



The Southern African Institute of Government Auditors

Qualifying Examination for Registered Government Auditors

Paper 1: Regulatory Framework

November 2016

INSTRUCTIONS TO CANDIDATES

- 1 Maximum marks: **160**.
- 2 Total time available: **four hours**.
- 3 **Q1= 40 marks, Q2= 20 marks, Q3= 60 marks, Q4=40 marks**
- 4 **Start each question in a new book**
- 5 The marks allocated to each question are an indication of the expected length and required depth of the answer.
- 6 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.
- 7 Present your arguments clearly, using well structured, clear and precise language and appropriate professional terms.
- 8 No books or notes are allowed in the examination room.
- 9 Total number of pages for this paper is 20
- 10 All working papers must be handed in together with all paper provided for the examination (including unused answer sheets).
- 11 Answers written in pencil will not be marked.
- 12 You are reminded that this examination will be held under the rules as set out in the document "RGA-QE Examination Matters & 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 **Constitution of RSA**, the **Public Finance Management Act (PFMA)**, the **Treasury Regulations**, the **Municipal Finance Management Act (MFMA)**, the **Public Audit Act (PAA)** and the **Public Service Act**.

Question 1.1

The Constitution of the RSA (Act 108 of 1996):

Choose the **incorrect** option.

- a Is the Supreme Law that governs the organisation, powers, procedures and actions of all organs of state.
- b Is augmented by other legislation, policies, norms and standards, etc.
- c Establishes the Office of the Auditor General as a Chapter 2 Institution responsible for executing the public audit mandate.
- d Establishes the National and Provincial Revenue Funds and provides for the equitable allocation of national revenue to Provinces and Municipalities.
- e Sets requirements for transparent financial management of the three spheres of government.

Question 1.2

The following was identified in a department '*employees received overtime payments in excess of 30% of their monthly salaries, without justification*'. Identify which type of 'unwanted expenditure' the department should categorise the overtime expenditure as.

Choose the **correct** option.

- a Fruitless and wasteful.
- b Irregular.
- c Unauthorised.
- d Non-compliance with laws and regulations.
- e All of the above.

Question 1.3

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 1.4

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 1.5

The PFMA deals with important matters such as, *inter alia*:

Choose the **incorrect** option.

- a The management of the National Revenue Fund (Chapter 2).
- b The oversight role of Provincial Treasuries (Chapter 3).
- c The format and content of National and Provincial budgets (Chapter 4).
- d The role and responsibilities of the Accounting Standards Board (Chapter 11).
- e International relations with foreign countries (Chapter 11).

Question 1.6

In terms of the MFMA's provisions on financial reporting and auditing, the Annual Report of a municipality must, amongst other, include:

- 1 The Auditor-General's audit report in terms of section 126(3) on those statements.
- 2 An assessment by the accounting officer of any arrears on municipal taxes and service charges.
- 3 Any recommendations of the municipality's Audit Committee.
- 4 The Auditor-General's audit report in terms of section 45(b) of the Municipal Systems Act

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

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 1.8

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 1.9

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 1.10

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 1.11

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 1.12

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 1.13

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 1.14

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.
- e All of the above.

Question 1.15

The PFMA deals with important matters such as, *inter alia*:

Choose the **incorrect** option.

- a The management of the National Revenue Fund (Chapter 2).
- b The oversight role of Provincial Treasuries (Chapter 3).
- c The format and content of National and Provincial budgets (Chapter 4).
- d The role and responsibilities of the Accounting Standards Board (Chapter 11).
- e International relations with foreign countries (Chapter 12).

Question 1.16

The Treasury Regulations issued in terms of the PFMA prescribes measures to ensure transparency and expenditure control in each sphere of government, through the introduction of:

Choose the **correct** option.

- a GRAP.
- b Uniform expenditure classification.
- c Uniform treasury norms and standards.
- d All three statements are correct.
- e None of the three statements are correct.

Question 1.17

In terms of Treasury Regulations, 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 1.18

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 1.19

With regard to 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 1.20

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 1.21

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 1.22

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).
- e All of the above.

Question 1.23

In terms of South Africa's regulatory framework legislative mandates (powers) are:

Choose the **correct** option.

