



The Southern African Institute of Government Auditors

Qualifying Examination for Registered Government Auditors

Paper 1: Regulatory Framework

November 2013

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 clearly, using well structured, clear and precise language and appropriate professional terms.
- 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 2013".
- 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)

REQUIRED:

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

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

The questions have to be read and answered in the context of the *Public Finance Management Act* (PFMA), the *Treasury Regulations*, the *Municipal Finance Management Act* (MFMA) and the *Public Audit Act* (PAA).

Question 1.1

In terms of the definitions of the PFMA a public entity has an Accounting Authority, in terms of the act the Accounting Authority is:

- 1 In relation to a public entity, the cabinet member accountable to parliament for that entity.
- 2 In relation to public entity the board or controlling body of the entity.
- 3 In relation to a national public entity the director-general of the department overseeing the public entity.
- 4 In relation to a national public entity the person in charge of the public entity in the absence of a board.

Choose the **correct** combination.

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

Question 1.2

The PFMA also applies to Parliament and provincial legislatures. In terms of a provincial legislature, any controlling and supervisory functions of the National Treasury and a provincial treasury in terms of that provision are performed by the: Choose the **correct** option.

- a Premier.
- b Accountant-General of the province.
- c Speaker of the provincial legislature.
- d National Council of provinces.
- e Speaker of Parliament.

Question 1.3

In terms of the PFMA, a “provincial department” includes:

- 1 A provincial department listed in Schedule 2 to the Public Service Act.
- 2 A Provincial Treasury.
- 3 The Office of a Premier listed in Schedule 1 to the Public Service Act.
- 4 The Provincial Legislature.

Choose the **correct** combination.

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

Question 1.4

In terms of section 8 of the PFMA National Treasury must prepare consolidated financial statements in terms of GRAP for, amongst other, the following:

Choose the **incorrect** option.

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

Question 1.5

To the extent necessary to perform the functions mentioned in the PFMA subsection (1), the National Treasury:

Choose the **incorrect** option.

- a Must prescribe uniform treasury norms and standards.
- b Must table and pass legislation in terms of financial management.
- c Must monitor and assess the implementation of the PFMA, including any prescribed norms and standards, in provincial departments, in public entities and in constitutional institutions.
- d May assist departments in building their capacity for efficient, effective and transparent financial management.
- e May investigate any system of financial management and internal control in any department, public entity or constitutional institution.

Question 1.6

In terms of section 7 of the PFMA, a bank that has opened a bank account for a **provincial department or provincial public entity**, must promptly disclose information regarding the account when so requested by the:

- 1 National Treasury.
- 2 Auditor-General South Africa.
- 3 Relevant provincial treasury.
- 4 South African Reserve Bank.

Choose the **correct** option or combination.

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

Question 1.7

Section 8 of the PFMA prescribes that the Minister must submit the consolidated financial statements of national departments, public entities under the ownership control of the national executive; constitutional institutions; the South African Reserve Bank; the Auditor-General South Africa; and Parliament; and the audit report on those statements within ___ **from financial year-end**, to Parliament for tabling in both Houses.

Choose the **correct** option.

- a Two months.
- b Four months.
- c Seven months.
- d Six months.
- e Five months.

Question 1.8

According to chapter 4 of the PFMA, a national adjustment budget may only provide for:

Choose the **incorrect** option.

- a Unforeseen economic and financial events.
- b Unforeseen and unavoidable expenditure recommended by the National Executive.
- c The shifting of funds between and within votes or to follow the transfer of functions.
- d Under budgeting by national government departments providing essential services.
- e The roll-over of unspent funds for the previous year.

Question 1.9

If an annual budget is not passed before the start of the financial year to which it relates, section 29 of the PFMA prescribes that funds may be withdrawn in accordance from the relevant Revenue Fund for the services of the state:

Choose the **incorrect** option.

- a May be utilised only for services for which funds were budgeted for in the annual budget that has not been passed before the start of the financial year.
- b May not during the first four months of that financial year, exceed 45 per cent of the total amount appropriated in the previous annual budget.
- c May not during each of the following months, exceed 10 per cent of the total amount appropriated in the previous annual budget.
- d In aggregate, exceed the total amount appropriated in the previous annual budget.
- e Any funds withdrawn in terms of that subsection must be regarded as forming part of the funds appropriated in the relevant annual budget for that financial year.

