



The Southern African Institute of Government Auditors

Qualifying Examination for Registered Government Auditors

Paper 1: Regulatory Framework

November 2010

INSTRUCTIONS TO CANDIDATES

- 1 Maximum marks: **160**.
- 2 Total time available **four hours**.
- 3 The marks allocated to each question are an indication of the expected length and required depth of the answer.
- 4 Ensure proper planning and avoid exceeding the time you have allocated for each question as suggested by the number of marks allocated to the question.
- 5 Present your arguments in a clear, well structured manner, using precise language and professional terms, where appropriate.
- 6 No books or notes are allowed in the examination room.
- 7 All working papers must be handed in together with all paper provided for the examination (including unused answer sheets).
- 8 Answers written in pencil will not be marked.
- 9 You are reminded that this examination will be held under the rules as set out in the document "RGA-QE Examination Matters & Examination Policy 2010".
- 10 You are required to observe all Examination Instructions on the separate sheet of paper handed to you before commencement of this examination.

QUESTION 1

(40 marks)

For each sub-section of this question select only **ONE** alternative that you consider to be appropriate (or most correct). Please answer these questions on the multiple choice answer sheet provided to you.

You will not be penalised for incorrect answers (no negative marking applied).

The questions have to be read in the context of the **Public Finance Management Act (PFMA)**, the **Treasury Regulations**, the **Municipal Finance Management Act (MFMA)**, the **Public Audit Act (PAA)**, the **INTOSAI Code of Ethics** and the **King Code of Corporate Practices and Conduct (King III)**.

Question 1.1

The Auditor-General South Africa – (Choose the incorrect statement)

- a Is the supreme audit institution of the Republic of South Africa.
- b Has full legal capacity, is independent and is subject only to the *Constitution*, the *Public Finance Management Act* and the *Public Audit Act*.
- c Must be impartial and must exercise the powers and perform the functions of office without fear, favour or prejudice.
- d Is accountable to the National Assembly.

Question 1.2

In terms of the *Public Audit Act*, the Auditor-General South Africa is appointed by:

- a The National Assembly.
- b The Speaker of the National Assembly
- c The President.
- d The National Council of Provinces.

Question 1.3

When setting appropriate auditing standards for the audit of public sector entities (as performed by the Auditor-General South Africa [AGSA]), the *Public Audit Act* provides that the AGSA has to take into account certain factors.

Which of the following does the AGSA not have to take into account:

- a The capacity of the AGSA to comply with those standards.
- b International best audit practices.
- c The ability of the auditees to pay for audits performed in terms of those standards.
- d The capacity of the auditing profession to comply with those standards.
- e Best audit practices in South Africa.

Question 1.4

Which of the following is not an objective of the *Public Audit Act*?

- a To give effect to the provisions of the Constitution establishing and assigning supreme auditing functions to an Auditor-General.
- b To provide for the auditing of institutions and accounting entities in the public sector.
- c To provide for an oversight mechanism.
- d To determine the scope of audits performed by the Auditor-General South Africa (AGSA).
- e To assist and protect the AGSA in order to ensure the independence.

Question 1.5

The Auditor-General South Africa (AGSA) must annually submit a report to the National Assembly on:

- a The standards to be applied to audits.
- b The categories of services provided.
- c The institutions and accounting entities to which such services have been provided.
- d Any instances of special investigations.
- e Control over the administration of the AGSA.

Question 1.6

Which of the following is not a power given to the Auditor-General South Africa in terms of the *Public Audit Act*:

- a To determine the minimum qualification and experience for authorised auditors.
- b To issue a Code of Conduct for authorised auditors.
- c To have access (at all reasonable times) to any book or record which reflects the financial position of the auditee.
- d To have access (at all reasonable times) to the staff of the authorised auditors.

Question 1.7

The *Public Audit Act* provides that the basis for the calculation of the audit fees to be recovered from auditees is determined by:

- a The Auditor-General South Africa (AGSA).
- b The AGSA after consultation with National Treasury.
- c The AGSA after consultation with the AGSA's oversight mechanism.
- d The AGSA after consultation with the AGSA's oversight mechanism and National Treasury.
- e The AGSA after consultation with the AGSA's oversight mechanism, National Treasury and the Minister of Finance.