- a Granted through the Legislature (Parliament).
- b Executed by the Executive (Cabinet) and administrators (Public Officials), normally through delegations.
- c Interpreted by the Judiciary (Courts and Case Law), customary law and rules of interpretation (legal opinions).
- d All three statements are correct.
- e None of the three statements are correct.

Question 1.24

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 1.25

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 1.26

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 Public Entities (Chapter 6).
- d General treasury matters (Chapter 9).
- e Accounting Standards Board (Chapter 11).

Question 1.27

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 1.28

The object of the Public Audit Act is:

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 1.29

In terms of the PFMA, the main fiduciary duties of an Accounting Authority include the duty to:

Choose the **incorrect** option.

- a Protect assets and records of the public entity.
- b Act with fidelity, honesty, integrity and in the best interest of the entity in managing its financial affairs.
- c Disclose to the Executive Authority or Legislature to which the entity is accountable, facts which may influence decisions/actions of the Executive Authority or Legislature.
- d Prevent any prejudice to financial interests of the state.
- e Withhold the submission of financial statements to the Auditor General and relevant Treasury when instructed to do so by the Executive Authority.

Question 1.30

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 1.31

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 of South Africa.
- d Provincial Treasury.
- e All of the above.

Question 1.32

The Public Service Act sets provisions to deal with:

Choose the **incorrect** option.

- a Appointments on probation, transfers, retirement and retention of services.
- b Termination of employment.
- c Grievances and disciplinary procedures.
- d General treasury matters.
- e Remunerative work by employees.

Question 1.33

In terms of the requirements of the Treasury Regulations and the PFMA:

Choose the **incorrect** option.

- a The Accounting Officer must ensure that a risk assessment is conducted regularly to identify emerging risks of the institution.
- b A risk management strategy, which must include a fraud prevention plan, must be used to direct internal audit efforts and priorities.
- c The purpose, authority and responsibility of the Internal Audit Function must, in consultation with the Audit Committee, be formally defined in an Audit Charter in accordance with the standards of the Institute of Internal Auditors.
- d The CFO must approve the Audit Charter of the Internal Audit Division.
- e The Internal Audit Function must prepare, in consultation with and for approval by the Audit Committee, a rolling three-year strategic Internal Audit Plan, based on its assessment of key strategic areas and its risk management strategy.

Question 1.34

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.
- e 2,4

Question 1.35

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 the audit.
- 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 1.36

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 1.37

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 1.38

In terms of the MFMA:

Choose the **incorrect** option.

- a 'An official', in relation to a municipality or a municipal entity, excludes a person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity.
- b 'Municipal tax' means property rates and other taxes, levies and duties that a municipality may impose.
- c A 'senior manager' in relation to a municipal entity means a manager directly accountable to the CEO of the entity.
- d 'Short term debt' means debt repayable over a period not exceeding one year.
- e 'Unauthorised expenditure' includes overspending of the total amount appropriated in the municipality's approved budget.

Question 1.39

In terms of the provisions of the PFMA:

Choose the **incorrect** option.

- a If a department incurs expenditure that contravenes any applicable legislation, such expenditure meets with both the definition of irregular expenditure and unauthorised expenditure and must be classified as such.
- b An Accounting Officer must immediately take effective and appropriate disciplinary steps against any official in the service of the department who makes or permits unauthorised expenditure.
- c The annual report and audited financial statements must include particulars of any unauthorised expenditure that occurred during the financial year and any criminal or disciplinary steps taken as a result of such unauthorised expenditure.
- d Fruitless and wasteful expenditure is expenditure which was made in vain and would have been avoided had reasonable care been exercised.
- e An official of a department and constitutional institution must take effective and appropriate steps to prevent fruitless and wasteful expenditure within that official's area of responsibility.

Question 1.40

According to South Africa's Public Finance Management regulatory environment:

Choose the **incorrect** option.

- a An internal audit function must prepare a quarterly report to the Audit Committee, detailing its performance against the Annual Internal Audit Plan, to allow for effective monitoring and possible intervention.
- b The internal audit function must assist the Accounting Officer in maintaining efficient and effective controls by evaluating those controls to determine their effectiveness and efficiency, and developing recommendations for enhancement or improvement.
- c The Audit Committee can investigate matters within its power, as identified in the written terms of reference.