Question 1.10

In terms of section 38 of the PFMA the accounting officer must, on discovery of any unauthorised, irregular or fruitless and wasteful expenditure, immediately report, in writing, particulars of the expenditure to ____

Choose the **correct** option.

- a The Auditor-General South Africa.
- b The relevant Treasury.
- c The Auditor-General South Africa and the relevant Treasury.
- d The relevant Treasury and the relevant portfolio committee chairperson.
- e The relevant Accountant-General.

Question 1.11

During a forensic audit by the Public Protector, it was found that a department entered into a lease agreement of R130 million for a new building over the next three years. The department did not go out on tender for this procurement. The department will have to disclose the transaction as:

Choose the **correct** option.

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

Question 1.12

According to section 64 of the PFMA, any directive by an executive authority of a department to the accounting officer of the department having financial implications for the department must be in writing.

- 1 If implementation of the directive is likely to result in unauthorised expenditure, the accounting officer will be responsible for any resulting unauthorised expenditure.
- 2 If implementation of the directive is likely to result in unauthorised expenditure, the accounting officer will be responsible for any resulting unauthorised expenditure unless the accounting officer has informed the executive authority in writing of the likelihood of that unauthorised expenditure.
- 3 Any decision of the executive authority to proceed with the implementation of the directive, and the reasons for the decision, must be in writing.
- 4 The accounting officer must promptly file a copy of this document with the National Treasury.
- 5 The accounting officer must promptly file a copy of this document with the National Treasury and the Auditor-General South Africa.

Choose the **correct** combination.

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

Question 1.13

In terms of section 77 of the PFMA, an audit committee of a department:

Choose the **incorrect** option.

- a Must consist of at least three persons.
- b The majority must be from outside the public service.
- c The majority may not be persons in the employ of the department.
- d The chairperson may not be in the employ of the department.
- e Must meet at least twice a year.

Question 1.14

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

Choose the **correct** option.

- 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 Accounting standards board (Chapter 11).

Question 1.15

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

- 1 Effective financial management.
- 2 The exercise of sound budgeting practices.
- 3 The exercise of budgeting control practices.
- 4 The operation of internal controls.
- 5 The timely production of financial reports.

Choose the **correct** combination.

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

Question 1.16

The Treasury Regulations allows an audit committee to be shared among departments, in the case of a shared audit committee, members must be appointed by:

Choose the **correct** option.

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

Question 1.17

In terms of an internal audit function in a department the Treasury Regulations state that:

- 1 The accounting officer must ensure that a risk assessment is conducted regularly by internal audit to identify emerging risks of the institution.
- 2 An internal audit function may be partly or wholly contracted to an external organisation.
- 3 An internal audit function must assess the operational procedure and monitoring mechanisms over all transfers.
- 4 The internal audit function must co-ordinate with other internal and external providers of assurance.
- 5 The internal audit function must assist the accounting officer in achieving the objectives of the institution.

Choose the **correct** combination.

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

Question 1.18

If an official is alleged to have committed financial misconduct, the accounting officer of the institution must ensure that an investigation is conducted into the matter and if confirmed, must ensure that a disciplinary hearing is held. The accounting officer of a department must report outcomes of these hearings to:

- 1 The executive authority.
- 2 The Department of Public Service and Administration.
- 3 The Public Service Commission.
- 4 The Auditor-General South Africa.
- 5 National Treasury.

Choose the **correct** combination.

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

Question 1.19

In terms of virement between main divisions in a vote:

Choose the **incorrect** option.

- a Compensation of employees and transfers and subsidies to other institutions excluding transfers and subsidies to other levels of government for purposes of paying levies and taxes imposed by legislation, may be increased.
- b New transfers and subsidies to other institutions may not be introduced without the approval of the relevant treasury.
- c Allocations earmarked by the relevant treasury for a specific purpose (excluding compensation of employees) may not be used for other purposes, except with its approval.
- d Virement of funds from compensation of employees to transfers and subsidies for the payment of severance/exit packages are excluded from the provisions of (a) and (b).

Question 1.20

Irregular expenditure incurred by a department in contravention of tender procedures must be brought to the notice of:

Choose the **correct** option.

