



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Speaking Notes

for the

Auditor-General, Ms Tsakani Maluleke

Greetings

- SANEF chairperson Mr Sbu Ngalwa
- Management committee team
- Council members
- Media colleagues and friends joining us today (here and virtually),

I am very pleased to be with you today, for the first time since my appointment as the Auditor-General. I am grateful that we can now have a face-to-face interaction, as we hopefully come to the end of this devastating pandemic. Thank you for the invitation and I am glad that I have been able to honour it and meet with you as one of the important stakeholders in the execution of our work.

Let me say upfront that we as the AGSA consider the media to be part and parcel of the accountability value chain and believe that you collectively play an important role by providing valuable insights and early warnings about critical areas that can inform our work.

We consider the media as a strategic partner in risk identification, and an invaluable vehicle through which to communicate our messages and to account to the people we serve, the citizens of our country. Through your platforms, we can inform, educate and hopefully encourage

a culture of active citizenship, where ordinary people can participate meaningfully in strengthening our democracy by, among others, holding their public representatives accountable for the use of public funds.

The media has also been a critical partner in highlighting our audit findings and ensuring they do not go unnoticed. As a case in point, I was particularly pleased by the extent to which the media used our reports, as reference point, during the 2021 local government elections. I want to assure you of our unreserved appreciation for that and for doing your work diligently and without fear or favour!

I hope that this interaction is the first of many engagements we will be able to have to define how we are going to work, and find other creative ways of communicating our messages and providing insights that will enhance our work in the service of the citizens of our country.

We can build on what we have achieved together over the years, and let me take this opportunity to pay tribute to my predecessors who ensured that they maintained open conversations with yourselves for the benefit of our democracy. I wish to assure you that I will continue on the same path throughout my tenure and look forward to your ideas on how to further improve.

We read in a 2020 journal article entitled, The state of South African media: a space to contest democracy that–

Benefiting from strong Constitutional guarantees of freedom of expression and a vibrant civil society, the South African media have contributed to a culture of democratic debate while playing a watchdog role to keep political power to account through investigative reporting into corruption and malfeasance.

We at the AGSA acknowledge, affirm and respect your role and know that our democracy and country would be poorer without it!

Ladies and gentlemen

I assumed the role of auditor-general during the covid-19 pandemic, and it has impacted on how I thought I would spend my early days in office. If it had been up to me, we could have met and discussed ideas and forged relations that are mutually beneficial; therefore, I am grateful that we have this opportunity today. This period has also brought many opportunities that could transform how we carry out our mandate of overseeing the way in which public funds are used and managed.

The year 2022 started on a high note with the release of the long-awaited first part of the State Capture Commission Report, with the second volume published a few days ago. This has been in the making for a couple of years. Although we still have to study the full report in detail, it appears to provide valuable lessons and critical recommendations on how to strengthen our accountability ecosystems. We should take none of this for granted and, as a collective, must work towards strengthening our systems to prevent what is said to have happened.

As the saying goes, and I am paraphrasing, the strength of any democracy is tested through the resilience of its institutions. Having seen and heard some of the evidence being presented to the seven commissions of enquiry in recent years, I believe our institutions are not in question, but rather our systems of governance. Therefore, as the AGSA, we shall rally behind the recommendations and decisions of government to respond adequately to the report.

My first year in office

Colleagues

It has been a year and two months since I began my seven-year tenure as AG. Although I am not new to the organisation, my first year in office has been nothing short of eventful, to say the least – a baptism of fire in the most important ways. It has helped to crystallise what I would like my contribution to the office to be. In my first year we tabled five reports instead of the traditional two, all thanks to the hardworking men and women who make up TeamAGSA. Three of these were covid-19 special reports that have kept us busy. We have also increased our focus on specific issues that warrant more attention. In short, this has been an extraordinary and particularly taxing year for my team. We are, however, pleased with our achievements. While I have always been clear that we need to do more than just put out very well-received reports on the state of public funds, I am now more determined than ever.

Given the way in which covid-19 has impacted our country, our people and our public finances, we now have no choice but to begin to do things differently!

With our country being among those with the highest levels of poverty, inequality and unemployment, we need to do more to make sure that every cent is used efficiently, effectively and truly in the service of the people!

