

AUDIT

# THOUGHT


LEADER



**IN MEMORY OF  
THEMBEKILE KIMI MAKWETU**  
1966 - 2020



AUDITOR-GENERAL  
SOUTH AFRICA



**// Whatever course you take,  
make sure that the end is always  
better than the beginning. //**

**- Kimi Makwetu**



**// It always seems  
impossible until it is done. //**

**- Nelson Mandela**

# Farewell Kimi





# CONTENTS





## MANAGING EDITOR'S NOTE

This edition of the **Audit thought leader** pays tribute to the late Auditor-General Kimi Makwetu. Under his leadership, the AGSA has achieved significant milestones and successes that are worth celebrating.

- the change in audit methodology
- the status-of-records review
- amendments to the Public Audit Act
- the transformation journey
- strengthening local and international visibility
- launching the whistle blowing tool
- developing preventative control guidelines to assist accounting officers to safeguard the public purse.

All these achievements upheld our credibility, independence, professionalism, and a reputation for being a transparent, ethical and accountable institution during a trying time for the profession. We remained relevant thought leaders on issues of governance, public finance management and public auditing.

This edition highlights Kimi's vision and milestones, tells the stories of the phenomenal achievements during his seven-year term, and celebrates him as a leader, a giant of his profession, a mentor, and a friend.

To our readers, rest assured that the AGSA has the right calibre of leaders to carry the torch of Kimi's legacy, and lift the flame high in taking Kimi's vision forward.

**Sincerely,**  
**Tshidi Ramoshaba**

## EDITORIAL

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## 4V JOURNEY

2013-14



### In the international spotlight

The AGSA took over the chair of the Intosai Capacity Building Committee (CBC) in October 2013, supported by SAI Sweden as vice chair. This was not a ceremonial role but one that came with real responsibilities and opportunities to contribute to the professional development of public auditors throughout the world.

(See page 23)



### Increased oversight of state-owned enterprises

Governance failures and taxpayer-funded bailouts of major state-owned enterprises (SOEs) have received much attention from commissions of inquiry, credit-rating agencies and media reports. 2013-14 marked the start of the AGSA's strategic choice to take over the audits of some of these schedule 2 entities in an effort to increase oversight. The AGSA started with six of the 21 SOEs in the first year and, by 2019-20, was directly auditing 14 SOEs and preparing to take over the audits of Eskom and Transnet as well.

2016-17



### Historic meeting of BRICS AGs

The auditor-general attended the historic inaugural meeting of the Brazil, Russia, India, China, South Africa (BRICS) SAI leaders in Beijing, China on 24 June 2016. Realising the need for greater cooperation, they established a mechanism for regular exchange and cooperation.

2017-18



### Early-warning system for accounting officers

In 2017-18, the AGSA introduced the status-of-records reviews as an early warning system that provides accounting officers with an opportunity to strengthen their internal controls and improve their audit outcome. The impact of these engagements has been noticeable: 84% of the auditees where status-of-record reviews were conducted in 2019-20 experienced improvements such as better internal controls and reduced numbers of technical audit findings.



### Canada asks SA to lead peer review

South Africa became the first developing country in the world to assess the performance of the supreme audit institution (SAI) of a developed country. In 2017, the SAI of Canada approached the AGSA, as the SAI of South Africa, to lead the peer review of its performance.

***Kimi Makwetu's seven-year term as South Africa's auditor-general was an important and productive period in which the AGSA broke new ground with its audits and powers, further contributed to transforming the accounting profession, played a leading role on the world stage and, above all, provided parliament and citizens with the means to hold government accountable. Here are some of the highlights from Kimi's term.***

2018-19



### Enhanced powers signed into law

President Cyril Ramaphosa signed the Public Audit Amendment Bill into law in November 2018, giving the auditor-general enhanced powers to enforce its recommendations among accounting officers and authorities.



### Stepping up on empowerment

The AGSA attained a level 1 B-BBEE status for the first time in 2018-19 and maintained this in 2019-20. This reflected the success of the strategy to outsource audit work to 51% black-owned firms and 30% black women-owned firms, among other successes.

2019-20



### Begin implementing enhanced powers

On 1 April 2019, the day the enhanced powers came into force, the AGSA began implementing the material irregularities process. The first phase saw 25 auditees selected based on their high irregular expenditure over the previous three years. The AGSA identified 39 material irregularities, with financial losses estimated at R4 billion. In 92% of cases, accounting officers committed to taking remedial steps.



### Auditing the African Union

The AGSA is a key member of the team conducting an international audit of the African Union (AU), alongside the SAs of Cape Verde, Algeria, Uganda and Equatorial Guinea. (See page 26)



### A lifetime of achievement

On 27 November 2019, Kimi Makwetu received the 2019 Presidential Award for Lifetime Achievement from the Association for the Advancement of Black Accountants in Southern Africa (Abasa) for his sterling work and contribution to the accounting/auditing profession.

2020



### First special report on covid-19 audit

On 2 September, the auditor-general tabled the first special report on the financial management of government's covid-19 initiatives. The report highlights supply chain deficiencies that enabled overpricing, unfair processes and potential fraud, as well as a lack of agility in government's information technology and systems and a lack of data sharing across government platforms.



### Teaming up with treasury on preventative controls

Prevention is the cure for both covid-19 and corruption. Convinced of this, Kimi Makwetu joined forces with the National Treasury's Director-General Dondo Mogajane to introduce new guidelines on preventative controls for use by oversight bodies and accounting officers of government departments, public entities and municipalities. **With these guidelines at hand, nobody could turn around and say, I did not know,** Kimi said at the launch of the six guides.



### Delivering more than 1 000 CAs in 20 years

The AGSA's trainee auditor scheme reached a notable milestone when the number of qualified chartered accountants it had delivered rose to 1 195. The majority of these CAs qualified in the last five years of Kimi Makwetu's term and more than 700 of them were African.





# FROM SMALL BEGINNINGS CAME A **VISIBLE, VIABLE AND VALUE-ADDING VISION**



**Kimi Makwetu**

*Kimi Makwetu was only 10 years old when the first inklings of what would become a vision big enough for an entire country started taking shape.*

*Even at that tender age, he was determined to ensure that those who handle others' resources should do so with the utmost care, skill and diligence.*

*"This has been my mission from the day my mother decided to make me her trusted accountant after school," he recalled in an August 2018 Leadership Conversation.*

*As he grew up, his desire grew to avert "sleepless nights" for those whose resources were in the care of others.*



## **CHECKS AND BALANCES**

As a student activist at the University of Cape Town, Kimi served as a "check and balance" in the finances of the student movement where the principle of accountability was paramount.

The disciplines and values he acquired then strengthened and solidified as Kimi qualified as a chartered accountant and took on a series of private sector auditing roles.

His attention turned to the public sector, where a lack of financial and administrative capabilities was becoming more and more evident. He seized the opportunity to join the Auditor-General of South Africa, first as deputy auditor-general and then, from 1 December 2013, as auditor-general.

It was not an easy time to take up this challenge. Across much of the public sector, internal controls were falling away, supervision was regressing and large sums of taxpayers' money were unaccounted for.

That was not the public sector he wanted to see. It was not the level of financial and performance management he so firmly believed South Africans, particularly vulnerable South Africans, deserved.

The new auditor-general lost no time in putting his "Vision 2024" and "4Vs" strategy into action.



## **VISION 2024 AND THE 4VS**

Vision 2024 was Kimi's vision for his seven-year term of office and beyond, while the 4Vs were the strategic objectives that would make it a reality.

His vision was of a public sector that universally embraced ethical conduct, was accountable for its use of public resources and added value to the lives of South Africans, and of an AGSA that was independent, relevant and professional. The 4Vs stand for value-adding auditing, visibility for impact, viability and vision and values driven.

These were not just alliteratively interesting words that rolled off the tongue and were easy to remember. They were real-life virtues that Kimi and the entire organisation pursued passionately and relentlessly.





## V IS FOR VALUE- ADDING AUDITING

*This goal is aimed at providing audit-derived valuable insights to our stakeholders on the status of their internal control and performance environment, accompanied by actionable recommendations. If implemented, our recommendations will lead to visible improvements in public sector administration.*

While a change in how audits are done might seem minor to those of us who are not auditors, the enhanced audit methodology that Kimi ushered in has enabled AGSA auditors to go deeper and deeper into the root causes of shortcomings in public sector financial management.

In the past, for example, auditing teams consisted exclusively of regularity auditors. The makeup of the teams has broadened considerably to include investigators, performance auditors, information systems auditors, cybersecurity specialists, fraud experts and a range of subject matter experts, from health professionals to supply chain experts.

