

## Chairman's Report at The Directors' Event 2021 (SA's Biggest Board Meeting)

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*"If your thoughts are as tall as the height of your ceiling, you cannot fly above your room; and what separates a weak dreamer and a great dreamer is – the weak dreamer is wishing and waiting, while the great dreamer is willing and working."*

These are the wise words by Israelmore Ayivor, a 31-year-old Ghanaian author and speaker which resonates very well and should get us motivated to challenge ourselves to work harder and contribute meaningfully to the democratic project in our country.

Master of Ceremonies Mr Andile Khumalo; Mr S'thembiso Msomi, Editor of the Sunday Times, Mr Jonas Bogoshi, CEO, BCX the organisers and hosts of the Directors' Event since 2015 – particularly Sunday Times Top 100 Companies' Awards and the BCX Group; fellow speakers and panel members; captains of industry and leaders joining this 7<sup>th</sup> edition of the South Africa's Biggest Board Meeting.

What will it take to strengthen our country's democracy and build public confidence by enabling oversight?

Democracy as a word originates from two Greek words. *Demos* means *people*; and *kratos* means *power*. Democracy, therefore, ought to *empower people* – all people or at least the majority of the people. Confidence comes from a Latin word, *confidere* – meaning *have full trust*.

In addressing today's topic (*strengthening democracy and public confidence by enabling oversight*) my perspective is that of the Auditor-General of South Africa, the Chapter 9 institution for which I work. However, being at this assembly of public and private sector leaders, I will touch on what the contribution of every leader in these sectors of broader of our society could be.

Our daily professional lives, collectively, offer us a chance to make a lasting impactful difference to the lives of South Africans. Since we are at South Africa's Biggest Board Meeting, let us recall the key purpose of any board. The Institute of Directors sums it up as **"to ensure the company's prosperity by collectively directing the company's affairs, while meeting the appropriate interests of its shareholders and relevant stakeholders"**.

At the Auditor-General of South Africa we are mandated by the Constitution of the Republic of South Africa to enable oversight and public accountability through our audit work. In our line of work we produce audit reports and present them to our auditees, parliament and

legislatures including local councils to enable them to exercise their oversight responsibilities and hold political and administrative leadership to account. Our audit reports cover a number of areas:

- Credibility of financial information, usefulness and reliability of performance information, compliance with key laws and regulations relating to financial and performance management, status of the internal control environment.

We complete these audits and related reports year on year without fail. However, after years of us repeating the same message of no meaningful improvement in controls and disciplines over financial management, of continuously growing irregular expenditure as well as fruitless and wasteful expenditure, of the lack consequence management, change was inevitable.

In April 2019, President of the Republic signed into law amendments to the much publicised Public Audit Act to enable the Auditor-General to not only report on these outcomes, but to also enforce accountability. We are required to exercise our powers where accounting officers fail to enforce accountability, as they are required to do in terms of the PFMA. By Accounting Officers, we mean those that head up the administration of public institutions, being Directors-General, Heads of Departments and Municipal Managers. In the context of public entities, the law refers to the accounting authority, which is board of directors. *Essentially, the people entrusted with public funds.* We act only if they do not. So, these amendments are intended to act as a complementary mechanism in the broader public sector accountability value chain by strengthening financial and performance management.

The enhanced powers, implement for just over two years, require of us to identify Material Irregularities (MIs) and ensure that they are acted upon by the accounting officers or accounting authorities, who are entrusted with managing public funds .

The Material Irregularity, by definition, refers to any non-compliance with, or contravention of, legislation, or any fraud, theft or breach of fiduciary duty, identified during an audit performed under the Public Audit Act that resulted, 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.

In enforcing accountability, we are required to refer the identified MI to a public body with a mandate for investigations or law enforcement, such as the SIU, Hawks, Police or NPA. We are required to include specific recommendations in the audit report on what should be done to address the matter. If our recommendations are not implemented within a reasonable timeframe, we are required to issue binding remedial action. If that is ignored,

then, as a last resort, we are empowered to issue a certificate of debt, essentially a surcharge, in the name of the accounting officer or accounting authority that failed to execute on their duties.

Ladies and gentlemen;

The process that I have mapped out takes time, because it has been designed to ensure that we exercise our powers in accordance with the principles of fair administrative justice. Whilst this process does not lead to us to 'sending people to jail', it can get us to effect visible consequences for wrongdoing. Importantly, these powers create an opportunity for us to contribute to improving the responsiveness of those appointed as stewards over public funds and public institutions, so that they prioritise the changes necessary to improve the performance, accountability and integrity of public institutions.

