

# AUDITOR-GENERAL'S MESSAGE

My tenure as the auditor-general began at an extraordinary moment in our lives as the nations of the world battled an invisible destructive force.



I recognise the immense privilege to head the national audit office, which comes coupled with the even bigger responsibility to protect my staff while ensuring that we execute our mandate in the face of unknown challenges.

My reflection on the past year is anchored in a few defining moments. On a personal level, I acknowledge the role that our former auditor-general, the late Kimi Makwetu, played in building a formidable institution rooted in professionalism, transparency, credibility and accountability. His legacy makes it easier for me to carry the baton and to navigate new and uncharted territories, while working to evolve an organisation that is the pride of all citizens.

Professionally, I needed to focus on completing the audit work on the covid-19 relief programmes. Our country's leadership have pulled together significant resources and focused on saving lives, keeping the economy going and ensuring that service delivery continues.

Our citizens have legitimate expectations of transparent and accountable use of such funds, of sound and sustainable management of the financial affairs of departments, state-owned enterprises (SOEs), municipalities and other institutions, specifically in the local sphere of government where most of the services are delivered.

Throughout the reporting period, our audit teams continued to be an independent and authoritative voice on the use and management of public resources, as well as the accountability displayed by the officials at all levels of government. The work that we do also supports the institutions that we audit to identify ways to improve their performance.

This annual report is a transparent account of the way we executed our mandate to enable Parliament and citizens to hold government accountable.

## **OBSERVATIONS FROM THE 2020-21 REGULARITY AUDITS**

The 2020-21 annual audits were conducted in a challenging environment characterised by legislated delays in submitting annual financial statements, a lack of readiness for audit by our clients or limited access to their premises, and disruption to our normal audit procedures. Notwithstanding these challenges, we delivered consolidated whole-of-government reports on the annual audits, increased the scale of implementing our enhanced mandate and issued three special reports on the real-time audits of the covid-19 relief measures.

In summary, the audit outcomes for national, provincial and local government do not yet show the progressive and sustainable improvements required to prevent accountability failures and deal with them appropriately and consistently. Auditees' poor record in dealing with irregular expenditure continued, non-compliance with supply chain management legislation persistently increased too, and auditees' financial health deteriorated.

Albeit slow, we have started to see a good response by some accounting officers to identified material irregularities (MIs). We are determined to persevere in finding ways to encourage action that will lead to improved financial management in the public sector.

## **REPORTS ON THE USE OF COVID-19 RELIEF FUNDS**

In September and December 2020, and June 2021, we tabled special reports on government's financial management of the pandemic relief initiatives. The novel approach of conducting real-time audits enabled oversight to play their role in a proactive manner and assisted the accounting authorities and executive to urgently deal with the matters identified and reported by our audit teams.

The diversity of programmes covered by the real-time audits required multi-disciplinary teams, and the capacity we have built in investigations, performance and information systems auditing and the integrations of these specialists into our regular audits stood us in good stead.

The Cabinet acknowledged the required corrective actions and the need for speedy consequences. The multiagency Fusion Centre, which is tasked with investigating covid-19-related fraud and corruption, benefitted from the insight we shared with them.

## **IMPLEMENTING OUR EXTENDED POWERS**

We implemented our enhanced mandate at more auditees despite the increased audit work. Most of the material irregularities identified to date relate to non-compliance with supply chain management prescripts.

Oversight leaders asked us to fast track our enhanced mandate and highlighted the need for investigations into financial losses to be accompanied by a clear process for recovering misappropriated funds. I strongly believe that the systematic implementation of the MI process will serve our initial intent to create a preventative mechanism rather

than a punitive one. Our focus has therefore been on intensifying our advocacy for strong preventative controls in the public sector. We are prepared though, in cases of persistent disregard for our recommendations, to implement all provisions of our mandate. Ultimately, we can succeed in achieving the full benefit of our enhanced powers only if all relevant role players in the overall ecosystem of accountability execute their functions accordingly.

## THE AUDITS OF MAJOR STATE-OWNED ENTITIES

As part of our strategy to systematically take over audits of SOEs, we continued to pay special attention to those SOEs that are critical to the functioning of our country.

We officially took over the Transnet audit in October 2020 after a two-year transition period. Our highly skilled team benefitted from working closely with the former appointed private auditors to deepen our knowledge of the entity.

As agreed with the current Eskom auditors and management, we delivered on our commitment to support the Eskom 2019-20 audit. Our deployed resources worked on key risk areas, areas of public interest and deepened their understanding of the unbundling process timelines. We are adopting a longer-term take-over strategy to allow Eskom to conclude its unbundling processes and anticipate working closely with the new auditors during the 2021-22 audit.

## COLLABORATION WITH CSOs AND SOCIAL AUDITS

During the period leading to the first two special reports in 2020, we engaged with civil society organisations (CSOs) to explore mutually beneficial opportunities for sharing information and working on initiatives that formed part of government's covid-19 relief efforts. I am grateful for the progress we have made in this area and the great response we have received. We intend to embark on a more formalised process of considering the work of CSOs when we plan our audits. Structured and systematic two-way engagement between supreme audit institutions and civil society world-wide based on sound principles, have added unique value to citizens.