Question 1.8

With regard to the Auditor-General South Africa's (AGSA) duties and rights to perform an audit and report on effectiveness, efficiency and economy matters relating to an auditee's resources, the *Public Audit Act* stipulates the following:

- a The AGSA has a duty to report (must) on the effective, efficient and economical use of the auditee's resources.
- b The AGSA has a duty to audit (must) the effective, efficient and economical use of the auditee's resources, but a right (may) to report thereon.
- c The AGSA has a right to audit (may) the effective, efficient and economical use of the auditee's resources, but a duty (must) to report thereon.
- d The AGSA has a right to report (may) on the effective, efficient and economical use of the auditee's resources.

Question 1.9

The *Public Audit Act* states that an authorised auditor – (Choose the incorrect statement)

- a Must be given notice of every meeting of the auditee's audit committee.
- b May attend and participate in any meeting of such an audit committee at the invitation of the auditee.
- c May attend and participate in any meeting of such an audit committee at the expense of the auditee.

Question 1.10

The *Public Audit Act* allows certain delegations to be made. Which form of delegation is not provided for in the *Public Audit Act*.

- a Delegation from the Deputy Auditor-General to an authorised auditor.
- b Delegation from the Auditor-General to the Deputy Auditor-General.
- c Delegation from the Auditor-General to an authorised auditor.
- d Delegation from the Deputy Auditor-General to a staff member.
- e Delegation from the Auditor-General to a staff member of the Auditor-General South Africa.

Question 1.11

The Lima Declaration of Guidelines on Auditing Precepts determines what the ideal powers of Supreme Audit Institution should be when audits are conducted. Choose the inappropriate option:

- a Supreme Audit Institutions shall be empowered to request, orally or in writing, any information deemed necessary by the Supreme Audit Institution.
- b Supreme Audit Institutions shall have access to all records and documents relating to financial management.
- c Supreme Audit Institutions should be able to decide whether to carry out the audit at the institution to be audited, or at the Supreme Audit Institution's offices.
- d Supreme Audit Institutions should be empowered to approach the executive authorities of the institution to be audited and receive suitable explanations and full co-operation from the relevant person/(s).

Question 1.12

The *King Code of Corporate Practices and Conduct* contains certain guidelines in respect of internal audit. From the options below, choose the applicable guideline in the *King Code of Corporate Practices and Conduct*:

- a Companies should have an effective and efficient internal audit function that has the respect and co-operation of both the board and management.
- b Companies should have an effective internal audit function that has the respect and co-operation of both the board and management.
- c Companies should have an effective and efficient internal audit function that has the co-operation of both the board and the audit committee.
- d Companies should have an effective internal audit function that has the co-operation of both the board and the audit committee.
- e Companies should have an effective and efficient internal audit department that has the co-operation of both the board and the audit committee.

Question 1.13

In terms of the definitions in chapter one of the PFMA an executive authority is: (Choose the incorrect statement)

- a In relation to a national government department, the cabinet member accountable to parliament for that department.
- b In relation to a provincial department the relevant member of the executive council of a province accountable to the provincial legislator for that department.
- c In relation to a national public entity the board or controlling entity responsible to the national legislator.
- d In relation to a provincial public entity the member of the executive council accountable to the provincial legislator.

Question 1.14

In terms of the definitions in chapter one of the PFMA, generally recognized accounting practice means an accounting practice complying in material respects with international financial reporting standards.

- a True.
- b False.

Question 1.15

In terms of chapter two of the PFMA, National Treasury must: (Choose the incorrect statement)

- a Promote national government's fiscal policy framework and the coordination of macro-economic policy.
- b Promote provincial government's fiscal policy framework and the coordination of provincial economic policy.
- c Manage the budget preparation process.
- d Monitor the implementation of provincial budgets
- e Facilitate the implementation of the annual *Division of Revenue Act*.