We have in the last cycle of the PFMA audits of government departments at both national and in provinces, identified 75 MIs to the value of R6.9billion. These are under our watchful eye for implementation and will not wait for the next cycle to ensure that corrective actions are taken.

This is what is being done by the supreme audit institution to step up and make sure that we support our democracy. My 3500 colleagues and I will continue to find every opportunity to improve what we do and how we do it so that we progressively realise our ambition of strengthening democracy and delivering value and benefits to society. We appreciate that the impact of our work will be felt if other parts of SA Inc also work. The project of building the SA that we all dream of requires that all of us work collectively.

The collective that I refer to covers all of us that hold positions of responsibility in any part of SA Inc. Whether we are in the public or private sector, all of us that are entrusted with the role of leading institutions, in whatever capacity (executive/non-executive) have a duty act as stewards over the capital that is allocated to us, deploy it such that it delivers value and benefit to shareholders and relevant stakeholders, ensure that we account transparently on our decisions and actions and thereby enhance public trust/confidence in the institutions we lead.

South Africa Inc as it is today, continues to battle with alarming inequality, grinding poverty and growing unemployment. The Covid 19 pandemic has brought into sharp focus the impact of these same challenges, especially in the light of weak capabilities in government. Our experiences over the past fourteen months have highlighted the urgency with which we must work collectively and cohesively to design and implement solutions that are both effective and sustainable.

At a minimum, we have to ensure that each of us, who are entrusted with leadership responsibilities in an institution, is concerned with meeting his/her obligations to society, in its breadth. Each of us that serves as a member of a board of directors, is charged with the duty to exercise effective oversight so as ***"to ensure the company's prosperity by directing the company's affairs, while meeting the appropriate interests of its shareholders and relevant stakeholders"***.

That is how we will inspire confidence, strengthen our democracy and deliver value and benefits to citizens.

Master of Ceremonies, our failure to run our institutions such that we do inspire public confidence, is a bigger threat to our democracy than we realise. Such failures manifest directly in the work we do as the auditors of state institutions.

When we audit each institution, we look at whether in the course of acquiring goods and services, the auditee (govt department or public entity) has complied with key laws and regulations relating to procurement and contract management. These prescripts are designed to ensure that public institutions comply with the provisions of Section 217 of the Constitution of the Republic, which states that public procurement must be undertaken in manner that is fair, transparent, provides for equitable access to opportunities, competitive and cost-effective.

We find that the vast majority of our auditees have audit findings in this area, and this we report on each year. It is these non-compliance findings that mostly result in the irregular expenditure number that we report on.

Yes, the primary responsibility to ensure that these noble constitutional principles are met rests with the people entrusted with running government.

The reality is that on the other side of each transaction is a private sector institution.

Over several months now, we have listened to the evidence led at the Commission of Inquiry into State Capture. These testimonies, read together with the work of investigative journalism reports, of the public investigations bodies as well as our own reports, reveal some worrying tendencies by private sector institutions to benefit improperly from existing weaknesses in the state. This raises key questions for boards of private institutions...on whether in their oversight role, they are effective in ensuring that their institutions are indeed ***"meeting the appropriate interests of shareholders and relevant stakeholders"***.

Earlier, I promised to demonstrate how our daily professional lives could make a lasting impact on the lives of South Africans. This is not an act of charity. It is about giving people better education, quality healthcare and such enablers like fast and affordable Internet to

help them raise their personal incomes. Their higher income is good for business. Knowing what we know about the inequalities of our country, we all must ask ourselves the following questions and act accordingly:

- Are we all in? Knowing the statistics about racial, gender and other inequalities, are we actively combatting the injustices in the companies we run or in the organisations we oversee? How about the suppliers of our businesses? Do we ask them to prove that they are doing enough to foster socio-economic justice or are we happy to simply compile reports about our narrow compliance?
- Are we owning the problems of our country by doing what we can and influencing those around us to do the same – do we hold one another to account?
- Our economy used to be heavily dependent on mining and other extractive industries. We are still an economy that continues to export commodities to other countries to manufacture value-added goods to sell back to us. Well over 40% of South Africa's exports are still mineral and related commodities; while over 55% of its imports are products manufactured with these commodities, such as electrical appliances and pharmaceutical products. Many among us here sit on boards or run companies that are part of this extractive economy; others are responsible for regulating their operations (if we are in the public sector). Is it not time that we stepped up our efforts to add more value locally? By using our influence to do this, we would create more better-paying jobs, improve the content of our (higher) education to increase the employability of our graduates and help the communities affected by extractive industries to derive more economic benefit from their resources. This is oversight for value-add, not routine compliance.
- Are we doing enough to stop the illicit capital flows (IFFs). Global Financial Integrity estimates that IFFs deprive African countries of at least \$50 billion annually – and possibly deprived them of up to \$1 trillion in the 50 years to 2016. Are we actively ensuring that we eliminate practices of over-invoicing or under-pricing of trade deals, transfer pricing, and the use of tax havens to erode our tax revenue base. Are we ensuring that our institutions are not involved – either by commission or omission – in IFFs to create value for shareholders without regard for other relevant stakeholders, such as governments in developing countries that could build schools, hospitals or other social service centres with the revenues that we divert with our base erosion and profit shifting (BEPS) to satisfy few shareholders?
- Are we confident that the people we lead are assimilating the right mentality and culture to become the agents of change for a better society, or are we happy to let short-term financial gains override our ethical obligation to create an inclusive economy for future generations? I would like to believe that it is not the latter.