- d The Audit Committee must meet at least annually with the AGSA to ensure that there are no unresolved issues of concern.
- e One of the matters that the Audit Committee cannot comment on in the Annual Report of the institution is its evaluation of the Annual Financial Statements.

QUESTION 2

(20 MARKS)

The internal audit division for the Department of X was established in 2006 as required by the *Treasury Regulations (TR)* and the *Public Finance Management Act (PFMA)*. In 2010 an audit committee was appointed.

The authority and responsibilities of the internal audit function were defined in an Internal Audit Charter which was approved by the Chief Financial Officer. No amendments or updates have been made to the charter, as the head of internal audit indicated that no significant changes occurred in the internal audit profession since then that would necessitate any changes or a review.

A recent quality assurance review of the internal audit function revealed that the overall capacity, qualifications and experience of the internal audit staff are insufficient and since the establishment of the division in 2006 no member of staff has attended any training courses as the head of internal audit is of the view that staff have sufficient on-the-job exposure to all aspects of the internal audit function, making the need for training unnecessary.

The head of internal audit, received the focus areas for internal audit from the CFO. The focus areas are based on the annual risk assessment.

The internal audit plan was drafted and then circulated to the members of the audit committee for their inputs. The annual internal audit plan and budget were approved by the CFO during a strategic risk management workshop held in May of the current financial year.

Due to the fact that the head of internal audit has an extremely busy work programme, it was agreed that he will only attend audit committee meetings 'if and when he is available'.

REQUIRED:

Based on the background information supplied, evaluate whether the internal audit division of Department X complies with the requirements of the Treasury Regulations and the PFMA.

QUESTION 3

(60 MARKS)

NOTE: THIS QUESTION CONSISTS OF TWO PARTS

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* 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:

(a) Discuss the functions of the audit committee in terms of the Treasury Regulations and the PFMA. (20)

(b) You are required to prepare a **part** of an evaluation document for use by the AGSA to assess whether the 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.

Note that the **section** of the document that you must prepare must **only** deal with the following **particular aspects** (which you can use as **headings** to provide your answer):

- Composition and quality.
- Understanding the organisation and risks.
- Oversight of internal and external auditors.
- Process and procedure.

(40)

QUESTION 4

(40 marks)

THIS QUESTION CONSISTS OF THREE RELATED PARTS.

PART A

(12 marks)

You are a government auditor working at the Auditor General South Africa (AGSA). You recently enrolled for the Government Auditor Specialism Programme (GASP) as you are aspiring to qualify as a Registered Government Auditor (RGA) and register as a member with the Southern African Institute of Government Auditors (SAIGA) within the near future.

SAIGA highlights specialised education and training as well as adherence to a Professional Code of Ethics (*INTOSAI Code of Ethics*) as important requirements of a being a professional government auditor. The purpose of the professional code of ethics is to encourage ethical behaviour amongst audit professionals. In addition, the AGSA also has an organisational code of ethics to guide the ethical behaviour of its employees.

During a recent training workshop for government auditors, the following three (3) scenarios were used to explain the differences between professional ethics and business ethics:

Scenario 1:

A public-private partnership (PPP) organisation commenced with operations in a rural community. The organisation decided to rather "import" all new staff members than to use only some of the community's members as this will be unfair to the other community members not being employed by the PPP.

Scenario 2:

A new government auditor was put in charge of a compliance audit engagement for a national department. He never studied the Public Finance Management Act (PFMA) and Treasury Regulations but the senior audit manager ensured him that he will know what to do. The senior audit manager also told the new auditor to document everything he does, as he (the senior audit manager) does not have time to review his working papers.

Scenario 3:

A government auditor suspected that a national department is not adhering to the preferential procurement policy framework requirements. He gathered extensive verbal evidence (from internal and external parties) to confirm his suspicions. He immediately reported the non-compliance to his audit manager who documented the finding in the audit report.

