Country Focus
South Africa

SOUTH AFRICA

Background on South Africa

The southernmost tip of Africa is home to a nation on the rise – a place where a warm spirited and inventive people, great natural wealth and breathtaking landscapes come together as a rainbow nation to create fresh opportunities and new ways of doing things. South Africa lies on the southern tip of the African continent between 22 and 35 degrees south, flanked on the west by the Atlantic Ocean and on the east by the Indian Ocean.

The long coastline stretches 2,798 kilometres from a desert border in the north-west, down the icy and treacherous Skeleton Coast to Cape Agulhas, then up along rolling green hills and wide beaches fronting the warm Indian Ocean, to the border with subtropical Mozambique in the north-east.

South Africa is famous for its sunshine. The country's subtropical climate is moderated by oceans on three sides of the country and the altitude of the interior plateau, which accounts for the warm, temperate conditions so typical of South Africa and so popular with its foreign visitors.

Since the end of apartheid in 1994, the consolidation of democracy and relative economic stability has created a new set of opportunities and challenges for the cause of social transformation. Taking local conditions and international best practice into account, South Africa is therefore engaged in a range of initiatives to accelerate sustained development and shared growth, and overcome poverty and under-development.

South Africa's domestic programme of reconstruction and development complements the country's vision of a world characterised by democracy, peace, prosperity and social progress for all.

With over 47.9 million people and a variety of cultures, languages and religious beliefs, South Africa is a nation of vibrant diversity.

Eleven official languages and a number of unofficial ones besides are recognised in South Africa, but although it is only the fifth most spoken language in the country, English is the most commonly spoken language in official and commercial public life.

While more than three quarters of South Africa's population is black African, this category is neither culturally nor linguistically homogenous. Nine of the official languages in South Africa are African, reflecting a variety of ethnic groupings, which nonetheless have a great deal in common in terms of background, culture and descent.

South Africa is a vigorous, multiparty democracy with an independent judiciary and a free and diverse press.

The highest law of the land is the Constitution of the Republic of South Africa, 1996 (Constitution) – considered by many to be one of the most progressive constitutions in the world – and its bill of rights is second to none.

South Africa's economy has, since September 1999, experienced the longest period of economic expansion in the country's recorded history. The economy remains strong, buoyed by rising investment in productive capacity, higher employment and incomes, stronger consumer demand and healthy foreign capital inflows.

South Africa takes pride in its track record on the hosting of major international events including the 1995 Rugby World Cup, the 1996 Africa Cup of Nations and the 2002 World Summit on Sustainable Development which required protection for more than 100 heads of state.

In May 2004 FIFA president Seph Blatter announced that South Africa had received the prestigious honour to host the Football World Cup in 2010. This will be the first time in history that the ultimate festival of soccer will be held on African soil.

The 2010 FIFA World Cup™ is a catalyst for the country's infrastructure and social developmental projects that will benefit all South Africans. The country will be an enhanced destination for business and tourism. Through 2010 investment the country is set to achieve the Millennium Development Goals and the Accelerated Shared Growth Initiative of South Africa (ASGISA).

Terence
Nombembe

Auditor-General of South Africa

As the country's supreme audit institution, the Auditor-General of South Africa (AGSA) is responsible for the auditing of national and provincial state departments and administrations, all municipalities and any other institution or accounting entity required by national and provincial legislation to be audited by the AGSA.

The AGSA is one of the Chapter 9 institutions mandated by the country's highest law, the Constitution, to fulfil certain functions. These institutions are not part of government and do not have a duty to be part of the mechanisms of cooperative government. The independence of the AGSA is thus respected and strengthened, says the Auditor-General (AG), Terence Nombembe, 'The Auditor-General exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence. This is our constitutional mandate and our promise to the people of South Africa.'