- a The relevant tender board or procurement authority.
- b National Treasury.
- c The Auditor-General South Africa.
- d Provincial Treasury.
- e All of the above.

Question 1.21

In terms of the MFMA, chapter 1, the accounting officer of a municipality is:
Choose the **correct** option.

- a The mayor.
- b The council.
- c The municipal manager.
- d The CFO.
- e The mayor and the municipal manager.

Question 1.22

In terms of the definitions of the MFMA a "political office-bearer", in relation to a municipality, means:

Choose the **incorrect** option.

- a The Speaker.
- b Mayor.
- c Deputy mayor.
- d Municipal manager.
- e A councillor.

Question 1.23

In terms of section 8 of the MFMA, the following moneys must be paid into a municipality's primary bank account:

Choose the **incorrect** option.

- a All allocations to the municipality, including those made to the municipality for transmission to a municipal entity or other external mechanism assisting the municipality in the performance of its functions.
- b All grants received for a relief, charitable, trust or other fund.
- c All income received by the municipality on its investments.
- d All income received by the municipality in connection with its interest in any municipal entity, including dividends.
- e All money collected by a municipal entity or other external mechanism on behalf of the municipality.

Question 1.24

In terms of the MFMA, the mayor of a municipality must:

Choose the **correct** option.

- a At least ten months before the start of the budget year, table in the municipal council, a time schedule outlining key deadlines for the preparation, tabling and approval of the annual budget; and must table the annual budget at a council meeting at least 90 days before the start of the budget year.
- b At least six months before the start of the budget year, table in the municipal council, a time schedule outlining key deadlines for the preparation, tabling and approval of the annual budget; and must table the annual budget at a council meeting at least 30 days before the start of the budget year.
- c At least nine months before the start of the budget year, table in the municipal council, a time schedule outlining key deadlines for the preparation, tabling and approval of the annual budget; and must table the annual budget at a council meeting at least 60 days before the start of the budget year.
- d At least four months before the start of the budget year, table in the municipal council, a time schedule outlining key deadlines for the preparation, tabling and approval of the annual budget; and must table the annual budget at a council meeting at least 14 days before the start of the budget year.
- e At least three months before the start of the budget year, table in the municipal council, a time schedule outlining key deadlines for the preparation, tabling and approval of the annual budget; and must table the annual budget at a council meeting at least 90 days before the start of the budget year.

Question 1.25

According to the MFMA (section 18) an annual budget may only be funded from:

Choose the **incorrect** option.

- a Money voted by the provincial treasury.
- b Realistically anticipated revenue.
- c Un-committed prior year surpluses.
- d Borrowed funds, for capital projects.

Question 1.26

The MFMA states in section 22 that, immediately after an annual budget is tabled in a municipal council, the ___ of the municipality must make public the annual budget.

Choose the **correct** option.

- a The mayor.
- b The council.
- c The municipal manager.
- d The CFO.
- e The deputy mayor.

Question 1.27

According to sections 45 and 46 of the MFMA, a municipality:

Choose the **correct** option.

- a May not incur short-term debt for capital needs within a financial year.
- b May incur short-term debt for capital needs within a financial year.
- c May incur long-term debt for capital needs within a financial year.
- d May not incur long-term debt for capital needs within a financial year.
- e May not incur any debt.

Question 1.28

In terms of section 54 of the MFMA, if the municipality faces any serious financial problems, the mayor must:

Choose the **incorrect** option.

- a Promptly respond to and initiate any remedial or corrective steps proposed by the accounting officer to deal with such problems.
- b Alert the provincial treasury to those problems.
- c Initiate steps to reduce spending when revenue is anticipated to be less than projected in the municipality's approved budget.
- d Initiate the tabling of an adjustments budget.
- e Alert the council and the MEC for local government in the province to those problems.

Question 1.29

In terms of section 62 of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose, take all reasonable steps to ensure:

Choose the **incorrect** option.

- a That the resources of the municipality are used effectively, efficiently and economically.
- b That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.
- c That the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.
- d That the budget is tabled at least 90 days before the commencement of the financial year.
- e That the municipality has a system of internal audit operating in accordance with any prescribed norms and standards.