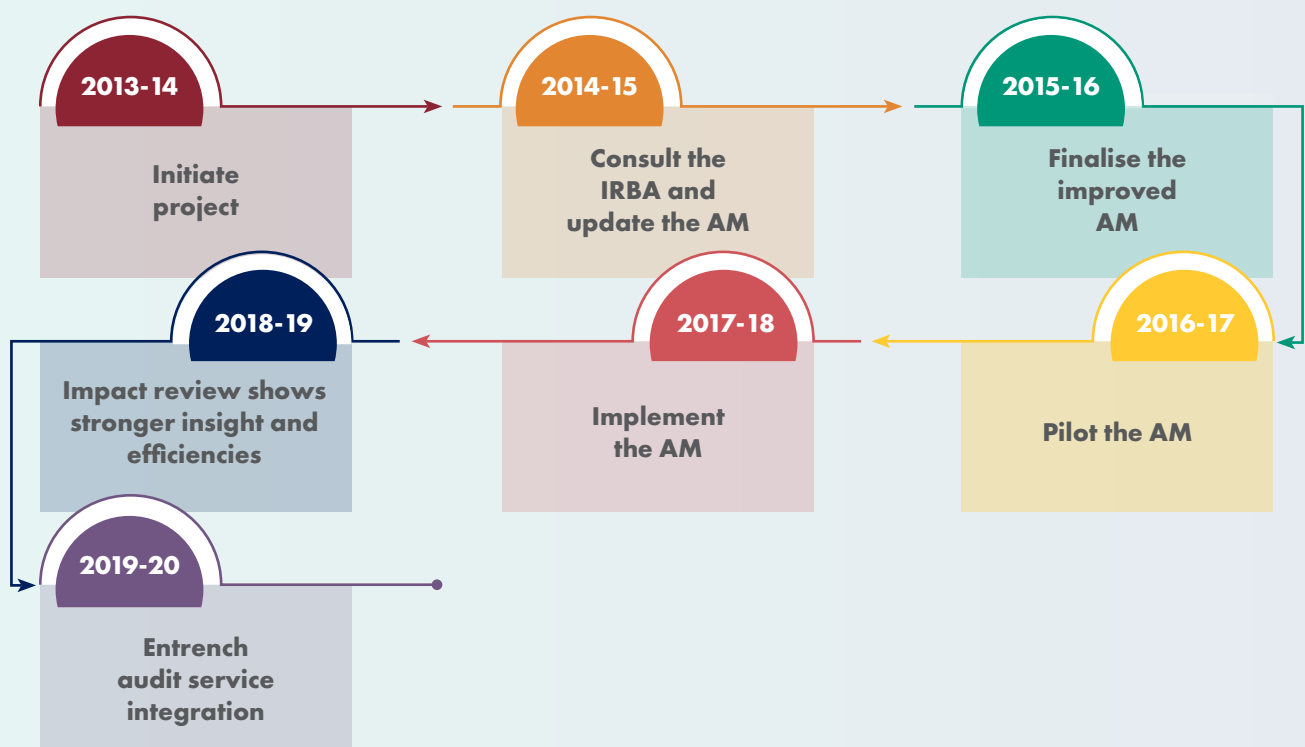
That approach paid off in mid-2020 when the organisation was tasked with auditing the financial management of government's covid-19 initiatives. For the first time in the history of the AGSA, its auditing teams conducted real-time audits, following the money as soon as it was spent and not after the fact, thus enabling action to be taken as soon as any irregularities were detected.

Speaking of irregularities, another game changer introduced under Kimi's watch was the material irregularity process. Implemented from 1 April 2019 in terms of the additional powers Parliament granted to the AGSA by amending the Public Audit Act, the organisation no longer had to look on helplessly if accounting officers failed to act on its recommendations.

For the first time, it could take practical action to deal with material irregularities, meaning any fraud, theft, breach of a fiduciary duty, contravention of or non-compliance with the law that could result in a material loss of a material public resource or substantial harm to a public sector institution or the general public. (See page 29 for more details)

## AUDIT METHODOLOGY PROJECT (AMP)

Streamlines integrated audit disciplines, diverse audit insight, consistent planning and audit efficiencies. This project was initiated in 2013, signed off in 2018 and entrenched into our audit work stream in 2020.





## V IS FOR VISIBILITY FOR IMPACT

*The goal structures our stakeholder engagement programmes to effectively encourage and enable the required improvements in the public sector.*

Kimi was keenly aware that if South Africans were to be empowered to hold government to account for its spending and service delivery, they needed to understand the work the AGSA was carrying out and how this work strengthens democracy.

This meant the AGSA had to speak the language of citizens. As Kimi once said,

**“ I have come to learn that I am not speaking only to accountants or economists when I deliver the results. ... The language has to be understood by that man who opens up a tap and no water comes out... they also need to understand what I am saying. ”**

**– Kimi Makwetu**

Kimi saw to it that the office stepped more boldly than ever before into the public domain, using videos, brochures, social media and citizen reports to make its work more accessible to the people of South Africa.

At the same time, the AGSA dramatically increased its efforts to build its relationship with professional bodies, government oversight bodies, non-governmental and community-based organisations, and the media.

Slowly but surely, the veil of mystery that so often surrounds auditing in the eyes of the public has begun to lift.

Beyond South Africa's borders, too, the AGSA has made its mark. Under the guidance of our country's auditor-general, the International Organisation of Supreme Audit Institutions (Intosai) has been opening up new pathways for the professional development of public auditors around the world. Fresh horizons beckon for the auditing profession.



## V IS FOR VIABILITY

*This internally focused perspective of our work ensures that we have the necessary resources: an enabling legal framework, independent financial resources, and the required skills, competencies and culture to execute our mandate economically, efficiently and effectively.*

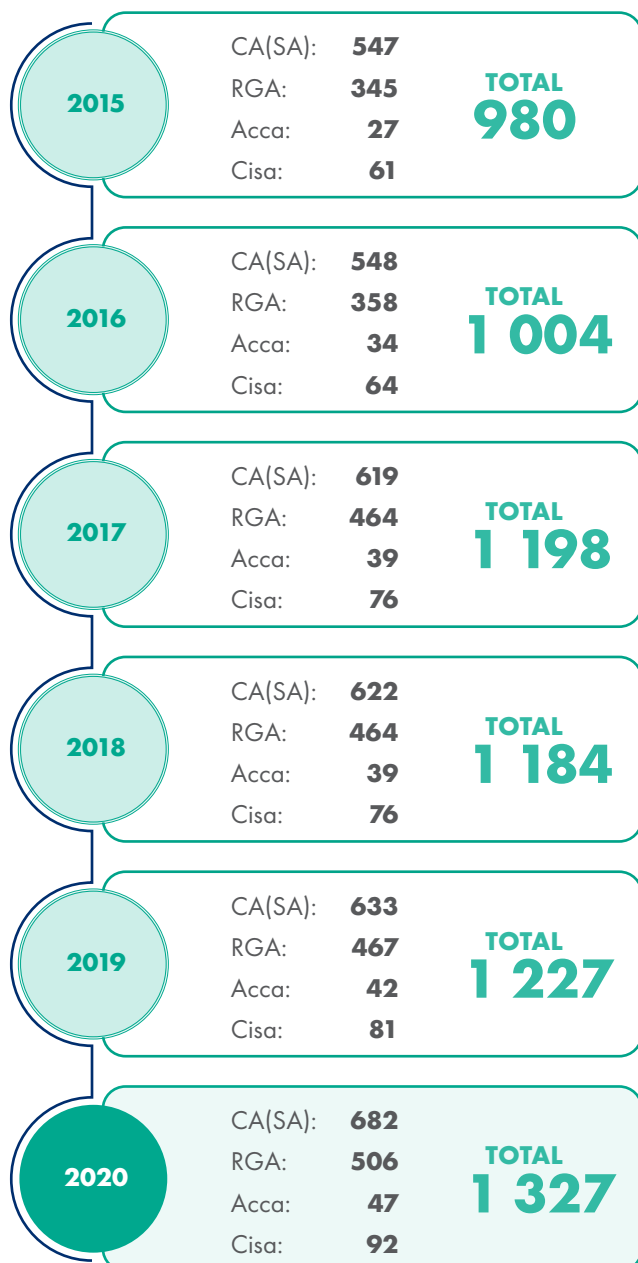
Under Kimi's leadership, the scope and scale of the AGSA's work in auditing public sector financial management have increased significantly – but the resources available to it have not. What's more, the organisation has suffered some financial setbacks beyond its control, particularly increasing debt from auditees who do not pay their auditing bills.

Debt owed to the AGSA ballooned by 25% in the financial year ended 31 March 2020, soaring to R935 million. To make matters worse, a R50 million appropriation from the National Treasury did not materialise as expected.

Maintaining and strengthening the organisation's viability was a priority throughout Kimi's seven-year term, with considerable success. Cost-containment drives have steadily reduced the AGSA's overheads and incurred substantial savings. An example is the R107 million saved by pooling initiatives and resources in support of revenue optimisation.

Doing more with less and setting the example – such as the moratorium on recruitment in lean times – became synonymous with the AGSA during Kimi's tenure.

Without a doubt, one of the most profound changes brought about during Kimi's time as auditor-general has been the transformation of the accounting and auditing profession itself. While crucial to the AGSA's sustainability, business model and talent pipeline, the AGSA trainee auditor scheme is also an essential part of professionalising the organisation and has played a huge role in transforming the accounting profession.