Question 1.16

In terms of the PFMA National Treasury must prepare consolidated financial statements in terms of GRAP for, amongst other, the following: (Choose the incorrect statement)

- a National departments.
- b National public entities.
- c Provincial government departments.
- d Constitutional institutions.
- e The South African Reserve Bank.

Question 1.17

In terms of chapter 3 of the PFMA only a provincial treasury may withdraw money from a provincial revenue fund.

- a True.
- b False.

Question 1.18

The PFMA requires that provincial budgets be tabled not later than ... after tabling of the national annual budget.

- a 30 days.
- b 2 weeks.
- c 6 months.
- d 2 months.

Question 1.19

According to chapter four of the PFMA, a national adjustment budget may only provide for: (Choose the incorrect statement)

- a Unforeseen economic and financial events.
- b Unforeseen and unavoidable expenditure recommended by the National Executive.
- c Under-budgeting by essential service national government departments.
- d The roll-over of unspent funds for the previous year.

Question 1.20

Which of the following statements is not describing the spirit / broad objective of the PFMA:

- a Let the managers manage, but hold them accountable.
- b Change the emphasis from administration to management.
- c Not only concentrate on the expenditure, but the holistic concept of "REAL" (Revenue, Expenditure, Assets & Liabilities).
- d Modernise financial management in the public sector.
- e Provide broad management principles and detail instructions for day-to day tasks.

Question 1.21

Which of the following organisations are not specifically listed in the PFMA as having to comply with the requirements of the PFMA:

- a National departments.
- b Provincial departments.
- c Public entities.
- d Non-governmental organisations (NGOs).
- e Provincial legislatures.
- f Parliament.

Question 1.22

Through the insertion of a particular provision in the PFMA, the focus is shifted away from figures to outcomes and outputs (services delivered, etc.). Identify this particular provision from the choices below:

- a The requirement that budgets have to be prepared in a specific format.
- b The requirement that estimates of capital expenditure have to be provided per vote and also per main division within a vote.
- c The requirement that measurable objectives have to be provided by accounting officers as part of their budget.
- d The requirement of disclosure of other prescribed information, including multi-year budget information.

Question 1.23

The PFMA places a high premium on disclosure in order to advance openness and transparency. Consequently the PFMA lists specific aspects which have to be disclosed by public entities in their annual reports. Which of the following is provided for in the PFMA in this regard:

- a Disclosure of all material losses recovered or written off.
- b All material financial assistance received from the state.
- c Disclosure of any losses written off.
- d All criminal steps taken as a consequence of material items of fruitless and wasteful expenditure.
- e A, B and D.
- f B, C and D.
- g A and C.
- h All of the above.

Question 1.24

During an audit of a national government department the Auditor-General South Africa (AGSA) determined that goods and services with a transaction value of above R500,000 were not procured by means of a competitive bidding process. The AGSA will require the department to disclose this as:

- a Irregular expenditure.
- b Unauthorised expenditure.
- c Fruitless and wasteful expenditure.
- d Unfunded expenditure.

Question 1.25

The PFMA requires that the chairperson of the audit committee:

- a Must be from outside the public service.
- b May not be in the employ of the department.
- c May not be in the employment of a provincial government department.
- d All of the above.

Question 1.26

The *Treasury Regulations* are issued in terms of which chapter of the PFMA:

- a National Treasury and National Revenue Fund (Chapter 2).
- b Accounting Officer's responsibilities (Chapter 5).
- c Norms and standards (Chapter 9).
- d General treasury matters (Chapter 9).
- e None of the above.

Question 1.27

In terms of *Treasury Regulation 2.1*, the chief financial officer of an institution is responsible for:

- 1 Effective financial management.
- 2 The operation of internal audit.
- 3 Sound budgeting practice.
- 4 Timely production of financial reports.
- 5 Administrative management of the supply chain process.

Choose the correct combination from the above:

- a 1, 2, 3, 4, 5.
- b 1, 2, 5.
- c 1, 3, 4, 5.
- d 1, 3, 4.
- e 2, 3, 4, 5.

