



Our audit teams have done everything in their power, under tremendous pressure, to complete the audits under the guidance of our leadership.

CONDITIONS UNDER WHICH WE OPERATE

Our strategy is informed by the major aspects of our environment and their potential to affect the delivery of our mandate. These aspects were:

Covid-19 pandemic disruption

The pandemic continued to impact our operations significantly. Normal audit processes were affected by our auditees not being ready for audit, their poor ICT systems, our limited access to their premises and legislated delays.

Increasingly complex audit environment

Our take-over of SOE audits has grown rapidly, increasing the number of specialised and complex environments that we audit. Although the pace of this change has exerted pressure on our resources, it has led to intensive training and learning for our staff, while enhancing the value that we provide in strengthening oversight of these entities. The Transnet audit is the most recent addition to our audit portfolio following a two-year transition, and is on track to be signed off as part of our annual audits for the first time.

Implementing the MI process intensified our need for greater skills and capacity to perform high-quality audits. During this process we focused on identifying and reporting MIs that result, or are likely to result, in a financial loss, and on driving consequences for such irregularities as prescribed. We have expanded the MI definition to include any non-compliance with, or contravention of, legislation, fraud, theft or breach of fiduciary duty that resulted, or is likely to result, in a material financial loss. Our defined plan will phase in the full MI definition at more auditees over the next year.

The poor quality of the annual financial and performance reports submitted by many of our auditees has a negative impact on the time frame and quality of our audits because additional work is needed to respond to the risks posed by misstatements.



Decline in the country's economic outlook and its financial impact on us

South Africa's economic outlook has declined, mainly as a result of the pandemic. This has seen a stagnation in the country's negative credit ratings and presents government with fiscal constraints to delivering its programmes and generating revenue, especially at local government level, which exerts continued pressure on audit fees.

Collecting **outstanding debt, predominantly from local government and ailing SOEs**, remains a challenge. We expect this trend to increase given the loss of revenue throughout the pandemic and the number of bailouts granted across the spectrum of critical service providers.

Increased risk of cyberattacks and new technologies

With cyberattacks on the rise globally, we recognise the potential for data breaches and have taken steps to protect our information from such threats. Phishing attempts were identified early and contained by our information and communication technology specialists.

We will continue to intensify our information management and security measures to secure the information collected during our audits.

STRATEGIC RISKS

During the reporting period, the organisation's strategic risks were reassessed to consider all environmental factors prevailing at the time and, more significantly, the impact of the pandemic, the consequent lockdowns and the continued implementation of our enhanced powers.

The outcomes of the assessment led to a slight modification in our strategic risk profile. The exposure associated with the risk *Inability to maintain the organisation's financial viability (in areas of revenue, costs and collections)* increased from a high to a critical risk rating. The risk *Failure to promptly respond to business technology needs and manage information security threats* remains a critical risk. This risk receives greater attention from our leadership, especially because of the deficiencies noted by our assurance providers and our need to modernise our information technology infrastructure to respond to the changes in our environment.

It should be noted that although the risk descriptions on the profile remained relatively unchanged, most factors/ root causes driving the risks changed in line with the changes in the environment.

Other business risk assessments undertaken during the year, such as the covid-19 and PAA risk assessments, complemented the strategic risk profile. These assessments raised our awareness of threats that may impact our ability to achieve our objectives and helped ensure that strategic and other organisational initiatives are geared towards optimising opportunities, minimising threats, and adequately articulating and mitigating organisational risks.

It is worth noting that, given the appointment of the new auditor-general during this reporting period, we are revising our strategy. We therefore postponed developing our strategic risk profile for 2021-22.

The focus will be to develop a strategic risk profile aligned to the revised strategy and ensure that we formulate appropriate mitigations to support the strategy by improving the probability of achieving our organisational objectives.