The Constitution establishes the AGSA as a state institution, outlines the manner in which the AG is appointed and defines the institution's principles and key functions. As such, it provides the framework for corporate governance with which the institution must comply. Corporate governance is defined in the Public Audit Act (PAA), 2004 (Act No. 25 of 2004). The PAA also facilitates the establishment and defines the functions of the parliamentary oversight mechanism and other key structures of the AGSA, including the audit committee. The AG is accountable to the National Assembly in terms of section 181(5) of the Constitution and section 3(d)

of the PAA and has to report on his/her activities and the performance of his/her functions in terms of section 10 of the PAA. The main accountability instruments are the AGSA's Strategic Plan and Budget and Annual Report, which are tabled annually in the National Assembly. The Standing Committee on the Auditor-General (SCoAG), established in terms of section 10(3) of the PAA, oversees the performance of the AGSA on behalf of the National Assembly.

The AG is supported by 1 923 staff members, who are distributed throughout the nine provinces to represent the AG countrywide. A shortage of auditing and accounting skills in the country has necessitated the AGSA embarking on a +process of building capacity via a trainee scheme. The AGSA adopts an all-inclusive approach in taking on trainees who meet the minimum criteria, irrespective of the professional body with which they are associated. These include chartered accountants, registered government auditors, chartered certified accountants and certified information systems auditors. As the workload of the AGSA is cyclical in nature, the assistance of private audits firms is contracted annually to ensure that all audits are completed in time.

The AGSA fulfils its mandate by conducting a variety of audits, such as regularity audits (financial), performance audits, the auditing of performance information and international audits. In the 2007-08 financial year, regularity audit activities utilised 92% of the AGSA's auditing resources, leaving 8% for performance audits. Although regularity audits remain the main focus area, the other audit services

are being increased in response to the need for the AGSA to remain relevant to its stakeholders. It is a strategic imperative for the AGSA to gradually utilise more of its resources to conduct performance audits, especially as performance auditing is increasingly becoming a strategic and primary focus area. The AGSA therefore envisages expanding performance auditing and to devote 10% of its total resources to this area of auditing in the 2008-09 financial year.

In the international arena, the AGSA, as one of the international supreme audit institutions, contributes extensively and the international institutions audited by the AGSA include the World Health Organization, the United Nations (UN), the United Nations Industrial Development Organization (UNIDO) and the International Centre for Genetic Engineering and Biotechnology (ICGEB). These contracts have been obtained competitively and are evidence of the AGSA's good standing and professionalism.

On the African continent, the AGSA is currently conducting an audit of the Special Court for Sierra Leone on a cost-recoverable basis.

The AGSA also actively participates in the International Organization of Supreme Audit Institutions (INTOSAI) and has agreed to host the 20th congress of this organisation in South Africa in 2010.