Question 1.28

The *Treasury Regulations* prescribe that in the case of a non-shared audit committee, members must be appointed by:

- a The executive authority.
- b The accounting officer in consultation with the chief audit executive.
- c The accounting officer in consultation with the relevant treasury.
- d The executive authority in consultation with the accounting officer.
- e The accounting officer in consultation with the executive authority.

Question 1.29

The internal audit charter of public sector entities has to:

- a Meet the requirements as published in the PFMA.
- b Be consistent with the Institute of Internal Auditors' definition of internal auditing.
- c Meet the requirements as published in the National Treasury's Guidelines on internal audit.
- d Meet the requirements as published in the *King Report on Corporate Governance*.

Question 1.30

The rolling three-year strategic plan as mentioned in the *Treasury Regulations*, must:

- a Be prepared by internal audit and approved by the audit committee.
- b Be prepared by the Accounting Officer and approved by internal audit.
- c Be prepared by the Chief Financial Officer and reviewed by internal audit.
- d Be prepared by internal audit and approved by the Auditor-General South Africa.

Question 1.31

The internal audit charter of public sector entities has to:

- a Meet the requirements as published in the *Treasury Regulations*.
- b Be consistent with the Institute of Internal Auditors' definition of internal auditing.
- c Meet the requirements as published in the PFMA.
- d Meet the requirements as published in the *King Report on Corporate Governance*.

Question 1.32

The audit committee of a national department may communicate any concerns it deems necessary to:

- a The National Treasury and the accounting authority.
- b The executive authority, the Auditor-General South Africa (AGSA) and the National Treasury.
- c The National Treasury and the AGSA.
- d The AGSA and the executive authority.

Question 1.33

A national department has a non-shared audit committee. The members of this committee:

- a Have to be appointed by the accounting officer of the department in consultation with the relevant executive authority (Minister).
- b Have to be appointed by the chief financial officer of the department in consultation with the Auditor-General South Africa (AGSA).
- c Have to be appointed by the relevant executive authority (Minister) in consultation with the AGSA.
- d Have to be appointed by the chief financial officer of the department in consultation with National Treasury.

Question 1.34

The *Treasury Regulations* provide for the submission and contents of strategic plans. Which requirement is not necessary in terms of the *Treasury Regulations*:

- a The strategic plan has to cover a period of three years.
- b The strategic plan has to be consistent with the institution's published medium term expenditure estimates.
- c The strategic plan has to include certain policy developments and legislative changes that influence programme spending over the required period.
- d The strategic plan has to include details of the proposed capital spending and capital acquisitions.

Question 1.35

In terms of the *Treasury Regulations* (3.2): (Choose the incorrect statement)

- a The internal audit function must assess procedures and monitoring mechanisms over transfers in terms of the *Division of Revenue Act*.
- b The purpose, authority and responsibility of the internal audit function must be consistent with the definition of internal auditing in the *King Report on Corporate Governance*.
- c The internal audit function must assist the accounting officer in achieving the objectives of the institution.
- d The internal audit function must evaluate and develop recommendations for the enhancement or improvement of processes.

Question 1.36

In terms of the MFMA the accounting officer of a municipality is:

- a The municipal council.
- b The municipal manager.
- c The mayor.
- d The chief financial officer

Question 1.37

In terms of the MFMA a municipality may only have one bank account.

- a True.
- b False.

Question 1.38

The MFMA prescribes procedures regarding the disposal of capital assets. Which of the following is *not a correct* prescript for the disposal of fixed assets?

- a A municipality may transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services only with approval of the mayor of the municipality.
- b Any transfer of ownership of a capital asset must be fair, equitable, transparent, competitive and consistent with the supply chain management policy.
- c A decision by a municipal council that a specific capital asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset has been sold, transferred or otherwise disposed of.
- d A municipality may transfer ownership or otherwise dispose of a capital asset only after the municipal council, in a meeting open to the public has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services.

Question 1.39

According to the MFMA, the mayor of the municipality must table the annual budget at a council meeting at least ... days before the start of the budget year.

- a 30.
- b 60.
- c 90.
- d 120.

Question 1.40

In order to become a Registered Government Auditor (RGA), certain requirements have to be met.