## REAPING THE BENEFITS OF OUR WORLD-CLASS AUDIT METHODOLOGY

Our stakeholders will recall that one of our key projects in the recent past was the major overhaul of our audit methodology to ensure that it is aligned to global standards but responsive to local risk and complex audit environments. This investment continues to pay off as our methodology served us well in the audit of the large and complex SOEs and was agile enough to guide us through the additional audit risks brought by the pandemic. We expanded it to cover reviews of interim financial statements as an additional engagement, which we undertook for the Transnet audit.

We are excited to test the power of the methodology in the following years when we intend to apply a wide range of differentiated audit approaches.

## QUALITY OF AUDITS

After falling just short of our target in the two previous years, we continued to refine and implement measures to improve the technical quality of our audits. I am proud of our auditors for being able to stay on course and get over the 80% hurdle. Eighty-one per cent of our audit files that were subjected to an independent review received a compliance rating. These audit files excluded local government audits due to covid-19 delays.

## STAKEHOLDER ENGAGEMENTS

Our audit business units engaged with our statutory stakeholders to influence change and improvements to their financial management systems and disciplines, and to encourage corrective action where identified. We used new opportunities presented by virtual collaboration platforms to double the volume of engagements and to reach relevant role players.

Overall, I believe that our interactions helped our stakeholders carry out their mandates. Accounting officers who heeded our advice constructed audit action plans that addressed key internal control deficiencies and helped close their internal control gaps. Interactions with legislated oversight bodies equipped them to scrutinise accounting officers' reports and publicly hold executive authorities to account for their stewardship of public funds. However, more action is required to improve audit outcomes.

In an effort to increase the pace of engagement with citizens, we made good use of social media platforms to create awareness of our proactive approach to real-time audits. We enjoyed mutually beneficial interactions with various other stakeholders, from professional bodies to advocacy groups to CSOs.

## FINANCIAL PERFORMANCE

The financial year 2020-21 was a difficult and challenging one for the AGSA as for all other organisations at large. The impact can be clearly seen in our R293 million deficit.

We survived and continued to respond to stakeholder needs, increasing our relevance. Our survival is the result of good planning and due diligence by our leadership, senior management and all AGSA staff. We established an agile internal body, the crisis nerve centre (CNC), to efficiently manage and rapidly respond to the operational and financial challenges experienced by our teams in the trenches.

The leadership took a responsible decision to forego salary increases and payment of bonuses in 2020, while all staff members heeded the call to optimise costs. Without compromising quality or a few prioritised deliverables, we saved R115 million. On the other hand, our debtors book closed at an all-time high of R1,1 billion with the rise of local government debt to R722 million. Some SOEs that are subjected to business rescue or some form of liquidation further contributed R209 million to our debt book. The recovery of this debt remains doubtful.

## ETHICAL BREACH

I am concerned and disappointed about the allegations brought against one of the employees, who in his personal capacity breached the law. Such behaviour goes against the ethical conduct we expect from our employees as we hold them to the highest standards of ethics and professionalism. Any form of crime is not acceptable in our organisation and we have allowed the law to take its course. We will continue strengthening our ethics drive and our controls to prevent undesirable incidents.

## FUTURE OUTLOOK

We foresee another tough reporting and financial period. The threat of intermittent resurgence of covid-19 casts a lot of uncertainty about the future, and the extent to which it will influence our operations. The 'quick wins' on cost reductions have been largely accomplished, leaving tougher and more strategically far-reaching choices ahead. The hard wins are likely to include opting out of audits that do not attract public interest, significant shifts in our business model and complete automation or even elimination of certain processes.

Moving the organisation forward requires serious thought processes. We have begun crafting a new strategy for the organisation that will incorporate the thoughts and voices of our staff as well as our stakeholders. The strategy will be finalised shortly and implemented in the 2022-23 performance year. By using our independence, credibility, integrity, professionalism and technical excellence, I want the work we do as an audit office to ring true to the lived experiences of ordinary South African people.

## CONCLUSION

Overall, we have realised the intention of the 4V strategy that we have implemented diligently over the past seven years. This allowed us to not only sustain our business but to enhance our relevance as an independent institution supporting democracy.

The strong foundation of integrity, professionalism, technical excellence, resilience, focus on people and good internal governance, built over many years, provides me with the best possible start to my term and I intend not only to preserve it, but to build on it.

I want to take this moment to express my appreciation for each member of team AGSA. I hold a deep appreciation of each of you for serving the people of South Africa once more. I do not take for granted your resolution to continue carrying out your duties as public sector auditors every day with our not so perfect tools. To those employees and their families who were affected by the covid-19 pandemic, I extend my deepest sympathy.

Your personal sacrifice and courage made me realise that there is no other organisation that I would rather be part of and there is no other time that I would rather live in.



**Tsakani Maluleke,**  
Auditor-General