I would therefore be able to say I have fulfilled my mandate when the work of the AGSA reflects the lived experiences of the ordinary citizens of our country, which means they must be able to see their day-to-day lives through our reports. I would like our teams to be empowered to work with our auditees to influence a culture change and to effect the necessary behavioural and organisational changes. I would like our auditees to introduce a culture that enables them to be more responsive to what needs to be done to use public resources more prudently, effectively and efficiently, using preventive controls that are introduced as a consequence of understanding the root causes of mismanagement, leakages, corruption and other nefarious behaviours.

It is said that a vision statement must be aspirational – I agree with this and our vision as the leadership team for the future is indeed aspirational. However, appreciating where our country is at the moment, this aspiration must become a reality! The people our country are growing increasingly restless and impatient. Our resources are increasingly strained and under pressure.

Therefore, to make an impact on their lives, there has to be a culture change in the public service. We must be more prudent with public funds, hold each other more accountable, ensure we implement consequences for mismanagement and wastage, prevent linkages and impact people's lives positively.

Legislative support for the AGSA

To enable us to play our part in influencing this culture change, the Public Audit Act (PAA), which guides the work of the AGSA, was amended in April 2019 to enhance our powers. We are more determined to use these powers to bring about change and more accountability.

The amendments enhanced our ability to hold auditees accountable for their failure to address recommendations reported on during an audit. This also brought the material irregularity (MI) mechanism into being.

The MI refers to any non-compliance with, or contravention of, legislation, or fraud, theft or a breach of a fiduciary duty identified during an audit performed under the Public Audit Act, which resulted in, or is likely to result in, a material financial loss, the misuse or loss of a material public resource, or substantial harm to a public sector institution or the general public.

What does this mean? Simply put, we have to go beyond making recommendations towards enforcing accountability. We must, where there has been accountability failures, encourage corrective action.

This came with huge responsibility, which required organisational change management, educating auditees about our mandate, and gradual implementation over the past three years. I am pleased to say the system is maturing but not without challenges. On the positive side, we are seeing accounting officers paying careful attention to our audit findings and, where necessary, implementing recommendations.

On the other side, we are seeing an increase in pushbacks which ultimately delay finalisation of audits and in some cases, are ventilated in courts, which is not the ideal place for audit matters.

We have in place a dispute resolution mechanism with relevant oversight structures such as National Treasury. Admittedly, these do not always work, but we think that in time, we will be able to enhance this mechanism so that it is able to deliver value.

The question that arises is whether we are making progress in implementing our enhanced powers. Let me provide some comfort.

By 15 October 2021, we had raised 237 material irregularities (MIs) that are currently in various stages of the MI process as stipulated in the Public Audit Act.

We referred five unresolved MIs involving the following entities to the relevant public bodies for investigation:

- Northern Cape Department of Health
- Department of Defence
- SA Post Office
- Matjhabeng Local Municipality (Free State) □ Free State Development Corporation.

We have been clear from the start that we will not hesitate to implement our expanded powers if accounting officers and authorities do not respond to the material irregularities with the required urgency. In cases where accountability has failed, we have responded accordingly.

In 2021, we issued our first four remedial actions – to the accounting officers/authorities of the Passenger Rail Agency of South Africa (1), the Department of Defence (1) and the Free State Department of Human Settlements (2). The remedial action issued to the two departments included a directive to deal with the financial loss by the stipulated date, which, if not implemented, could result in a certificate of debt being issued. This is the last step towards the much-talked-about certificate of debt.

We also referred three material irregularities for investigation to the Hawks – one each for the Department of Defence, the South African Post Office and the Free State Development Corporation. We also included recommendations in the audit report of the Free State Development Corporation to resolve certain aspects of the material irregularity that will not be dealt with by the Hawks.

We are encouraged by the response of accounting officers in general to deal with identified material irregularities. This is the type of accountability that must be institutionalised, where accounting officers decisively and consistently act on audit findings and other weaknesses beyond those flagged as material irregularities.

The success of our enhanced powers (and other good governance tools we have used over the years) will become evident when a culture of responsiveness, consequence management, good governance and accountability by accounting officers and authorities become the norm rather than the ideal.

Programme director

Turning to the audit outcomes and trends we are observing.

While it is still too early to celebrate, we have since the beginning of this administration seen an improvement trend which we would like to encourage. Notably, a few auditees may obtain better outcomes, such as clean audits, if they continue on the current trajectory.