- A Government Auditing Experience (GAE).
- B Common Body of Knowledge and Skills for RGAs (COBOKS).
- C *Public Audit Act* (PAA).
- D Government Auditing Specialism Programme (GASP).
- E RGA-Qualifying Examination (RGA-QE).
- F Syllabus of the Independent Regulatory Board for Auditors (IRBA).
- G Three years.
- H Four years.
- I Six months.
- J Three hours.
- K Four hours.
- L Two papers.
- M Three papers.
- N Four papers.
- O University subjects required.
- P Tertiary institutions.
- Q The Southern African Institute of Government Auditors (SAIGA)

Choose the applicable combination of requirements:

- a A for G; O as set out in B; E of L of J each; D over I presented by Q.
- b A for H; O as set out in F; E of M of K each; D over G presented by P.
- c A for G; O as set out in B; E of M of K each; D over I presented by Q.
- d A for I; O as set out in F; E of N of J each; D over I presented by Q.
- e A for H; O as set out in C; E of L of J each; D over G presented by P.
- f A for H; O as set out in B; E of M of K each; D over I presented by Q.
- g A for H; O as set out in F; E of N of K each; D over I presented by P.

Remember that the options you have to choose from are indicated by small letters (a, b, c, etc.) from the options above.

QUESTION 2**(60 marks)**

According to the *Public Finance Management Act* and the *Treasury Regulations*, all national and provincial Departments as well as public entities should have audit committees. It is important for the Auditor-General South Africa (AGSA) as well as the auditees to ensure that the audit committee functions effectively and efficiently.

REQUIRED:

Prepare a questionnaire which could be used by the AGSA to evaluate the performance of the audit committee. The questionnaire should be based on best practices and requirements of the *Public Finance Management Act*, the *Treasury Regulations* and the Institute of Internal Auditors' International Professional Practice of Internal Auditing.

QUESTION 3

(60 marks)

THIS QUESTION CONSISTS OF TWO RELATED PARTS

PART A

(25 marks)

You are a government auditor working at the Auditor-General South Africa (AGSA). The AGSA requested that all government auditors attend a workshop on ethics. The AGSA has recently reviewed its own *Code of Professional Conduct and Ethics* to ensure that it is in line with the *INTOSAI Code of Ethics* applicable to supreme audit institutions as well as other international guidelines on professional ethics. The ethics workshop addressed amongst others, the following topics:

- professional ethics;
- ethical decision-making; and
- codes of professional ethics and conduct.

In addition to the above topics covered, an open session was held to discuss actual ethical dilemmas faced by government auditors. Most of the delegates argued that one should use a code of ethics to guide one's behaviour in these situations. The following dilemmas that government auditors in the employ of the AGSA were recently faced with, were discussed:

Dilemma 1

Auditor Abby, a fanatic soccer fan received two tickets to the final of the 2010 soccer world cup from Mr. Lui. Mr. Lui is the chief financial officer of Department Z. Auditor Abby is planning to conduct an audit engagement at Department Z in the near future. Auditor Abby and Mr. Lui have known each other for the past seven years and has since become close friends. They are planning to have a pre-finals party at the offices of Department Z after which they will join all the other fans to watch the final game at Soccer City. (4)

Dilemma 2

Auditor Barry is the government auditor in charge of the financial audit engagement for Department Y. He has been approached by the chief financial officer of Department Y, Ms. Gugu, about the preliminary findings. She argued that the findings were out of bound and that she is not prepared to sign off on these findings for Department Y. In fact, she wants auditor Barry to shred all the working papers and prepare a new audit report. She made it quite clear to auditor Barry that she has several contacts in "high places" and she will make sure that "his life become a living hell" if he does not do what she has asked him to do. In addition, she gave him a draft findings sheet that she has prepared and that she wants him to include in the audit file. (4)