REQUIRED:

For each one of the above scenarios, indicate the following:

- (a) Type of ethics issue (professional ethics OR business ethics); **(3)**
- (b) Motivation / explanation to support the types of ethics issues identified in (1) above, with specific reference to the definition of ethics; **(9)**

PART B

(10 marks)

You were recently appointed as the chairperson of an ethics and governance committee established within the public sector to, on a regular basis, deal with various ethics and governance related issues. The committee reviews amongst others, cases where there appears to be unethical conduct by government employees, conflict of interests and a lack of sound governance. Based on the information received by the committee, a recommendation is drafted and presented to the relevant parties.

During a recent meeting, the following issues relating specifically to actions taken by RGA's, were discussed:

Issue 1:

Auditor Sambo has been pressurised by the senior on the audit into signing off the audit program for a section of the audit to which he was assigned although he has not completed the work, so that the budget for the audit can be met. When he protested, the senior informed him that should he not do as he was told, he (auditor Sambo) would receive a very poor rating at his next performance assessment.

(6 marks)

Issue 2:

Auditor Gamba decided to terminate his appointment contract at the AGSA and was subsequently appointed as chief financial officer at Public Entity X. There he discovered payroll fraud and reported the fraudulent activity to the board of the public entity. In response to a question from one of the other members of the board, Gamba admitted that the fraud was made possible by a serious breakdown in internal controls. After some discussion the chairperson of the board informed the members of the board that he had received a telephone call from Mr Ngobeni, who is a highly placed government official. The person allegedly involved in the payroll fraud is the brother of Mr Ngobeni. Mr Ngobeni states that he will ensure that the entity is awarded a lucrative contract that is currently out on tender, if no action is taken against his brother.

(4 marks)

REQUIRED:

For each of the cases described above, comment on whether the Registered Government Auditors' actions are in line with the INTOSAI Code of Ethics. Indicate the principle(s) and rule(s) violated and make recommendations with regard to the appropriate behaviour. (13)

PART C

(18 marks)

You are a Registered Government Auditor (RGA) in the employ of the AGSA. You are aware of the fact that all public sector organisations in South Africa are encouraged to apply the principles of the King Report on Governance issued by the Institute of Directors in 2009. Furthermore, you obtained a copy of the Public Administration Management Act (Act 11 of 2014) on the website of the Department of Public Services and Administration (DPSA). It makes provision for the implementation of integrity management units within public sector organisations.

One such organisation which proclaims to have a strong ethical culture is Public Entity ZZ. In discussions with senior management of Public Entity ZZ, you obtained the following information whilst planning an audit engagement:

The organisation's leadership team is quite new and is determined to enforce compliance with all laws and regulations. They believe that adherence to the nation's laws and regulations provides a strong ethical foundation and therefore established a compliance office. The compliance officer is also responsible for integrity management within the organisation. He has a legal background and supports senior management's philosophy of compliance.

Public Entity ZZ recently published a Code of Ethics (especially developed for the organisation) listing a number of do's and don'ts to employees. The leadership team made it very clear that non-adherence to the Code of Ethics will not be tolerated. The Code was distributed to all staff through e-mail with a message from the executive – "All employees MUST adhere to the new Code of Ethics, or else..."

In a recent incident a junior staff member was found guilty of misconduct and was immediately dismissed. However, in another incident a senior manager was found guilty of misconduct and no actions were taken against this manager. This senior manager also received an award for outstanding leadership presented to him by Public Entity ZZ's human resources director who regards employees as the primary stakeholder of the organisation.

The audit committee of Public Entity ZZ consists of independent non-executive members (all with excellent financial and legal expertise) and they meet four times a year. The audit committee focuses on evaluating the annual financial statements and ensuring that the organisation has sufficient controls in place to reduce financial risks to an acceptable level.

REQUIRED:

- (a) With reference to the information provided above, identify any five **(5)** possible weaknesses in the governance and ethics structures of Public Entity ZZ with reference to the King Report on Governance. Provide reasons for your answer. Your answer should be in table format as follows: **(10)**

Weaknesses in governance and ethics	Reasons
1	
2	
3	
4	
5	

- (b) Briefly describe any six (6) initiatives (excluding a code of ethics) that a public sector organisation can implement to manage its ethics effectively. **(6 marks)**
- (c) Comment, with reasons, whether compliance with the integrity management framework by a public sector organisation should be assessed or audited by the AGSA. **(2 marks)**

END OF PAPER