Historic analysis of our audit professionals per audit professional body

Tsakani Maluleke, who has succeeded Kimi as South Africa's auditor-general, explains: **Through our trainee auditor scheme, the AGSA has delivered more than 1 000 chartered accountants, 700 of whom are African CAs. These 700 people are an enormous contribution to the transformation and growth of the profession, and the majority of them have qualified in recent years. This points to a significant acceleration under Kimi's term.**



## V IS FOR VISION AND VALUES DRIVEN

*Through our work and behaviour, we aim to lead by example and continually demonstrate that clean administration and transformation are achievable.*

Kimi had always taken transformation very seriously. His goal was not just to transform the profession, but to support and uplift South Africans as a whole. And so began the AGSA's enterprise supplier development (ESD) programme.

The programme started off in 2015-16 with just three small black audit firms that, together, earned R1,5 million in audit fees for work done on behalf of the AGSA. Within three years, this had increased to 27 black-owned audit firms with representation across all nine provinces, doing work valued at R49,53 million.

This transformation went hand in hand with the supportive and ethical culture of the AGSA.

Over the past few years, only a handful of government organisations and state enterprises emerged with their reputations intact. The AGSA was one of them. Throughout this era, the AGSA safeguarded its credibility and reputation by maintaining its ethical identity and continuing to report on its audits without fear, favour or prejudice.

Kimi himself was widely respected as a man of integrity whose work ethic and professionalism earned the respect of all, including those who would prefer not to have their financial management so rigorously exposed.

And to think it all started with a small boy serving as his mother's bookkeeper in the townships of Cape Town.



# VALUE CREATION



**The AGSA's daily work provides value to the people of South Africa and their elected representatives in all spheres of government. We are driven by our aspirations for the public service and our existence is concisely defined by our vision, mission and values.**

## How we add value to stakeholders

We add value to:



### **The people of South Africa by**

- listening to the conversations in the public sector, acting in the public interest and selecting areas of audit that have a direct impact on peoples' well-being
- making public the results of our audit work, which enables people to hold their elected representatives and the custodians of public resources accountable
- being a model organisation and demonstrating that clean administration and transformation are achievable
- executing our audits in the most cost-effective, efficient and economical manner



### **The legislatures by**

- being a credible source of relevant, independent and objective insight based on independent, professional judgement and sound analysis
- identifying themes, common findings, trends and root causes; providing audit recommendations and discussing these with relevant stakeholders who oversee and support beneficial changes in the public sector



### **The executive (auditees) by**

- identifying instances of mismanagement and their root causes, and recommending improvements tailored to the business of the auditee
- Holding executives accountable for material irregularities



### **The auditing and accounting professions by**

- allocating contract audit work
- building skilled and qualified professionals
- creating a pipeline of black chartered accountants (CAs) to transform the profession and economically empower black audit firms



### **Our employees by**

- creating meaningful employment and career development opportunities
- providing fair, transparent, market-related and equitable remuneration and benefits





## DRAWING AN ETHICAL LINE IN THE SAND



Alice Muller

***One of the most serious challenges the AGSA has faced in recent years is threats and intimidation against its audit staff. The intimidation and threats cover a wide spectrum, from offers of rolls of cash to make a finding “go away” to vandalising auditors’ cars and other personal property – and even, in the worst cases, death threats and actual physical harm.***

Under Kimi Makwetu’s leadership, the response to the steady escalation of intimidation and threats was clear and firm: we will not be deterred from fulfilling our constitutional mandate to strengthen democracy by enabling oversight, accountability and governance in the public sector through auditing.

This steely eyed determination to defend our constitutional mandate was strongly in evidence in early December 2019 when Kimi briefed Parliament’s Standing Committee on the Auditor-General (Scoag) on acts of intimidation against audit staff, including threats of kidnapping and offering bribes.



### IN THE PUBLIC EYE

With Scoag’s support and the message in the public eye, the AGSA’s leadership team employed a multipronged strategy to deal decisively with threats and ensure the safety of the office’s audit teams.

***We have a very strong leadership commitment to act against intimidation and threats,*** says Alice Muller, acting national leader in the AGSA.

This is because intimidation and threats strike at the very heart of the AGSA’s constitutional mandate: should a finding not be raised, those responsible for the irregularity or non-compliance cannot be held to account and the AGSA would then not be delivering on its mandate to strengthen democracy.

***We will do whatever it takes to safeguard our staff and protect the integrity and independence of the audits and the auditors,*** Alice said in a panel discussion hosted by the South African Institute of Chartered Accountants (Saica) on Global Ethics Day on 21 October 2020.

She outlined some of the key measures the AGSA has been taking to deal decisively with threats directed against its staff.

These steps include forming a multidisciplinary security task team to assess and deal with risks related to intimidation and threats, together with the visible commitment of leadership.

**We went out and talked to everyone in the organisation with the message, Talk to us. The moment you don't feel safe, speak up,** says Alice, adding. **The moment I know, I will act.**

Action could take various forms, depending on the level of threat. Based on its risk assessments, which are becoming more and more sophisticated, the office might decide that staff in a particular audit should work from their guesthouse rather than go to the auditees' premises. In other cases, staff have been issued with panic buttons, backed up by proactive plans with the South African Police Service to extract them from vulnerable situations if need be.

Other measures are comprehensive security awareness and training for staff across the organisation, counselling to cope and build resilience, and escalation and communication so that staff know exactly what to do and who to contact in the event of a threat.

In addition, the AGSA's engagement letters now directly address the question of the safety of its audit staff. **We have had very good responses. Auditees have started helping us with arrangements to keep our staff safe, such as where we sit and park, and escape routes,** Alice says.



## STREETWISE AND VIGILANT

Staff are also becoming more and more comfortable about recording their safety concerns in the office's register of incidents, not just if there is an overt threat but also the more subtle signals.

**We are getting streetwise,** says Alice. **Our staff never go to an engagement alone; there are always two people. They also know that the moment you have a finding, you share it with the team so that the whole team knows. We also never park just anywhere – we park near cameras, if at all possible.**

Apart from being more vigilant, audit staff are becoming adept at thinking on their feet and drawing on their own wisdom to deal with ethically problematic situations. Alice recalls the experience of one trainee auditor who was offered a cash bribe. **He handled the situation by saying, 'Let me go and think about this'. He got out of the situation and immediately escalated the matter.**

Such experiences are actively shared within the organisation so that others can learn and grow from it too. Staff engage

continuously on how to deal with intimidation and threats, and how to navigate ethical dilemmas.

The AGSA also makes a point of celebrating its ethical heroes, as happened on Global Ethics Day 2020 at a celebration hosted by the then deputy auditor-general, Tsakani Maluleke.



## ETHICAL HEROES

**I am intrigued by this year's celebration theme, 'own it, my ethical accountability is personal',** she said. **This theme is aimed at appealing to all of us to be ethical heroes in our own right and in our own spaces.**

She noted that over the past year – a year when the covid-19 pandemic had exposed the shortcomings in the ethical conduct of many – the AGSA had attained an AA ethics maturity level. Ratings such as these are not built by only adhering to international auditing standards and codes of conduct but also through the day-to-day actions of individuals choosing to make ethical decisions, intensify access to moral principles and deepen our appreciation of what that means in our daily lives. **These are the heroes that continue to scale up our ethics maturity level, and thereby safeguard our reputation,** Tsakani said.



Winner

# AGSA

## ethical heroes

Ethical behaviour is vital to our existence. Championing ethical conduct and owning it as a personal value is a huge part of every AGSA employee.

During Global Ethics Month, we chose to celebrate ethics heroes who demonstrated their commitment to living our ethical principles.

True ethics heroes show integrity, independence, objectivity, confidentiality, transparency, professional competence, due care and political neutrality

## Nominees



**Cleo Shabalala**  
ISA



**Nkululo Nocha**  
IKM



**Rebone Masemola**  
ISA



**Joy Malirotho**  
ISA



**Jabu Manana**  
POE



**Siphumle Ntsokolo**  
ISA



**Nyarai Muzarewetu**  
POE



**Edward Matjila**  
POE



**Lucretia Wagenaar**  
POE



**Leocardia Kamanga**  
ICT



**Mashea Motai**  
POE



**Andriette D'Abreton**  
IKM



**Kethan Ramith**  
Mpumalanga



**Vanuja Maharaj**  
CE04



AUDITOR-GENERAL  
SOUTH AFRICA  
*Auditing to build public confidence*





## THE OFT-SUNG SONG ABOUT PREVENTATIVE CONTROLS RINGS CLEAR AND TRUE

*There were times when Kimi Makwetu felt like his messages were playing on a loop, singing the same tune over and over again – and wondering if anyone was listening.*

*The “tune” in question is this: Preventative controls promote transparency, strengthen accountability and ensure predictability.*

It is a song that, if heard and heeded, could help ensure that service delivery projects in South Africa are completed properly and on time and that the economy has the infrastructure it needs to grow.

Instead, that message from successive auditors-general has mostly fallen on deaf ears.

