutions supporting constitutional democracy. The Constitution recognises the importance and guarantees the independence of the Auditor-General of South Africa (AGSA), stating that the AGSA must be impartial and must exercise its powers and perform its functions without fear, favour or prejudice.

The functions of the AGSA are described in section 188 of the Constitution and further regulated in the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), which mandates the AGSA to perform constitutional and other functions. Constitutional functions are those which the AGSA performs to comply with the broader mandate described in the Constitution. Section 4 of the PAA makes a further distinction between mandatory and discretionary audits.

The AGSA is accountable to the National Assembly in terms of section 181(5) of the Constitution and section 3(d) of the PAA and has to report on its activities and performance of its functions in terms of section 10 of the PAA. The main accountability instruments are the AGSA's budget and strategic plan, as well as the annual report, both of which are tabled annually in the National Assembly. The Standing Committee on the Auditor-General (SCoAG), established in terms of section 10(3) of the PAA, oversees the performance of the AGSA on behalf of the National Assembly.

The AGSA annually produces audit reports on all government departments, public entities, municipalities

and public institutions. Over and above these entity-specific reports, the audit outcomes are analysed in general reports that cover both the Public Finance Management Act (PFMA) and Municipal Finance Management Act (MFMA) cycles. In addition, reports on discretionary audits, performance audits and other special audits are also produced. The AGSA tables reports to the legislature with a direct interest in the audit, namely Parliament, provincial legislatures or municipal councils. These reports are then used in accordance with their own rules and procedures for oversight.

We found useful the followings:

> *national auditing system;*
> *the use and audit of performance information in South Africa.*

Useful links:

General Report (2012):
http://www.agsa.co.za/Portals/0/PFMA2012-13/2012_13_PFMA_consolidated_general_report1.pdf

Audit terminology: http://www.agsa.co.za/portals/0/AGSA_Terminology.pdf

Audit process: http://www.agsa.co.za/Auditinformation/Auditprocess.aspx

Reporting & good practices:
http://www.agsa.co.za/Auditinformation/Auditguidelines/Reportinggoodpractices.aspx

Audit directive:
http://www.agsa.co.za/Auditinformation/Auditguidelines/Auditdirective.aspx

Audit communication:
http://www.agsa.co.za/Auditinformation/Auditcommunication.aspx