Question 1.30

In terms of section 70 of the MFMA, the accounting officer of a municipality must report in writing to the ___ any impending shortfalls in budgeted revenue and overspending of the municipality's budget.

Choose the **correct** option.

- a National Treasury.
- b Mayor.
- c Provincial department of local government.
- d The council.
- e All of the above.

Question 1.31

In terms of section 114 of the MFMA, if a tender other than the one recommended in the normal course of implementing the supply chain management policy of a municipality or municipal entity is approved, the accounting officer of the municipality or municipal entity must, in writing, notify ____

- 1 The Auditor-General South Africa.
- 2 Provincial Treasury.
- 3 National Treasury.
- 4 Provincial committee on public accounts.
- 5 Provincial department for local government.

Choose the **correct** combination.

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

Question 1.32

The Public Audit Act provides for certain overruling principles regarding the status of the Auditor-General South Africa (AGSA). Which of the following is not a provision in the Public Audit Act?

Choose the **incorrect** option.

- a The AGSA is subject only to our country's Constitution, the law and the Public Audit Act.
- b The AGSA is the Supreme Audit Institution in South Africa.
- c The AGSA must be impartial and act without fear, favour or prejudice.
- d The AGSA is accountable to the Minister of Finance, through the oversight mechanism provided for in the Public Audit Act.
- e None of the above.

Question 1.33

The objects of the Public Audit Act are:

Choose the **incorrect** option.

- a To give effect to the provisions of the Constitution, establishing and assigning supreme auditing functions to an Auditor-General South Africa (AGSA).
- b To provide for the auditing of institutions and accounting entities in the public sector.
- c To provide for an oversight mechanism.
- d To assist and protect the AGSA in order to ensure the independence, impartiality, dignity and effectiveness of the AGSA.
- e To advise the National Council of Provinces.

Question 1.34

In terms of section 6 of the Public Audit Act, whenever it becomes necessary to appoint a person as Auditor-General, the ___ must initiate the process in the National Assembly.

Choose the **correct** option.

- a President.
- b Outgoing Auditor-General.
- c Director-General of National Treasury.
- d The Speaker.
- e The Chief Whip.

Question 1.35

In terms of section 12 of the Public Audit Act, the Auditor-General South Africa (AGSA) may authorise one or more persons to assist in the performance of an audit. These include:

- 1 A member of the staff of the AGSA who is not registered as an accountant and auditor in terms of the Public Accountants' and Auditors' Act but has the qualifications, experience and competence may be authorised.
- 2 A private practitioner who is registered as an accountant and auditor in terms of the Public Accountants' and Auditors' Act may be authorised.
- 3 A private practitioner who is not registered as an accountant and auditor in terms of the Public Accountants' and Auditors' Act, may not be authorised.
- 4 A person with non-accountancy qualifications, experience and competence to the extent that a person with such qualifications, experience and competence is necessary for any particular audit.

Choose the **correct** combination.

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

Question 1.36

In terms of section 15 of the public audit act on the general audit powers of the Auditor-General South Africa (AGSA):

Choose the **correct** option.

- a A person, who is required in terms of any legislation to maintain secrecy or confidentiality, should not to disclose information relating to a matter when required by the AGSA as the person would be in breach of that person's obligation of secrecy.
- b A person who is required in terms of any legislation to maintain secrecy or confidentiality, or not to disclose information relating to a matter, may be required by the AGSA to comply with any of the requirements in this section, even though the person would be otherwise in breach of that person's obligation of secrecy or confidentiality or non-disclosure.
- c Compliance with a requirement of this section could be a breach of applicable legislation imposing the relevant obligation of secrecy or confidentiality or non-disclosure.
- d The AGSA, an authorised auditor or an assistant or other person referred may be compelled to disclose information obtained in the course of official duties in any proceedings in which the AGSA is not a party, before a court in a civil matter.
- e b and c above.

Question 1.37

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:

- 1 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.
- 2 The auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters.
- 3 On the written advice from the relevant Minister, on the basis of national interest, may exclude confidential, secret or classified details of findings from the audit report, provided that the audit report states that these details were excluded.
- 4 The reported information relating to the performance of the auditee against predetermined objectives.

Choose the **correct** combination.

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

Question 1.38

In terms of section 19 of the Public Audit act:

Choose the **incorrect** option.