As Kimi himself put it, **When the matter of the persistent disregard of our audit findings and recommendations was stared in the eye after some 15 years of ‘singing a sweet song like an owl sitting on an oak tree’, the amendment of the Public Audit Act (PAA) became the only plausible option left on the table.**

But even after the amended PAA came into effect on 1 April 2019, giving the auditor-general the power to insist that accounting officers take its audit findings and recommendations seriously (see page 29), Kimi continued driving home the message about the power of preventative controls.

As recently as March 2020, he wrote in an [editorial](#) that preventative controls are an invisible fortress against all possible abuses of the public purse. **These controls are proactive and are an eloquent expression of the key guards being at their posts at all times. This is relatively cheaper than relying on investigations that will be triggered after money has changed hands in ways that are not credible or transparent.**



So effective could preventative controls be in curbing abuse that they could even render the PAA amendments redundant – which would be the AGSA’s first prize, Kimi said on more than one occasion.

Not content with simply “singing the song” about the importance of implementing preventive controls, in 2020 Kimi initiated one of the most decisive steps yet in the drive to convince accounting officers to pay much greater attention to these controls. In September 2020, he joined forces with the National Treasury’s Director-General Dondo Mogajane in introducing new guidelines on preventative controls.

The guidelines, launched amid the public outcry over government’s mismanagement of national covid-19 spending, take the form of six guides for use by oversight bodies and the accounting officers of government departments, public entities and municipalities.

Each guide covers a principle of key controls, starting with the importance of preventative controls and moving to a control tone and culture (which must be set from the top),

institutionalising internal controls, procuring goods and services, preparing financial statements and managing assets.

The controls described in the guides are not new. What is new is the way that they are explained and elaborated on, making them clear, detailed and easily accessible from a single source. ***This ensures that nobody could turn around and say I did not know***, Kimi said during a webinar held to launch the guides, adding that ***prevention is so much better than healing as it saves the labour of being sick***.

National Treasury’s Dondo Mogajane agreed, referring to the twin afflictions of widespread illness and gross corruption. ***For both covid-19 and corruption, prevention is the cure***, he said.

Now that accounting officers have a toolkit of possible solutions to make preventative controls a reality, it is to be hoped that Kimi’s sweet song about the paramount importance of preventative controls is being heard – and heeded.

## Preventative control guides | SEPTEMBER 2020

// Preventative controls promote transparency, strengthen accountability, and are predictable with known expected outcomes. //

– Kimi Makwetu



AUDITOR-GENERAL  
SOUTH AFRICA



## MANAGING RISK IN GOVERNANCE

### *Follow the two fundamental principles of good governance and you cannot go wrong*

There is nothing complicated, complex or difficult about achieving good governance in the public sector. On the contrary, it is extremely simple: if you apply the cardinal principles of transparency and accountability, you cannot go wrong.

The problems come in when people do not apply these constitutionally enshrined principles. In the past 25 years, there has been limited transparency or accountability in the public sector and, to compensate for this, the laws and regulations that govern public financial management have become increasingly voluminous.

Kimi Makwetu made this point on 15 September 2020 while participating in a panel discussion on ensuring good governance during the covid-19 pandemic. During the discussion, which was part of the 2020 Finance Leaders' Symposium, the comment was made that over-regulation could be stifling.

Kimi conceded that South Africa does have a considerable amount of regulation but observed that much of this regulation was in response to the tendency in the public sector to ignore the fundamental principles of accountability and transparency.



***The crux of the matter is that there would be no need to bombard institutions with regulation if these two principles were observed.***



## RAISING THE RISK PROFILE

A major consideration is that when an institution flouts the principles of good governance, it raises its risk profile. A certain amount of risk is a part of all business but not practicing good governance elevates the risk of mismanagement in finance, how goods and services are procured, and hiring and firing, and improves the potential for unethical conduct, and business processes and legislation being ignored. These risks can lead to an institution not meeting its objectives, not getting value for money and an environment in which corruption can thrive, which in turn threatens its ability to deliver services.

The public sector had become accustomed to managing AGSA reports with seemingly plausible explanations for not following the rules.

Kimi made the point that if an entity's governance was poor in ordinary times, it would be even worse in times of crisis.

This was certainly the case during the AGSA's proactive audit of the financial management of government's covid-19 initiatives. The impact of the existing state of poor governance was apparent in weakened structures, unsustainable financial health, poor internal controls, poor service delivery and a fertile environment for inappropriate management of resources.

On the other hand, in areas where there was good governance, the AGSA's auditors saw strong internal controls that helped organisations to detect, prevent and correct issues and leakages.



## GOOD GOVERNANCE AND REDUCING RISK GO HAND-IN-HAND

Good governance in the form of transparency and accountability encourages a good control environment that includes an ethical and effective control culture, with leadership setting the tone from the top, and lowers an institution's risk profile. If an institution's leaders are unethical, have a disregard for governance, compliance and control, and are not committed to transparency and accountability, this will filter through to the lower levels.

What government officials need to remember is that they are in service to the public and that the Constitution promotes the transparency of doing work on behalf of the public and the accountability that comes with that level of transparency.

Kimi himself set the tone from the top on a daily basis, ensuring that the AGSA was exemplary in its

own governance. He took full accountability for the organisation's performance, being the first state institution to publish its integrated annual report and, after the amended Public Audit Act, incorporating the accountability report for the organisation's enhanced powers into the annual report.

However, he made sure the credit for the office's successes was given where he believed it was due - to the team he led.

In November 2019, in accepting the Lifetime Achievement Award of the Association for the Advancement of Black Accountants of Southern Africa (Abasa), Kimi had this to say:

**“While the award is in my name, I accept it on behalf of the team I am privileged to lead – they are the ones who continue to implement the vision we have for our office and our country. We work together, and all of us do the sterling work that is recognised by Abasa. To us, this recognition says we are on the right track but there is still a lot that we need to do to help our country's wholesale drive to good governance.”**

**– Kimi Makwetu**



Kimi receives Abasa award





## A UNIQUE AUDIT APPROACH FOR AN UNPRECEDENTED CRISIS

*2020 has been a time of global turmoil. Entire economies have been shut down, borders closed, planes grounded, supply chains disrupted and citizens confined to their homes. When the covid-19 pandemic hit South Africa and the president announced a lockdown at the end of March 2020, government's response included redirecting resources to fund a R500 billion package for health initiatives and the relief of social and economic distress caused by the drastic measures that had to be taken to contain the spread of the virus.*

While R270 billion of this was for tax relief and credit guarantees for bank loans for businesses in distress, R230 billion was to be disbursed directly – to relieve social and economic distress among individuals, households and companies, to procure personal protective equipment (PPE) and to fund frontline covid-19 initiatives.

However, this multibillion-rand relief package was being injected into a control environment that was already compromised.



### ACCOUNTABILITY IN A CRISIS

In times of crisis, the agility and robustness of public finance management systems are truly tested. When governments refocus controls or processes to respond to a crisis, they may unintentionally create opportunities for the abuse or misuse of public resources.

Long before the pandemic broke out, the AGSA had been reporting on and warning about poor public sector financial management controls, disregard for supply chain management legislation, an inability to manage projects effectively and a lack of accountability.

These warnings had to do with many of the government sectors that were now expected to lead or support government's efforts to manage its response to the pandemic: local government, health, water and public works are some of them.

Even in the middle of a crisis of this magnitude, transparency and accountability for government spending cannot take a backseat. With the support of the president of South Africa, the late auditor-general, Kimi Makwetu, began a unique, proactive audit of the various covid-19 initiatives introduced by government.

Because the circumstances have been unique, the auditing approach has been unique. ***It was something completely new and different from what we normally do,*** says Tsakani Maluleke, South Africa's current auditor-general. This new, real-time audit was absolutely crucial in following the money intended for covid-19 relief as it was spent.





## FOLLOWING THE MONEY IN REAL TIME

In May 2020, we began a real-time audit of 16 of the key covid-19 initiatives. We started off by highlighting the importance of preventative controls to accounting officers and authorities so that they could address the increased risks and changes in their operations. This is crucial because preventative controls are a deterrent to abuse.

Multidisciplinary audit teams were mobilised. Our financial auditors worked closely with forensic auditors, information technology and supply chain specialists and sector-specific experts with keen insight into auditees' risks and operations.

They began auditing payments, procurement and delivery as they occurred, and immediately reporting any findings to the relevant accounting officers or authorities to address.

In the first few months of the audit, however, when the lockdown was at its most stringent, access to documentation, systems and government officials was limited, causing delays.

By the time the late Kimi Makwetu released our first special report on the financial management of government's covid-19 initiatives in September 2020, we still had significant work to do on some of the initiatives. These had either been slow to get off the ground or our efforts had been hindered by limitations.

For the second report, released on 9 December 2020, we focused on completing the outstanding work and following up on the progress made by all role players in implementing the actions to which they had committed.



## FOLLOWING UP ON COMMITMENTS MADE

Critically, there were commitments to take action by the majority of accounting officers and authorities of auditees where we reported shortcomings in controls and processes or matters that required investigation. Most accounting officers and executive authorities took action to address the audit observations and findings from that report, implement the recommendations and, in some cases, even took disciplinary steps. This is evidenced by the Unemployment Insurance Fund recovering almost R3,4 billion of the temporary employee/employer relief scheme (Ters) benefits paid to ineligible individuals.