However, at the same time, we want our auditees to be more responsive and adopt an almost activist approach to how public funds are used and reported on. They cannot continue to allow lapses in governance and accountability mechanisms knowing that the AGSA will pick up on these. This does not serve accountability, good governance or efficiency.

More importantly, when we realise how every cent that is misspent, squandered, stolen or allowed to be unused, impacts on the lived experiences of some of the most vulnerable in our country, that should be our immediate call to action.

And from what we are seeing, this may not be necessary because with a concerted push by everyone, including the oversight structures, the scale could easily tip towards a trend of more clean audits within a short space of time. More importantly, this will begin to indicate that we are getting the fundamentals of accountability and governance correct! And this is good for more than just the reams of income statements, balance sheets and other performance documents that we audit!

The 2020–21 PFMA general report on the audits of national and provincial government reveals that there was an overall incremental improvement in the audit outcomes, with an increase in the number of clean audits. These audit results, though improving, continue to show slow progress in the journey towards wholesale good governance. It's possible!

We remain concerned about two areas that are still lagging behind in this improvement trend, namely state-owned entities and the key service delivery departments of health, education, housing and public works, which have the greatest impact on the lives of citizens and government's financial health.

This is consistent with the State Capture report about the governance of SOEs. The report has found that the governance and accountability mechanisms at SOEs were systematically dismantled over many years. In many developing countries, SOEs are a key mechanism in delivering on the country's developmental agenda and job creation. In South Africa, this potential was progressively destroyed, which included getting rid of good and competent public officials.

As a developmental state, particularly one with such high levels of poverty, inequality and unemployment, there is still a need to turn our SOEs into engines of growth and transformation. I am hopeful that the work that has been done by looking at these areas and institutions will guide us collectively to build back better!

Innovation and real-time audits

As auditors, our work is often retrospective and while our reports are eagerly awaited, they may not do much for the citizens of our country in the here and now. The work of auditing is intended to demonstrate the shortcomings in how funds that were spent have been accounted for with the aim of enabling transparency and accountability with regard to public money. In instances where we have found lapses in the disciplines of adequate recordkeeping, we report it to those with powers to create the right preventive controls and behaviour change to ensure these do not continue happening.

However, one of the things that we did during the pandemic was the real-time audits on how the funds committed to the covid-19 relief package were being spent. During the most challenging times of the pandemic when so much was uncertain and unknown, we were able to pull together multi-disciplinary teams who managed to delve into the way in which the relief funds were being spent.

The recently released SIU report on this matter was based largely on the work we were able to do during these times. We are pleased to see that these matters are being taken a step further.

Clean audit versus service delivery debate

While on the issue of clean audits, there is a swirling public debate on whether there is a correlation between audit outcomes and service delivery.

Let me unpack these concepts:

A clean audit indicates that the first parts of accountability and transparency have been met, which includes whether an auditee is able to show what it has done with its funds, its current resources and what it is capable of doing with its funds in the future. A clean audit is a component of the journey towards building an institution that is strong, that can deliver predictable outcomes, and can account for those outcomes.

Audit outcomes provide an indication of the general governance environment within which a department or public entity functions not assurance of service delivery.

Working together with the media

While I know that as the media, your role is not to be a praise singer for any public institution or leader, irrespective of how charismatic or effective one may be. Without being overly simplistic, we appreciate that yours is to empower and capacitate citizens with the information they need to improve their lives or to hold those who are in their service responsible.

We believe we cannot do what we want to do, without your support. And by 'support' I mean telling the stories that matter, putting out the information in a way that can indeed empower and capacitate citizens.

I would like to invite you to consider that while the stories of unauthorised and irregular expenditure do indeed need to be told, there are other angles and information that come through in our general reports that could empower and capacitate our citizens. My team and I are always available to discuss content areas and we will always give support where possible.

Some civil society formations and academic fraternity are already taking this approach of picking up the limitations in our systems, and providing possible solutions.

I strongly believe that if we increase focus on other parts, even those charged with governance and oversight will feel the collective pressure to address or implement good governance recommendations made by the various sectors of our society.

Closing

As the AGSA, we remain committed to implementing our new enhanced mandate without favour or prejudice. We demand from our teams to be ethical, go the extra mile, with integrity and courage if we are to realise a culture change and see improvement in the way public funds are handled. I call upon you to continue playing your part; do not leave us out of the accountability ecosystem – hold us accountable too!

I wish you well in your council deliberations.

I thank you for your time and I look forward to our interaction.

End.