From where I stand, my priority is simple: and it has been echoed by most of the speakers who delivered the Chairman's Report at this very event in the past 6 years. For example:

- In her Chairman's Report in 2020, Chairman of Absa Group Limited Wendy Lucas-Bull talked of addressing the downward spiral through drastic changes in the composition and efficacy of government spending. She added the need for a clear response that all stakeholders can support and a relentless focus on its implementation underpinned by a credible accountability framework. She also spoke of a socio-economic compact between the government, organised business, labour and civil society. She was calling upon us in here to take the lead to collectively enable oversight.
- In 2019, Phuti Mahanyele-Dabengwa, who was then the Executive Chairperson of Sigma Capital, stressed the importance of education in addressing the socio-economic problem of what has been termed the NINJA generation (young people with "no income, no jobs and no assets". Education that is suited to the needs of the labour market will not only make these young people employable but make entrepreneurship an option to them. Without oversight and governance in procurement, however, their enterprises will not break into the industries of their choice.
- Each Chairman's Report to date tackled pertinent issues and how as leaders we can help strengthen democracy by prioritising the broader society in the performance of our board duties. Nicolaas Kruger's speech at the inaugural Directors' Event emphasised how South Africa could grow faster and become more equitable only if it mobilised all its resources, visionary and value-based leadership, policy certainty, a positive attitude and greater collaboration. Kruger's point about how as leaders we are accountable to our broader society (not narrow short-term financial interest) was aligned with the sentiments of Dr Reuel Khoza, former Chairman and Non-Executive Director of Nedbank. Dr Khoza spoke of the boards not operating in a vacuum, but in the context of their environment to become the vision-led, purpose-driven harbingers of the future because destiny is not a matter of chance, but of choice.

In delivering this year's Chairman's Report, I have tried to appeal to the collective conscience of everyone in this esteemed audience to rekindle our responsibility to society. I have also highlighted the scale of inequality, which can only be closed by institutions with conscientious leaders whose commitment is to re-imagining their role. This does not mean veering from our primary mandate and that of the organisations we serve. It signifies being diligent and staying true to our ethical obligations, but more importantly by re-imagining our role at a pace that is faster than the rate of the changes in the environment. A failure to keep up the pace will make it difficult to deal with

external shocks like Covid-19, Ebola, natural disasters, or even the global credit crunch of 2008.

A careful assessment of public sentiment in the past few weeks and months will show how impatient people are because oversight was sacrificed, a sentiment we are also experiencing as AGSA. The impatience gets expressed in the form of service delivery protests at times, which are becoming more clinically targeted. For instance, someone claiming to represent Soweto Parliament circulated a video on social media this week. He called on people from Soweto to rise up against one state-owned enterprises by staging a sit-in at its headquarters in Sunninghill, instead of burning or damaging property in Soweto, where they live. Others express their impatience in outright criminal activities. The rising tide of crime is in part a symptom of too many young people who have lost faith in the establishment. Failed oversight in the establishment to them justifies them rebelling against the state, its organs, private sector, civil society, as well as the cultures and customs of how to conduct oneself, including how to express one's dissatisfaction.

Our actions as leaders must be informed by how well they give the majority a good reason to not lose their faith and trust in the establishment. We should do this by being focused, consistently ethical, selfless and diligent. We must go back to upholding the good policies of our country; those we conveniently and gradually abandoned to protect our short-term financial interests. Anything less than that is a *rank* betrayal of our very being – not as professionals, but human beings. It renders us all accomplices in the violation of the human rights of the people we ought to serve; once more, either by commission or by omission.

We can and should do better to turn the fortunes of humankind by dreaming of flying – in Israelmore Ayivor's words – way above our roof; of being dreamers who are willing and doing, not wishing and waiting.

I can assure you of similar commitment from the institution I lead, and we will not abandon our responsibility.

I thank you