In total, 37% of these auditees implemented all the actions they committed to in the first special report, with the remainder at least partially implementing the commitments since we engaged them in August 2020.

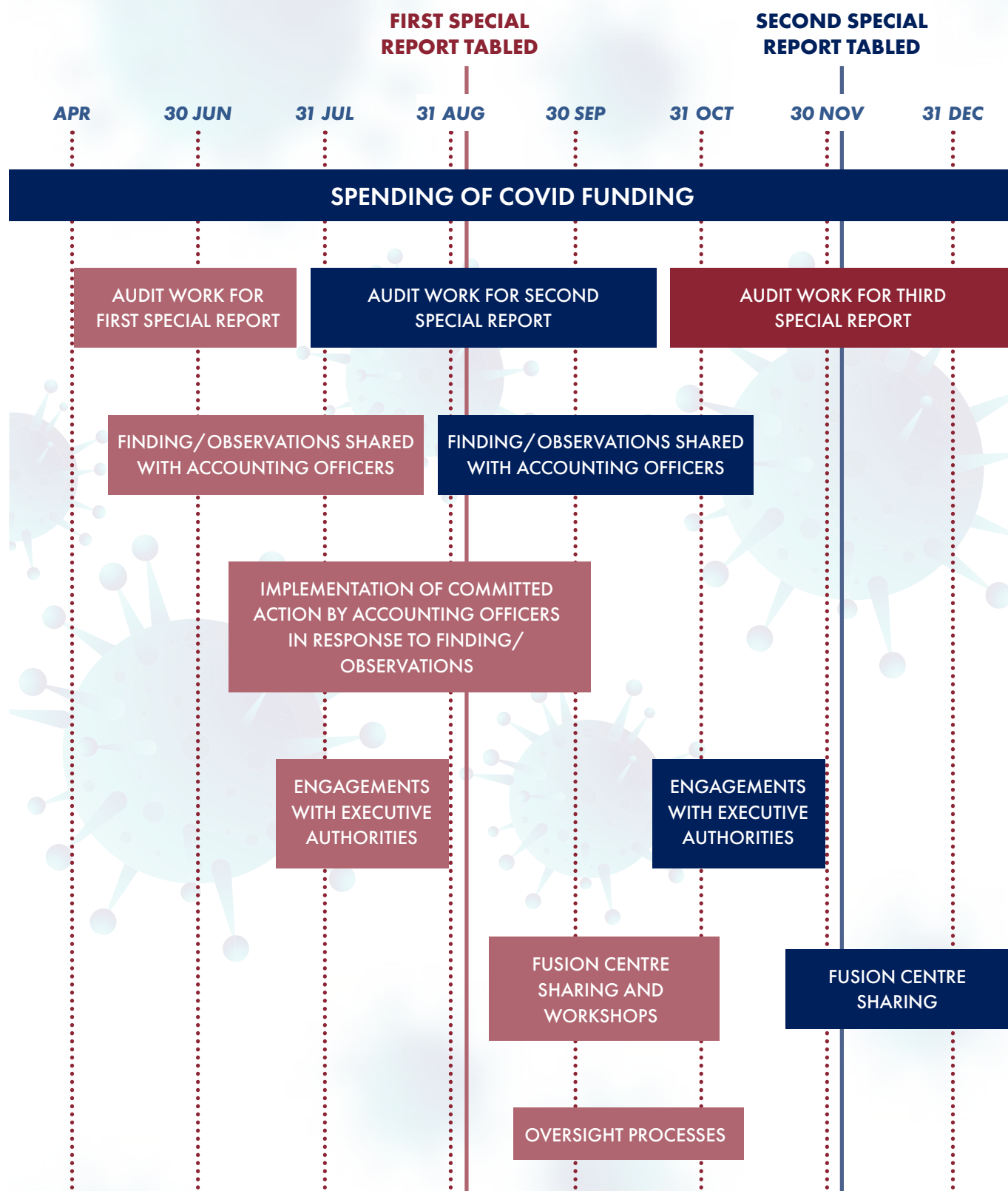
A third special report is planned, focusing on the covid-19 funds made available to local government and reporting on accounting officers' progress in implementing committed actions.

Significantly, our normal auditing work did not come to a halt during this time. Over the same period, in parallel with the pandemic-related audit, we continued to work on the regular annual audit of national and provincial government.

All this, as Tsakani Maluleke has noted, seemed like an impossible task at one point. The fact that it was not proves the point yet again that where there is passion, commitment and strong leadership, a way will be found to move those mountains.

***We did not have all the answers and we were tested, she says. But we were able to do it because we had a clear sense of priorities, values and principles, and we told our people, 'We believe in you', and we gave them the space to step up. And they did; they stepped up.***

## BROAD TIMELINES OF COVID AUDIT AND REPORTING





CBC committee launch 2016



## PLAYING A LEADING ROLE ON THE WORLD STAGE



**Jan van Schalkwyk**

*The AGSA has a long and prestigious history of contributing to the professionalism and status of public auditing globally through our participation in the International Organisation of Supreme Audit Institutions (Intosai), a non-governmental organisation with special consultative status with the United Nations' Economic and Social Council.*

This contribution gained further impetus in the seven years from 2013 to 2020.

The AGSA, which is the supreme audit institution of South Africa (SAI-SA in international circles), recorded a number of highlights during this period but there were three sets of initiatives that stand out as exceptional:

- SAI-SA became the first supreme audit institution from a “developing” country to lead a peer review of a SAI from a “developed” country.
- The AGSA played a key role in the international audit of the African Union – an institution that Africans across the continent hold dear.
- As chair of the Intosai Capacity Building Committee, SAI-SA led or contributed substantially to Intosai capacity-building initiatives that will have significant implications for many years to come for the professional development of government auditors around the world.



### LEADING THE PEER REVIEW OF SAI-CANADA

In 2017, SAI-SA was approached to lead the peer review of SAI-Canada.

A peer review is a major event for a SAI. It is a rigorous quality assurance measure intended to assess compliance with international standards.





SAI Canada peer review team

The fact that Canada's SAI approached its South African peer to lead the review speaks volumes about the credibility and status of the AGSA in the global arena. **Being handpicked to lead this project was a significant honour, not only highlighting the capability of SAI-SA, but also recognising the growth on the continent in the Intosai community,** says Jan van Schalkwyk who, as corporate executive in the auditor-general's office, coordinates the AGSA's international activities.

The other members of the reviewing team were New Zealand, Sweden, Norway and the United States of America.

The peer review took two years to complete and, in September 2019, on behalf of the reviewing team SAI-SA delivered the peer review report to SAI-Canada at the International Congress of SAls (Incosai) in Moscow, Russia.

The unanimous view of the panel was that SA-SAI was on par with SAI-Canada.



## AFRICAN UNION AUDITS CLOSE TO OUR HEART

SAI-SA has been a member of the African Union (AU) Board of External Auditors since 2014. In that capacity, it has been part of the international audits of the AU, alongside the other board members, the SAls of Cape Verde, Algeria, Uganda and Equatorial Guinea.

Each audit has offered SAI-SA opportunities to expose its audit teams to the incredible learning opportunities that go with an international audit.



## PROFESSIONALISING THE INDUSTRY GLOBALLY

When it comes to capacity building and professionalisation, SAI-SA is second to none, having enabled 1 195 chartered accountants to qualify in the 20-year existence of our trainee auditor scheme.

This know-how has been put to good use in the international arena, specifically in Intosai's Capacity Building Committee (CBC).

After assuming the chair of the CBC in 2013-14, with SAI-Sweden as vice chair, SAI-SA immediately set to work fulfilling Intosai's mandate for reform. The challenge was to completely revamp the CBC's role, ensuring it is needs-based and strategic so that public auditors around the world can rise to the many challenges associated with auditing government financial management.

This was a six-year journey that culminated in the CBC presenting the global SAI community with the first comprehensive competency framework for public sector auditing.

Here are just a few of the many milestones reached during this six-year period:

- A ground-breaking white paper on professional development was produced in 2014-15. Soon afterwards, SAI-SA started leading a CBC work stream on global public sector auditor professionalisation.
- In 2015-16, SAI-SA assumed governance leadership for the SAI Performance Measurement Framework, the global standard for SAI performance. This includes developing a global framework to strengthen regional professionalism and revising two key Intosai standards on capacity development.
- We developed a competency framework for public sector audit professionals, dealing with the areas of financial, compliance and performance auditing, and presented it at Incosai in Abu Dhabi in 2016. We also issued a position paper on enabling mechanisms to facilitate and structure professional development (e.g. through trainee auditor schemes or dedicated audit universities).
- In the following three years, we refined the competency framework, initiated research on how SAls can structure professional development, finalised a guide on developing pathways for professional development, and crafted a basic roadmap to take the capacity development word forward.



Both the competency framework and the guide were adopted at Incosai Moscow in September 2019.