The information systems auditing (ISA) business unit of the AGSA plays an important supporting role and conducts information systems (IS) audits as part of the AGSA's integrated audit approach. IS controls are significant in determining the effectiveness of the internal controls in an institution's IS environment. Weak IS controls severely
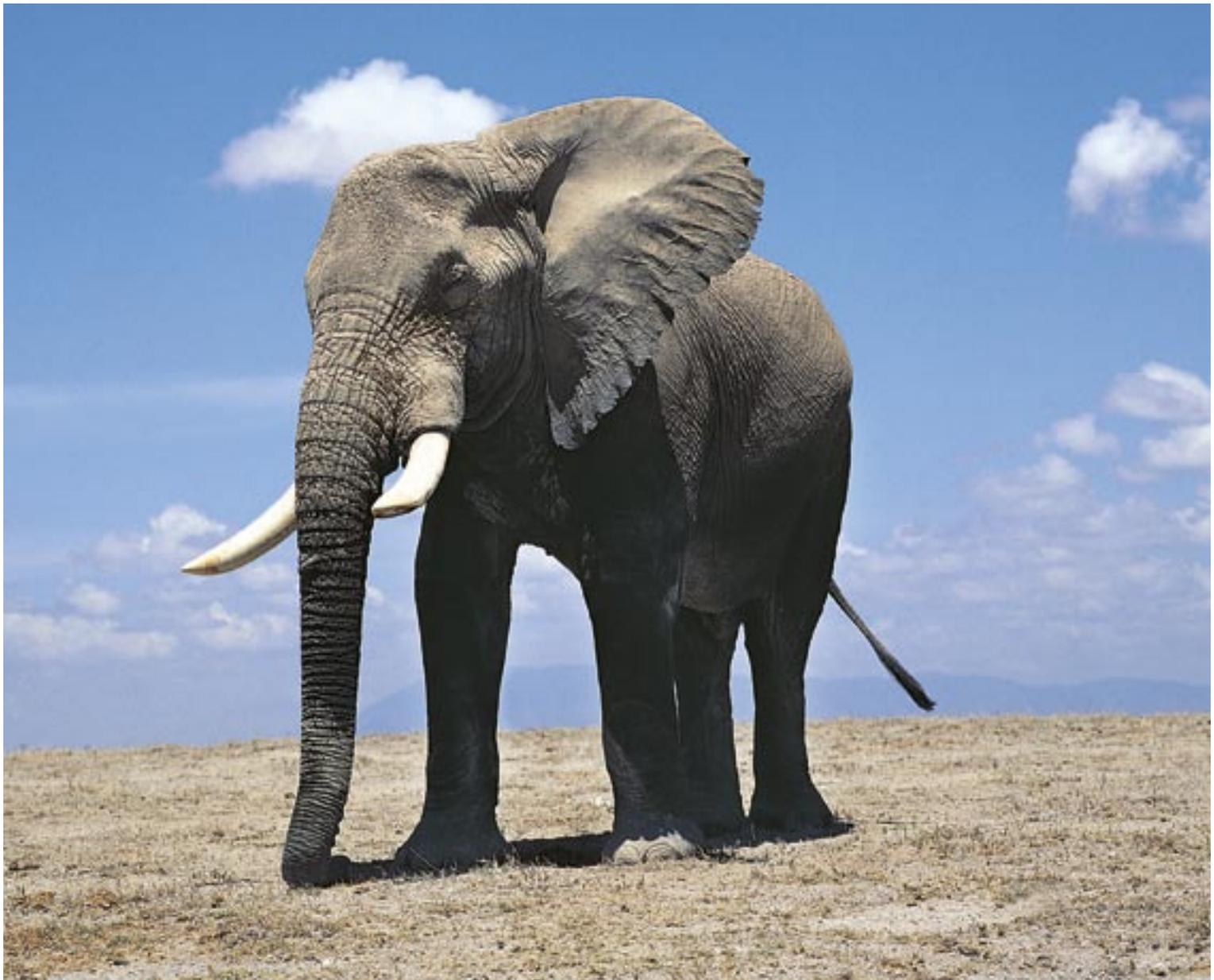
diminish the reliability of other internal controls associated with an application. Without effective IS controls, other controls may be rendered ineffective through override, circumvention or modification. The 60 staff members of the ISA business unit who perform the IS audits are divided into five centres that are each headed by a senior manager. The business unit is centrally managed but has a decentralised presence as well. IS audits are conducted with reference to the COBIT control and governance framework for IT compiled by the Information Systems Audit and Control Association (ISACA), also adopted by the SA Government, which is a process-based governance framework.
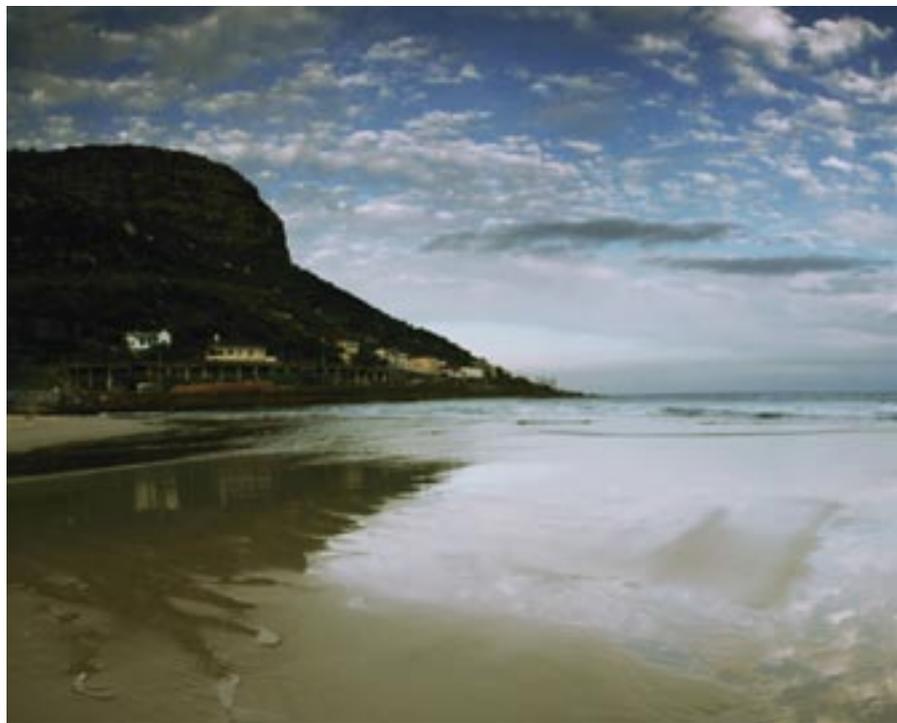
The AGSA is active participant on local and international level in ISACA. Three staff of the ISA business unit serve on the South Africa ISACA chapter board.

