

AUDIT PERSPECTIVES

Audit offices responding in times of crisis



by Kimi Makwetu

The outbreak of the global coronavirus pandemic has demanded an extraordinary response by governments around the world. This fight against the biggest health threat of our time requires of every Parliament, organisation, company and individual to respond quickly to this challenge. It cannot be business as usual. The same applies to national audit offices.

Not only are governments faced with having to protect citizens through new health policies and procedures, emergency procurement and other requirements of declaring a state of disaster, but it also have to ensure that certain essential services continue and that the economy of the country does not grind to a complete halt. Throughout the world, it is evident that governments are also investing massive amounts in support programs, partly in an effort to sustain economies during the crisis period, and partly to assist in repositioning these economies for the inevitable rebuilding phase that will follow the crisis.

For developing countries, where one already sees massive unemployment and poverty, generally poor health care, aging and often inadequate infrastructure, as well a poor financial

disciplines, this is a massive challenge. Responding quickly and getting resources to citizens is an absolute priority and often that goes hand in hand with an increased risk of fraud and corruption. Emergency procurement sits at the heart of government's reaction to the pandemic, and is particularly prone to exploitation. The same goes for economic support and stimulus packages. The easing or refocusing of controls and the streamlining of processes and procedures to respond to the crisis may unintentionally expose government to the risk of rampant misuse and abuse of public resources.

National audit offices exist and function to influence citizens' trust in what government does on their behalf, through their audit work. One of the cornerstone audit standards that guide national audit offices - INTOSAI-P-12 "The Value and Benefits of Supreme Audit Institutions-making a difference to the lives of citizens" require of audit offices to be very responsive to how government is reacting to the challenges of this crisis.

Government's sustained ability to address the challenges of the pandemic, both in health and economic terms, depends largely on its ability to account to all involved, most importantly citizens, that the proposed interventions will indeed reach intended target, preventing any instances of misappropriation, fraud and corruption. Commentators across the world, political and economic, are reminding governments that transparency and accountability cannot take a backseat in this COVID-19 crisis, especially when they increase the level of expenditure under abnormal conditions. Some of these

non-negotiable measures for government should include:

- providing guidance on procurement strategies in the crisis,
- retaining documentation related to procurement,
- instituting relevant preventative and deterrent controls,
- enhancing contract management and finally to
- subject emergency procurement to audit and oversight.

An important principle is that that internal controls should be reoriented to the context of the crisis, but not diluted. Internal controls are the preventative mechanisms, rules and procedures implemented by a government entity to ensure the integrity of financial and accounting information, promote accountability and prevent fraud and error. Besides complying with legislation and protecting expenditure against misappropriation and fraud, preventative and deterrent controls can also help improve operational efficiency by improving the accuracy and timeliness of reporting, which in turn lead to better decision-making.

Although the South-African government has been lauded for its very firm and quick response to the early stages of the spread of this pandemic, the good work can easily be undone should these risks of fraud and corruption, both in government spending and the related reporting systems of government, not be addressed pro-actively and with the same vigour.

National audit offices have a definite role to assist governments to safeguard their ability to account to their citizens in times of need and crisis.



The role of national audit offices in times of crisis

Building on the responsiveness requirements of INTOSAI P-12, the global community of Auditors-General has developed a series of guidelines, contained in the ISSAI 5500 series of the framework of public sector auditing pronouncements, to enable audit offices to respond decisively in times of crisis. These guidelines deal with a wide range of considerations from testing government's preparedness to deal with disasters to explicitly focusing on how audit offices respond to the increased risk of fraud and corruption during and following a disaster event. Over the past two decades we have seen audit offices respond quickly to crisis situations such as the tsunami in Indonesia (2004), the earthquakes in Japan (2011) and the Ebola outbreak in Africa (2015). In the current pandemic, we already see prominent players such as the Government Accountability Office (GAO) - the national audit office of the United States of America – stepping up their work in an attempt to assist government to streamline and strengthen relief efforts, rather than adding to an already over-burdened government system.

The assistance typically comes in a quick-response mode, ranging from advice on preventative and deterrent controls that can ensure that allocated funding and resources reach the intended targets during the crisis to providing close to real-time feedback on the success of these efforts. In doing this, it enhances the credibility of the efforts from government, building trust with citizens that government is indeed making good on its promise to guard the health and economy of the nation, free from misappropriation, fraud and corruption.

Audit risk and response

It is imperative that audit offices understand the plans that government is executing, as well as the sources of funding that will enable the crisis response and the related economic support. Audit offices are ideally equipped to assess risks associated with such a rapid government response, especially to empower government to pro-actively institute strong, relevant and practical preventative and deterrent controls that should underpin such a massive undertaking, as well as to inform its own audit response.

The way in which it executes its task in times of crisis will also have to be very different. The focus should shift to pro-actively responding as and when government's actions are implemented. Feedback from those charged with the related economic response as well as feedback on the basic preventative measures implemented should guide the actions of auditors to the point of having real-time engagements on the effectiveness of those preventative controls as well as considering more pro-active "early warning" type reporting.

In the South-African context, with a special focus on the efforts to **protect the health and well-being of citizens**, an immediate area of risk lies in the increase in emergency procurement in the areas of health, education, water services and many others. Beyond that we also see developments such as SME support programs being ramped up, massive utilisation of UIF and other funds to enable government's response. The President's announcement of a multi-billion-rand **economic stimulus package** on the 22nd of April 2020, adds to the risks that government face, ranging from challenges related to the financing that underpins this



package, the integrity of the databases that will guide the implementation of support measures, as well as channelling the support to the appropriate beneficiaries, through the likes of the UIF, SASSA and others.

Many of these activities will be carried out in a system that already contains internal control weaknesses especially in the area of procurement, as evidenced in the Auditor-General general reports over the last number of years. This heightens the risks or misappropriation to government.

Commitment

The AGSA is ready to deploy a multi-disciplinary team to assist government to deal with the challenges posed by its responding to the pandemic, especially from an appropriate financial management perspective, finding a delicate balance between enabling quick turnaround delivery to citizens and maintaining a basic, yet strong risk management approach that would prevent funds intended for services to citizens from being misdirected to the pockets of those that are more interested in enriching themselves than dealing with the crisis, and in the process negating the efforts of government.



The AGSA brings to the table a team of professionals, highly skilled in the processes of risk assessment and linking these risks to preventative and deterrent controls, while fully understanding the context of the urgency with which government has to move to address the crisis at hand. These skills and capabilities of the AGSA can be utilised either in a pro-active or ongoing design of a framework of risk management, as well as preventative and deterrent controls, together with the key role-players, or providing government with timely feedback as to how well these preventative and deterrent controls succeeded in channelling government's actions to reach the

citizens of the country, with the latter being most relevant during implementation of disaster-related interventions.

Deployment of such a multi-disciplinary team is possible within days, either as an essential service or as soon as lock-down restrictions are eased, focusing on the most pressing risk management challenges, as deemed by the National Command Council and government. To facilitate very current feedback to government, it would be ideal to handle such an assignment in phases, linked to the payment patterns and cycles during this time of crisis.

Concluding comments

Over Easter, President Ramaphosa cautioned all South-Africans to expend our "every effort and energy to ensure that this period of hardship does not leave our country in ruins." At the heart of this statement lies the concept of government remaining accountable to the citizens of South-Africa, as it responds to the pandemic. The AGSA stands ready to respond to government's call to work with it to make sure that, as a nation "we shall recover, we shall overcome".

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