***This is a massive achievement for us as a SAI leading such a project, says Jan van Schalkwyk. It has been an intense six-year journey and, under the***

***leadership of Kimi Makwetu as chair of the CBC, we have laid the groundwork for international standards to be developed on auditor professionalisation.***



Kimi at the CBC 2016 with Magnus Lindell (vice chair CBC) and Chief Justice Mogoeng Mogoeng



## INTOSAI PAYS TRIBUTE TO KIMI

The Intosai community mourned the loss of Kimi Makwetu alongside the AGSA. Tributes poured in from many of his international peers and Intosai posted a tribute to this industry giant on its [website](#) on 12 November 2020, the day after his passing.

***Kimi Makwetu was a highly esteemed colleague and friend who will be profoundly missed by all who have known and worked with him.***

***The Intosai family has lost an icon, a permanent fighter for SAI's independence, for good governance, transparency, integrity and the professionalization of auditors.***

***Over many years, he essentially shaped, influenced and strengthened Intosai and external government audit.***

***... In the last years, he was especially committed to the implementation of the UN 2030 Agenda and the SDGs within the framework of Intosai.***

***It is without any doubt that Kimi's work and his energetic personality and great expertise have influenced the international audit community and will continue to leave an imprint of Intosai.***

***He will be deeply missed for a long time.***



AU BoEA (Copyright AU Commission)



## AFRICAN UNION AUDIT - AN OPPORTUNITY TO INFLUENCE CAPACITY GROWTH

*In 2014 the African Union (AU) realised that to be accountable, and to be seen to be accountable, "its audits needed to be credible, and therefore have credible auditors," says Jan van Schalkwyk, corporate executive in the AG's office.*

*In that year, for the first time, the African Union Commission (AUC) chose five African supreme audit institutions (SAIs) to audit the AU and its organs, moving away from using external audit firms.*

The five SAIs – the AGSA and the SAIs of Algeria, Cape Verde, Equatorial Guinea and Uganda – represent the Central, Eastern, Northern, Southern, and Western African regions in which the AU works, and were initially appointed for two years. The trust given to these SAIs showcased their relevance in Africa.

It was quickly made clear that the AU expected the AGSA to lead the audit. The auditors general of the five SAIs formed the AU Board of External Auditors (BoEA), with the AGSA's Kimi Makwetu as chairperson. Kimi excelled in the task of establishing processes, routines and audit methodologies, and of leading the AU audit in 2015. The AU BoEA's financial audit of the AU and its organs helps the AU to transform their discipline in using funds to improve the lives of the people on this continent.

The work audit operations committee (AOC) kicked off the audit in 2015. The AOC comprised all five members of the BoEA. The AGSA's Phenny Ramuedzisi, senior manager in the office of the AG, became chairperson of the AOC and lead auditor on the AU audit, responsible for managing a team of 23 members. A major part of Phenny's work in those first months was rallying the various and diverse SAIs behind a single, credible audit methodology, establishing structures and processes, and bridging language barriers as the SAIs used English, French and Arabic.

Adding to these complexities, some SAIs had not experienced the Westminster or courts/judicial systems that govern the way SAIs function. All these challenges led to the first audit report being released almost a year after the AU's year end.



While the AU headquarters is based in Addis Ababa, Ethiopia, other organs of the AU are spread throughout the African continent and had to be factored into the audit. The final evaluation and sign-off of the audit was a challenge that required the BoEA to balance the issues, risks, audit requirements, audit standards, various input of different auditors and an AU that was only starting a process to adopt a credible accounting standard.

Managing these challenges needed a respected leader with an innovative approach and an open mind. Kimi ticked all these boxes as the ideal person for the job. In his role as chairperson of the BoEA he was decisive enough to move forward but flexible enough to bring people along on this journey. Having Dr Dlamini-Zuma as chairperson of the AUC at the time assisted in making some processes easier.

After the two-year audit cycle, the AGSA felt pressure to continue to lead the audit, but Kimi did not want to hog that space as he felt that the BoEA had other credible auditors general who could continue with the audit. He stepped down and the chair of BoEA passed to SAI Uganda, which also uses the Westminster audit system. SAI Uganda ran with the process, affording the audit a sense of continuity, and took on the role of the chair of the AOC. The next two years, 2016-17, saw a steady strengthening of the AU's financial management, with Phenny representing the AGSA under the guidance of Jan van Schalkwyk.

At the end of the first four years, Kimi reflected that using only the five big SAls for the AU audit did not allow smaller SAls in Africa the opportunity for capacity building. Auditing at the level of the AU would support such smaller SAls in developing their capacity and allow them to grow. Taking Kimi's views on board, in 2018 the AU appointed 10 SAls as external auditors. These ten external auditors comprised the five original members as permanent appointments, with a further five developing SAls.

Kimi also recommended that the two-year rotating chair of the BoEA be passed to a SAI with a court system of audit, and proposed SAI Algeria for this position. The change to SAI Algeria brought many challenges as Algeria works within a court system and in Arabic.

During this time, Tshepo Shabangu, senior manager at National A led the AGSA's part of the audit. His strong technical background and ability to navigate between the Westminster and the court systems helped SAls to navigate the challenges and ensured the quality of the audit work.

In 2019, Kimi Makwetu entrusted corporate executive Mabatho Sedikela with the responsibility of representing South Africa on the audit. As the only non-AG and the only female of the 10-member BoEA, Mabatho realised that the continent had a lot to do to build capacity and empower women in the SAI audit space. Not only are the AGs males, but the audit directors below them are male. I thought **here**

**is a wonderful opportunity to sit at this table and contribute and do so responsibly to inspire confidence in women's capabilities,** said Mabatho.

AU audits are hugely pressured work with very tight deadlines given the vastness of the continent and the African agenda. **It was a real privilege and honour to represent the AGSA. AG trusted us as a team and we did not want to disappoint him, but I did not fear that we would,** Mabatho recalls.

Disappoint the team did not, and on 25 May 2019, Africa Day, the audit report was signed in Addis Ababa. **The timing was significant, and made me proud to be African,** says Mabatho. The high esteem in which Kimi was held for his contribution and his leadership led to the AGSA being well regarded for the quality of our work. **The way AG led when he was chair and the way the teams consistently produced quality work means that our contributions are always highly valued and appreciated, irrespective of who they come from,** said Mabatho.

Today, due to Kimi's vision, open-mindedness and prudence, the AU audit has become a massive capacity development initiative for SAls in Africa.



Mabatho Sedikela

## INTERNATIONAL THOUGHT LEADERSHIP

2013-14

- Assumed chairmanship of CBC
- Implemented an improved value proposition anchored by cooperation with various Intosai committees and regions

2014-15

- Established a permanent quality control mechanism for Intosai audit standards with the PSC and KSC
- Produced the white paper on Professional development in Intosai
- Launched CBC website that serves as a community of practice for global SAI capacity development

2015-16

- Assumed governance leadership for the SAI Performance Measurement Framework
- Created a regional platform for strategic regional capacity development issues
- Developed a global framework to strengthen regional professionalism
- Revised two key Intosai standards supporting capacity development:
  - ISSAI 5600 (peer reviews)
  - ISSAI 8500 (cooperative audits)

2016-17

- Completed strategic review of Intosai capacity building goal
- Strengthened cooperation with Intosai's donor cooperation committee
- Developed a competency framework for public sector audit professionals
- Issued a position paper on enabling mechanisms to facilitate professional development

2017-18

- Established a new work stream to support SAIs in complex and challenging circumstances
- Introduced a monitoring and evaluation tool for Intosai's strategic goal committees
- Developed a quality assurance system for public goods in cooperation with the PSC and KSC
- Revised the terms of reference of the CBC for broader stakeholder representation

2017-18

- Augmented the Intosai Competency Framework for Public Sector Audit Professionals with a section on SAIs with jurisdictional responsibilities
- Issued a Guide on developing pathways for the professional development of auditors in a supreme audit institution
- Established a new CBC work stream to promote and support good practices in capacity building

2017-18

- Concluded the CBC's six-year focus on the fundamentals of SAI professionalism in support of global SAI capacity development
- Developed and Intosai pronouncement on auditor competence for incorporation into the Intosai Framework of Professional Pronouncements
- Reported on the successful completion of all CBC work streams of the last six years under the Auditor-General of South Africa chairmanship

### The CBC reported to the Intosai Governing Board on successfully implementing the Intosai strategy in all 10 CBC annual delivery areas:

- Auditing in complex and challenging contexts intosaint (institutional integrity tool)
- Peer-to-peer cooperation
- Intosai auditor professionalisation
- SAI Performance Measurement Framework
- Regional forum for capacity development
- Cooperative audits
- Peer reviews
- CBC guides and occasional papers
- Global inventory of capacity development tools





## REFLECTIONS ON THE AMENDED PAA: USING THE LAW AND A BIT OF PERSUASION

*Shivers of trepidation may well have run down some spines when President Cyril Ramaphosa signed the Public Audit Amendment Bill into law in November 2018. After all, it signalled the intention to end the culture of impunity that had taken root in public finance management in South Africa.*

At long last, the auditor-general had been given more powers to deal with financial irregularities in government, and the media greeted the news with headlines announcing that the AGSA now had “teeth” to enforce its recommendations.