The AGSA has also implemented trainee information systems audit scheme based on the ISACA training curriculum in terms of which graduate staff are contracted to perform their Certified Information Systems Audit (CISA) articles.

The IS support provided to the regularity auditors is twofold, namely for assurance and non-assurance purposes. Audits are conducted to evaluate the IS control environment to assist the regularity auditors in determining their audit approach (assurance audits). The IS control environment consists of general and process controls. General controls, which underpin the effectiveness of user and application controls, typically comprise the following:

■ Policies, standards and IT planning, which relate to the IT environment and form the basis for a controlled and stable environment;

■ The organisational structure and the segregation of incompatible duties in respect of programming and computer operations;

■ Operating procedures, which relate to the controls in the IS environment that ensure that processing is accurate and reliable and that processing errors are detected and corrected;

■ The logical access control process that ensures the confidentiality and integrity of specific applications and data;

Physical access and environmental controls that ensure that physical access to computer operations is restricted to authorised personnel only and that computer resources are safeguarded from environmental threats;

The change control process that ensures that only authorised programs and data are used; and

The continuity planning process that ensures the recovery of computer systems and the availability of processing functions and business operations in the event of a loss of processing capabilities or data.

Due to the specialised nature of IS audits, two areas of specialisation have been identified and established. The first area of specialisation is **network audits**, which focus on network security and the provisions made in the network infrastructure, the policies adopted by the network administrator to protect the network and the network's accessibility to unauthorised access. Advanced and dedicated appliances and software (firewalls and antivirus programs, etc.) as well as patches are also reviewed. During these audits, internal as well as external penetration testing is conducted. A second area of specialisation is **enterprise resource planning** (ERP) audits, which mainly focus on the Systems, Applications and Products (SAP) system. The SAP audits include pre-implementation reviews, SAP authorisation reviews, SAP baseline reviews, which focus on aspects such as the network infrastructure, SAP router reviews, reviews of the secure digital signatures (SAPSECULIB), interfaces via Application Link Enabling, online services (SAP AG and Earlywatch) and SAP business and customised business