Dilemma 3

Auditor Craig performed a financial audit engagement at Department X. He had to verify the payroll expenses relating to a sample of at least 60 employees based on the statistical sampling methodology applied by the audit team. He could not understand why it was necessary to audit all 75 employees, due to the fact that all of these employees were on the same salary scale with more or less the same benefits

and deductions. He therefore decided to test only 30 employees. However, he ticked all 75 payroll transactions on the working paper and included the following comment for the tick mark – “payroll expense verified and agreed to general ledger”. (4)

Dilemma 4

Auditor Danny, a senior government auditor, recently attended a five-day certificate course in forensic auditing. He has never performed any forensic investigations, although he is very passionate about the topic. Auditor Danny convinced his supervisor that he is the best person to conduct the upcoming forensic investigation. According to the staff planning for this audit engagement, only one senior government auditor is scheduled for this engagement. (3)

REQUIRED:

- (a) Briefly discuss the purpose of a code of professional ethics for government auditors. (2)
- (b) Briefly comment on the similarities and differences between the *INTOSAI Code of Ethics* and the *Auditor-General Code of Ethics*. Your answer may be presented in tabular format. (8)
- (c) For each of the dilemmas described above, comment on whether the government auditor’s action/proposed action(s) are in line with the *INTOSAI Code of Ethics*. Describe the principle(s) and rule(s) violated and make a recommendation with regard to the appropriate behaviour. (15)

PART B

(35 marks)

You have been invited to a governance steering committee meeting at public entity Y. The executive committee of public entity Y has taken a decision at a recent board meeting to prepare the draft annual report for the year ending 31 March 2010 in accordance with the requirements of the third *King Report on Governance for South Africa* (King III). The annual report of public entity Y has in the past, incorporated King II principles. Although King III is only effective as from 1 March 2010, the board would like to be pro-active and ensure adherence to most of the principles of King III.

The purpose of the governance steering committee meeting is to agree on a list of governance issues that should be addressed in the annual report. You, a registered government auditor, have been asked to assist the governance steering committee of public entity Y in making recommendations on the proposed governance issues, due to the fact that you have a vast amount of knowledge and experience in the field of corporate governance. You have decided to use the King III report as a benchmark for good corporate governance.

Mr. A Maleluka, the CEO tabled the following information at the governance steering committee meeting:

Corporate governance issues to be included in the draft annual report (Extracts only)

Public entity Y has implemented several governance structures and systems to ensure good corporate governance. The board of directors of public entity Y has the responsibility to govern the organisation effectively. The board ensures compliance to applicable legislation as well as the application of best practice governance principles. The following governance issues are addressed in the draft annual report:

- The board, chaired by Mr. A Maleluka, meets biannually. The board consists of two executive and two non-executive directors. The board delegates decisions on material matters and directors' remuneration to Mr. A Maleluka. A nomination committee makes recommendations on the appointment of directors.
- The audit committee, appointed by the board, comprises two executive directors, including Mr. A Maleluka who chairs meetings. The committee meets annually. Meetings of the committee are attended by the financial director and the external auditor. The external auditors have unrestricted access to the committee and bring significant findings arising from audit activities to its attention. The audit committee functions according to a written terms of reference, which defines its authority and duties. The terms of reference was compiled in the current year.
- Public entity Y has a compliance driven internal audit function which reports to Mr. A Maleluka. The internal and external auditors do not coordinate their activities, due to the significant differences in their engagement objectives. The external auditors examine the annual financial statements, but are not involved in providing assurance with regard to the interim financial statements of public entity Y.
- The company secretary developed and implemented an organisational code of ethics a number of years ago. The code of ethics encourages the highest standard of behaviour from all employees.

No other issues were tabled at the governance steering committee meeting.

REQUIRED:

- (a) Briefly define the term corporate governance with specific reference to the public sector. (2)
- (b) Discuss the relevance of the application of the principles and recommendations of King III to the public sector. (3)
- (c) Briefly identify and describe ten (10) issues of concern within public entity Y with regard to its governance structures and systems. (10)

- (d) For each issue of concern identified in (c) above, make a recommendation(s) for improvement with reference to King III. (10)
- (e) With reference to King III, identify and briefly describe any additional governance issues that you would like to address in the annual report and which were omitted from the above information tabled at the meeting. (10)