While those who had been getting away with financial wrongdoing had reason for some anxiety, the organisation moved swiftly to reassure those who had more legitimate worries.

The AGSA’s 2020 integrated annual report noted **A number of our stakeholders expressed anxiety about the possible consequences of our enhanced powers.**

***Much of their anxiety was because they were unaware of what the amendments entailed.***

AGSA audit teams shared this anxiety. They were the people delivering these amended PAA messages to their auditees, and they needed to ensure that they had a firm grasp of the amendments. The AGSA heard its staff and went on an intensive training drive that ensured the staff was adequately prepared to engage with their respective stakeholders to raise awareness.



Alice Muller, acting national leader and leader of the PAA project addressing PAA pioneers



## LEADING FROM THE FRONT

In response to its auditees' trepidation, the AGSA embarked on one of its most comprehensive and intensive awareness campaigns yet, not just for a few months before and after the amended powers came into effect on 1 April 2019, but long afterwards.

Between December 2019 and the end of March 2020, for example, Kimi and his top leadership team met with over 35 executive authorities, 78 accounting officers/authorities and 60 audit committees.

They also reached out to professional and industry stakeholders, the media and civil society organisations, ensuring everyone understood the auditor-general's enhanced powers, how the material irregularity process works and most importantly, why they were necessary.

### A material irregularity occurs when:

- a person does not comply with or contravenes legislation, engages in fraud or theft, or violates their entrusted duty
- this action can or does result in a significant financial loss, the misuse or loss of a significant public resource or substantial harm to a public sector institution or the general public
- the action is identified during a audit performed under the PAA

Kimi, as always, set the tone for calm, reasoned conversation. He took pains to explain why the enhanced powers were necessary, what they were meant to achieve and, most importantly, what limits applied to them.



## THE PERSUASION ERA

Between 2009 and 2011, in what was called the persuasion era, former auditor-general Terence Nombembe visited every province in the hope of instilling accountability.

**When I attended these meetings, you could see that some of the presentations were simply rehearsals. People were told to say this and that,** Kimi said in an interview published in the Mail & Guardian on 7 October 2020.

Something had to change. Over a three-year period during Kimi's term, the audit outcomes became worse. Levels of irregular expenditure escalated and every year, the

outcomes deteriorated. Kimi couldn't keep watching this happen. **In the first few years of my term, the team and I realised that we needed to mix persuasion with something else, such as legal ramifications,** he said.

And this is where the concept of the amendments to the Public Audit Act was born. According to Kimi, **Accounting officers now know that if they do not address the oversight issues it will hit them in their own pocket.** Kimi used every opportunity to make it clear that the AGSA would not be using its enhanced powers to go in guns blazing, so to speak, bringing wrongdoers to book and making accounting officers pay up left, right and centre.

The AGSA repeatedly emphasised the limits to the enhanced powers, the checks and balances in place, the care taken to implement the changes systematically and responsibly and, above all, the organisation's unwavering commitment to transparency and accountability in exercising its powers.

**We accept our powers with the seriousness that they deserve and, in turn, we subject our use of these powers to full scrutiny, ensuring that we are held to the same strict level of accountability as those we audit,** he said in the 2020 integrated annual report.

Measured messages such as these have gone a long way towards reassuring stakeholders and allaying concerns. More important, perhaps, is that Kimi and his top team followed up their words with action.



## PUTTING WORDS INTO ACTION

As promised, the AGSA has meticulously recorded and reported on its progress in implementing the material irregularity process, going into great detail in its general reports on the national and provincial, and local government audit outcomes since 1 April 2019.

In the first phase, the office used its general reports to outline all the material irregularities identified to date. It also highlighted the trail from each incident of non-compliance with the country's laws and regulations to the steps taken by the accounting officer or authority to remedy these.

In the second year of implementation, which is currently under way, the AGSA will test the effectiveness of the remedial actions. If required, it will apply the remaining set of powers up to issuing certificates of debt to those accounting officers or authorities who fail to prevent the loss of public monies or resources.

Under Kimi's leadership, the organisation began publishing its accountability report as part of its integrated annual report, focusing specifically on its implementation of the material irregularity process.

With words and actions in alignment, the AGSA has secured the cooperation of the vast majority of accounting officers whose departments or entities were subject to material irregularity audits.

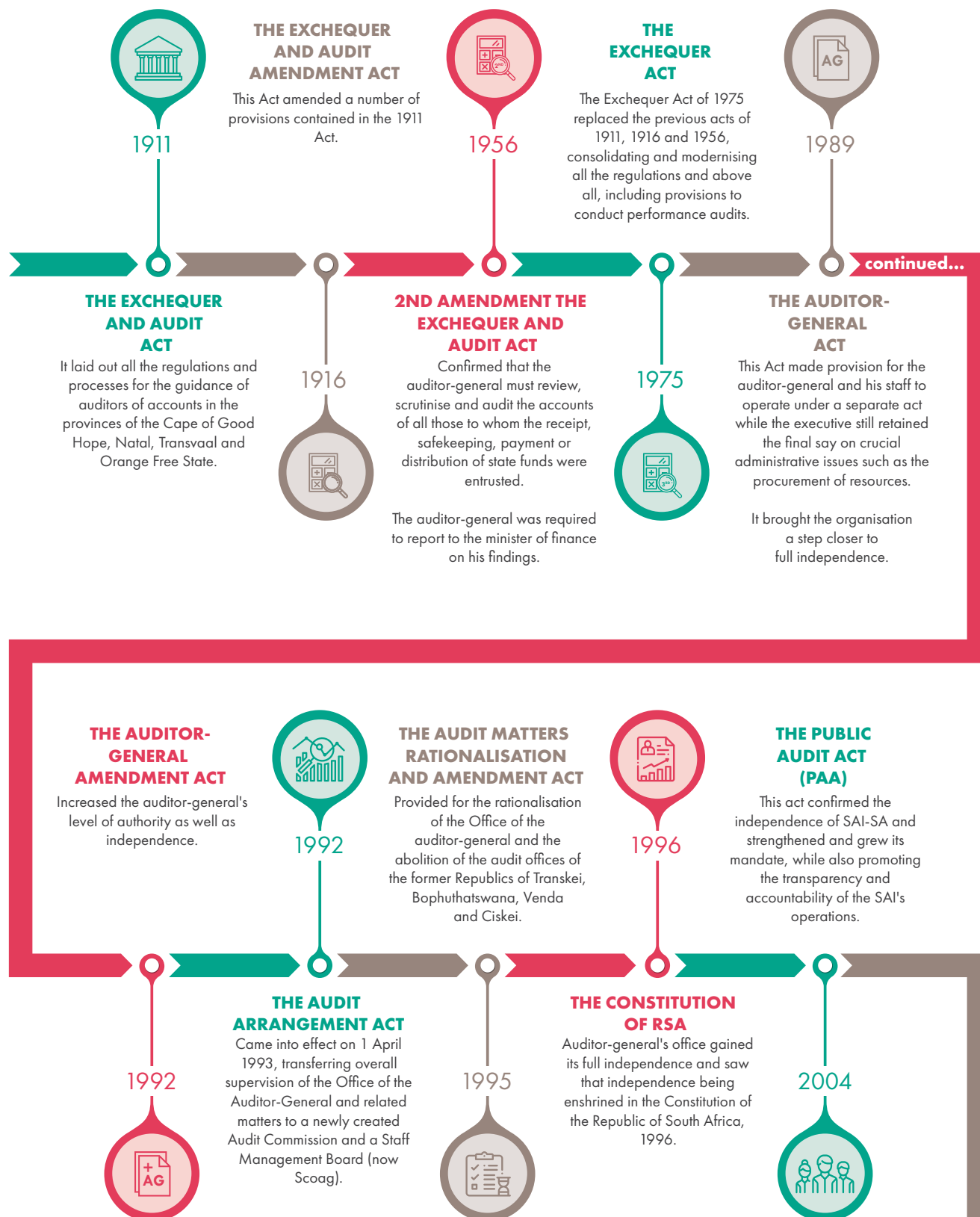
Evidence of this is that with 92% of material irregularities identified in national and provincial departments, the accounting officers concerned are taking appropriate action. Only three irregularities were not adequately addressed, one of which has been referred to a public body for further investigation.

Although implementing the material irregularities process is still in its infancy, these early results set the scene for a new culture of accountability in public financial management. And, to use Kimi's own words, demonstrate the effectiveness of using ***the law with a bit of persuasion.***



The AGSA exco celebrates Parliament approving the Public Audit Amendment Bill in 2018

# PAA TIMELINE



## 2018 -THE PUBLIC AUDIT AMENDMENT BILL

Amended the Public Audit Act to, inter alia, provide for the auditor-general to take remedial action, to ensure that losses suffered by the State are, where possible, recovered, as well as to refer certain suspected material irregularities for investigation.



# Explaining the AG's enhanced powers



AUDITOR-GENERAL  
SOUTH AFRICA

Auditing to build public confidence

## The difference between material irregularities and irregular expenditure

Irregular expenditure is all spending where the law is not followed in the process leading up to the payment. For example, if the procurement process for the awarding of a construction contract did not comply with legislation on supply chain management, all payments to that contractor will be irregular expenditure. When irregular expenditure is identified, the accounting officer or authority performs an investigation to determine the impact by considering if the non-compliance resulted in a financial loss, whether there was any fraud involved, and if an official should be held accountable. If there was no loss or fraud, the irregular expenditure will be condoned after the necessary disciplinary action had been taken.