processes, including the interaction and data flow between the 12 different modules.
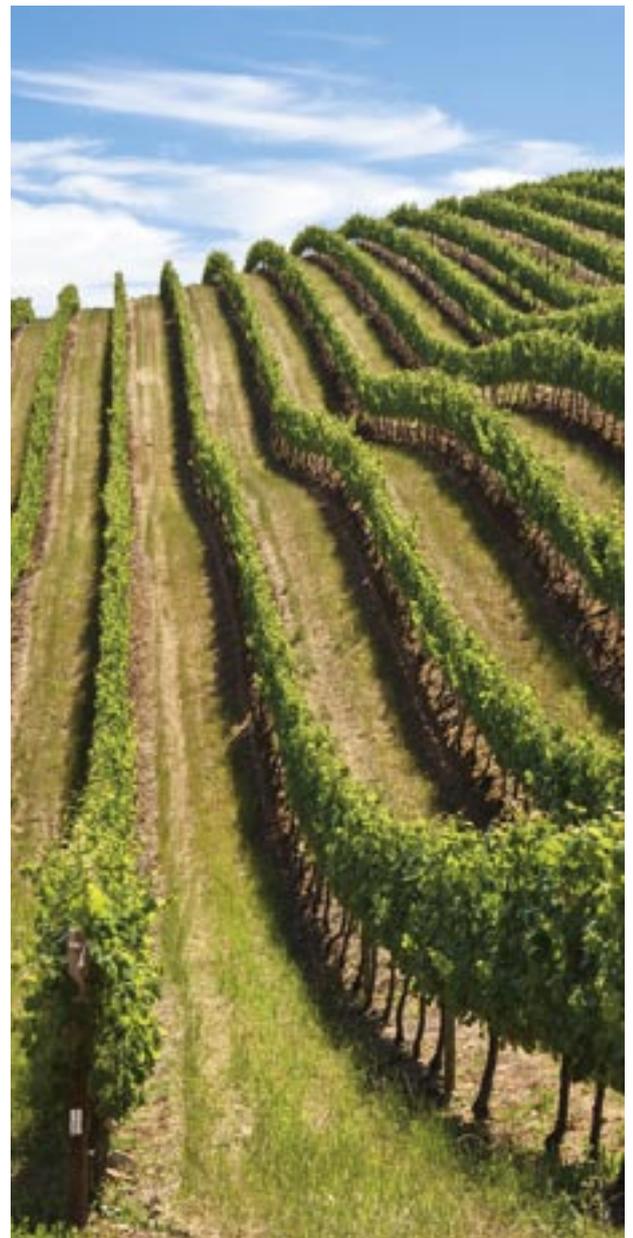
Process audits, which are also conducted increasingly, focus on both key user and computerised controls that are applied to either individual transactions or similar batches designed to prevent and detect errors and irregularities occurring in the early stages of processing or immediately thereafter. The key user and computerised controls audited include the controls over processing and computer data designed to provide reasonable assurance that:

- data is entered correctly;

- transactions are properly processed;

- transactions are not lost, added, duplicated or inappropriately changed;

- processing errors are identified and corrected on a timely basis; and

- transactions are not reported incorrectly.

Furthermore, to assist the financial auditors in conducting effective audits, support is also provided using computer assisted audit techniques (CAATS). Extensive support is provided to the regularity auditors using the Audit Command Language (ACL) package.

There is little doubt that in today's business environment information technology (IT) has become a cardinal aspect of both financial and non-financial reporting, and that it is involved in nearly all the steps in producing financial statements and non-financial information. Accordingly, the area of IT governance is increasingly being addressed by legislation and standards that aim to ensure that the impact of internal controls over financial and non-financial reporting is appropriately addressed.

Information Systems Audits are no longer considered to be a mere nice to have and are

almost mandatory in all audits. Increasingly the information systems audits also are risk based and focus on key IT processes using a top down approach. This approach begins with an understanding of the risk in internal controls. The auditor then focuses on entity-level controls, verifies his or her understanding of the risks in the auditees processes and selects for testing those controls that sufficiently address the assessed risks relevant to each assertion.

IS audits for non-assurance purposes are conducted to assist financial auditors in assessing the compliance, economy, efficiency and effectiveness assertions (non-assurance/ governance IS audits). Included in these audits are limited-scope general and application controls, system development reviews and IT governance reviews.

Summary and conclusion

The Auditor-General has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, AGSA exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

The AGSA is performing this role with distinction. In a recent survey conducted by the Professional Standards Committee (PSC) of INTOSAI, South Africa was identified as one of the countries that are leading the way in the application of the standards of both INTOSAI and the International Federation of Accountants (IFAC) in their audits. This demonstrates that the AGSA can be regarded as a trailblazer among public sector audit institutions that effectively contribute to democratic insight and the monitoring of the application and use of public funds. o

Eddie Pelcher
Mr Eddie Pelcher, B Com Hons, CISA, RGA, IPFA, LIMFO is working as Business Executive: Information Systems Audit in the Auditor-General of South Africa. He is also the current President of the South Africa chapter of ISACA and serves on the Standards Board of ISACA International.