- a An auditee must render all reasonable assistance to the Auditor-General South Africa (AGSA) or the authorised auditor performing.
- b Accede free of charge to all reasonable requests of the AGSA or the authorised auditor to facilitate the expeditious completion of the audit.
- c Provide suitable office accommodation on the auditee's premises.
- d Provide staff from the AGSA with office equipment.
- e Provide suitable parking on the auditee's premises at a reasonable rate.

Question 1.39

In terms of section 23 of the Public Audit Act on audit fees:

Choose the **correct** option.

- a The Auditor-General South Africa (AGSA) determines the basis for the calculation of audit fees.
- b The oversight mechanism determines the basis for the calculation of audit fees.
- c The AGSA determines the basis for the calculation of audit fees after having consulted the oversight mechanism and the National Treasury.
- d The oversight mechanism together with National Treasury determines the basis for the calculation of audit fees after having consulted the AGSA.
- e National Treasury determines the fees.

Question 1.40

The Public Audit Act requires that the Auditor-General South Africa prepare a report for every audit. Which of the following should not be included in the report?

Choose the **incorrect** option.

- a An audit opinion.
- b Whether the financial statements fairly reflect the result and position of the department.
- c Human resource practices in the entity.
- d Efficient, economic and effective use of resources.
- e Report on the reliability of performance information.

QUESTION 2

(60 marks)

The *Public Finance Management Act* (PFMA) and the *Municipal Finance Management Act* (MFMA) require that every organ of state must have an audit committee. The *Treasury Regulations* (TR) give more information on the specific requirements regarding the audit committees for National and Provincial Departments, as well as for Constitutional Institutions and Public Entities.

As the audit committee has an important oversight role to play, it is of the utmost importance for the Auditor-General South Africa (AGSA) to ensure that the audit committee operates effectively and efficiently.

REQUIRED:

Prepare an evaluation document for use by the AGSA to assess whether audit committees in National and Provincial departments are compliant with the requirements of the PFMA and TR, and also whether the audit committees are operating according to best practices.

Provide your answer under the following headings:

- Composition and quality.
- Understanding the organisation and risks.
- Oversight of internal and external auditors.
- Process and procedure.
- Communication.
- Oversight of internal controls, risk management, governance and financial reporting.
- Overall performance.

QUESTION 3

(60 marks)

THIS QUESTION CONSISTS OF TWO RELATED PARTS

PART A

(20 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 in conformity with other international guidelines on professional ethics. The ethics workshop addressed amongst others, the following topics:

- professional ethical qualities, values and principles;
- codes of professional ethics and conduct; and
- consequences of unethical behaviour.

In addition to the above topics, an open session was held to discuss the 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 recently faced by government auditors in the employ of the AGSA, were discussed:

Dilemma 1

Auditor Adams performed an audit engagement at Department Z. He had to do extensive travelling to the client's provincial offices. Upon submitting his travel and subsistence claim, he overstated his business expenses and claimed for kilometers not really travelled. Auditor Adams also told his friend who is in the IT industry, that Department Z would be requesting tenders for a supplier of IT equipment. Auditor Adams encouraged his friend to submit a tender and assured him that he would speak to his "friends" at Department Z who are responsible for the allocation of the tenders. (6)

Dilemma 2

Auditor Bam is a government auditor in charge of the performance audit engagement for Department Y. He recently had performance appraisal meetings with all the internal auditors on his team. He informed a junior auditor, Mr Pooe, that he was extremely dissatisfied with his work and that he would make sure that Mr Pooe did not get a bonus in the current year. It is also well-known in the team that auditor Bam dislikes Mr Pooe and acts with prejudice towards him. In spite of Mr Pooe having shown auditor Bam that he had received an excellent rating from the client, Department Y, auditor Bam nevertheless made sure that no bonus was paid to Mr Pooe. (3)

Dilemma 3

Auditor Cele performed a financial audit engagement at public entity X. He discovered that the department had overstated its operational expenses by a material amount. He held discussions with the chief financial officer (CFO) with regard to the material overstatement of specifically the training and development

expenses, and was told that the overstatement was in the best interests of public entity X, due to the fact that a “low” actual expense would result in a “low” budgeted amount for the following year. Auditor Cele accepted the CFO’s explanation and deleted the finding from his working papers. (3)