As with irregular expenditure, a material irregularity also stems from not following the law, but it has a broader scope and can be applied to fraud and theft and to a breach of fiduciary duty (which means that an official did not do what the legislation requires and/or did not act in the best interest of

the auditee). The key difference is that for any non-compliance to be considered a material irregularity, there must already be an indication that the non-compliance resulted in, or is likely to have a material impact, in the form of 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.

Their values differ, as irregular expenditure is the total expenditure, while a material irregularity will not always have a value (for example, substantial harm cannot be quantified). But if the material irregularity relates to a financial loss, the value will be the loss.



### An example of irregular expenditure



A lack of a competitive bidding process for the awarding of a contract of R20 million.

The irregular expenditure is all the payments made on the contract to date (e.g. R10 million).

### An example of material expenditure



A lack of a competitive bidding process for the awarding of a contract of R20 million resulting in a material financial loss, as the same service could have been delivered at a lower price (e.g. R18 million).

The financial loss is R2 million (what was lost and what can still be lost).

Audit

Report

Accountability  
Personified



## TAKING OVER SOE AUDITS IS A STEP TOWARDS BETTER OVERSIGHT

***South Africa has 21 major state-owned enterprises (SOEs) and many of them play a crucial role in the economy, providing services such as public broadcasting, electricity supply, airport operations, development financing, defence technology and air traffic control, to mention a few.***

Yet the financial sustainability of some of these enterprises, listed as schedule 2 entities under the Public Finance Management Act (PFMA), has been hanging in the balance for years. Governance failures and taxpayer-funded bailouts at these entities have been widely reported, costing the economy billions of rand and playing a part in the series of South Africa's credit ratings downgrades over the past few years.

Governance and financial management of these entities is complex because they are neither purely public nor completely commercial entities. Rather, they play a dual role. On the one hand, SOEs are required to meet the development goals of government; on the other, they are run according to general business principles and are supposed to generate profits and declare dividends.

Adding to the complexity is that they are independent entities with their own boards of directors and, at the same time, are partly or wholly owned by the state.

This combination of characteristics makes them fundamentally different from the local, provincial and national government departments that the AGSA traditionally audits.

Similarly, when it comes to financial management and reporting, SOEs are expected to apply the International Financial Reporting Standards and also meet legislative requirements of the PFMA and Companies Act. At the same time, they are expected to adopt frameworks for corporate governance such as the King IV code on corporate government.

Aside from the differences in financial management and reporting frameworks, SOE audits are made more complex by the specialised service that each offers, which auditors must understand to effectively audit such enterprises. Understandably, the traditional skills set of the AGSA has not included the knowledge and expertise needed to audit SOEs. That changed soon after Kimi Makwetu became auditor-general in December 2013. Concerned about the increasing risk that poorly performing SOEs posed to the economy and service delivery, the AGSA took a strategic decision to systematically take over these audits especially those identified as “significant risk SOEs”, to increase oversight.

However, before putting this strategic decision into practice, the AGSA had to comprehensively train and develop the audit teams who would conduct the audits. The audit teams needed to be intimately familiar with the SOE’s business and the full spectrum of financial and other laws with which it must comply.

In the first year, 2013-14, the AGSA took over six SOE audits and, over the next four years, another eight SOE audits.

The AGSA now directly audits a majority of the SOEs listed in schedule 2 of the PFMA and is preparing to take over a further two, which will bring the number of SOEs the office is auditing directly to 16.

Internally, auditing such complex corporate environments gives AGSA auditors opportunities to develop and grow their expertise, which increases the AGSA’s skills base.

In cases where the AGSA has opted not to conduct SOE audits, the office has enhanced its governance of the audit process, improved the process to monitor how external auditors are appointed and discharged at SOEs, and provided guidance where necessary to both the auditors and the entities.

Commenting on the change of course in SOE audits since 2013, Tsakani Maluleke, the then deputy auditor-general, wrote in the 2020 integrated annual report that the AGSA’s decision is proving its value. **Our earlier strategic choice to increase the oversight of section 4(3) audits’ governance was rewarded by the increased appetite (and external pressure) to take over, and our increased ability to handle, such audits.**

## TAKING OVER AUDITS OF STATE-OWNED ENTERPRISES (SOEs)

SOEs use a substantial part of the national budget to provide services or infrastructure. From 2013 we began to systematically take over the extremely complex SOE audits to strengthen oversight of these entities.





## TAKING THE **VISION FORWARD**



**Tsakani Maluleke**

*The introduction to the AGSA's 2020 integrated annual report, the last under Kimi Makwetu, speaks volumes: Whatever course you take, make sure that the end is better than the beginning.*

As Kimi's seven-year journey as auditor-general drew to a close in 2020, it was clear that the organisation had flourished in his care and in pursuit of Vision 2024 and the four strategic objectives that went with it, the 4Vs.

The end of this chapter in the AGSA's history does not mean that the book has closed on what Kimi sought to achieve. Current auditor-general Tsakani Maluleke has signalled her intention to pick up the torch of Kimi's legacy and carry the flame high.



## **PICKING UP THE TORCH**

When Kimi Makwetu took over the position from outgoing auditor-general Terence Nombembe in 2013, he received this advice:

***Nombembe told me to always ensure my eyes are focused on the independence of the office. This is key in everything we do. Also, the professional competence of the team must never be undermined.***

Asked, in turn, what advice he would offer the next auditor-general, this was Kimi's answer. ***I would advise the incoming incumbent to ensure that they have sufficient trust in the team. You must try to be as independent as you can. Most importantly, you need to seem to be independent at all times. It helps you sleep much better at night.***

Tsakani is widely known and respected for her independence of mind and principled leadership.

She is also known as a consummate professional who stays out of politics and has an unblemished reputation with high ethical standards.

And like Kimi, whom Tsakani has referred to as her mentor, she has chosen to make her career in service to society.

Tsakani brings many attributes uniquely her own to the position she will occupy for the next seven years.





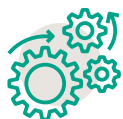
## LEADERSHIP ATTRIBUTES

Among them is her leadership style, which is built on an awareness that while people need guidance, they also need their leaders to stand back at times.

***When leaders take a be-all posture, teams take a wait-and-see approach, Tsakani has said. I've learnt that when we block our teams from helping us and rather carry all the work on our own shoulders, we put unnecessary pressure on ourselves. I've experienced first-hand the benefits of giving space for others to lead alongside me.***

She is also keenly aware of the importance of ***acknowledging and confessing my own fears and my own uncertainties*** while at the same time ***remaining hopeful and optimistic and passing that on.***

Being empathetic and compassionate – to herself and others – is also part of her makeup as a leader, qualities that have been refined and enhanced throughout the learning curve of covid-19.



## AGILE RESPONSE TO UNCERTAINTY

Remaining steadfast and stable in a changing and uncertain environment necessitates agility, and it will be critical for the AGSA to continue changing and adapting.

Under Tsakani's leadership, some of the internal priorities she has signalled are the strengthening of ethics within the organisation and a concerted focus on ensuring that the AGSA's messages are understood and reach the right audiences.

The professionalisation of the organisation will also gain momentum, as will the ongoing drive to strengthen the office's own control measures.

***Going forward, we will certainly continue to strive to maintain these very firm foundations around independence, professionalism and how we acquire ourselves as a good corporate citizen, and to make strides in the space of relevance - to ensure we deliver relevant, timely insights to accounting officers and authorities, those who oversee how government runs and citizens more broadly,*** she said.

On the auditing front, the AGSA can be expected to further improve audit methods and continue implementing the enhanced powers granted under the amended Public Audit Act. If required, this may entail applying the powers not yet used, up to the issuing of certificates of debt to accounting officers or accounting authorities who fail to prevent the loss of public money or resources.

Another key initiative that Kimi Makwetu started and must now be taken forward is the new proactive audit cycle introduced during the covid-19 pandemic. So far, two special reports have been released on the financial management of government's covid-19 initiatives and a third special report is anticipated.

Tsakani will continue the drive to remain financially viable and independent in an environment of persistent financial constraints, and take up the AGSA's leading role in the international auditing community.

Optimism and compassion define South Africa's new auditor-general as much as professional skill and an independent spirit. On taking the AGSA forward she promises:

***We will continue to partner with other players in academia, professional bodies, civil society organisations and other players in the accountability space so that we, in the most efficient way, can still deliver value to South Africans and still be the source of the type of faithful, courageous reporting we are known for.***

***There is hope for the future.***



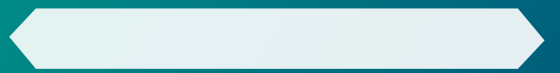
# Transparent & accountable



Read our performance report

Passion is critical in the roles that we fulfil in government ... Only a passion for a better future will see us through

- Kimi Makwetu





AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*