REQUIRED:

- (a) With reference to codes of professional conduct, identify and briefly explain any **two** relevant principles, values or qualities contributing to government auditors’ professionalism. (4)
- (b) For each of the dilemmas described above, comment on whether the government auditor’s action/proposed action(s) were/are in line with the INTOSAI Code of Ethics. Describe the principle(s) and rule(s) violated, and make a recommendation with regard to an appropriate behaviour. (12)
- (c) Briefly comment on the consequences of unethical behaviour within the government auditor profession in South Africa, with specific reference to registered government auditors (RGAs). (4)

PART B

(40 marks)

You are a registered government auditor (RGA) employed by the Auditor-General South Africa (AGSA), and have been assigned to the annual audit of the Government Information Technology Agency (GITA), as the auditor in charge. GITA is a Schedule 3B Public Entity in terms of the Public Finance Management Act, and is mandated to coordinate all the information technology resources of the state. This mandate includes the strategic planning, procurement management, and development of all government information technology resources.

During your initial meetings with the executive management team of GITA, some concerns were raised with regard to the governance structures of the organisation. Based on these concerns, and the fact that the chief executive officer (CEO), Ms Jane September, informed you that she wants GITA to apply the principles of the third King Report on Governance (King III), you decided to review the following **aspects**:

- 1 the composition of GITA’s board and audit committees;
- 2 the internal audit function;
- 3 the organisation’s commitment to risk governance; and
- 4 ethical leadership and ethics management.

You could obtain all the information you required on the first two aspects, but you were unable to obtain sufficient information on the third aspect, namely the risk governance structures of GITA. You therefore decided to prepare a detailed questionnaire to determine the extent to which the organisation adheres to the principles of King III that relate to the governance of risk. With regard to the fourth aspect, ethical leadership and ethics management, you determine that GITA had obtained a template for a business code of conduct, but that there appears to be no

ethics champions within the organisation responsible for establishing an ethics management process and building an ethical culture.

The following information regarding to the first two aspects was made available to you:

The board of GITA consists of the following members:

- Mr Peter Manoko, a local private IT consultant and chairman of the board.
- Ms Jane September, GITA CEO.
- Mr Abraham Sisulu, GITA chief financial officer (CFO).
- Mr Paul Brink, GITA chief operating officer (COO).
- Ms Diana Govender, a local financial consultant.

GITA's audit committee meets once every quarter, is appointed by the CEO, and consists of the following members:

- Ms Tina Mnisi (chairperson), the legal advisor of a private sector company. Ms Mnisi was the chief legal advisor (CLA) of GITA up until the end of the previous year.
- Mr Anton Ferreira, an independent chartered accountant (CA) SA.
- Prof Thabo Molefe, a senior faculty member of a local university specialising in internal auditing and risk management.
- Mr Abraham Sisulu, GITA CFO.

GITA has a fully operational internal audit function. The chief audit executive (CAE), Ms Betty Radebe, reports functionally and operationally to the COO, Mr Paul Brink. This reporting structure is also defined in a formal internal audit charter, which was formally approved by the board. The internal audit function prepares an annual internal audit plan, which is based on the annual risk assessment performed by the risk management division. This plan is also approved by the COO.

REQUIRED:

- (a) For the first two governance aspects described above:
 - i Discuss all instances of adherence to King III. (6)
 - ii Discuss all instances of non-adherence to King III. (7)
 - iii Formulate a recommendation to improve the organisational governance in accordance with King III. (7)

Provide your answer in table format:

No	(i) Adherence	(ii) Non-adherence	(iii) Recommendation
1.

- (b) Prepare a questionnaire listing the issues that you would ask the executive management of the GITA to explain in order to determine the extent to which the organisation adheres to the principles of King III that relate to the governance of risk (aspect 3). (6)

- (c) Comment on the acceptability of GITA's ethics management process (aspect 4) with *reference to King III*. Your answer should include:
- i A comment on the acceptability of GITA's ethics management process, and one reason to motivate your answer. (2)
 - ii A brief description of the steps required to implement a formal ethics management process. (4)
 - iii A relevant example for each step described in (i) above. (4)
- (d) In your opinion, how can ethical leadership in the public sector in South Africa be improved? (4)