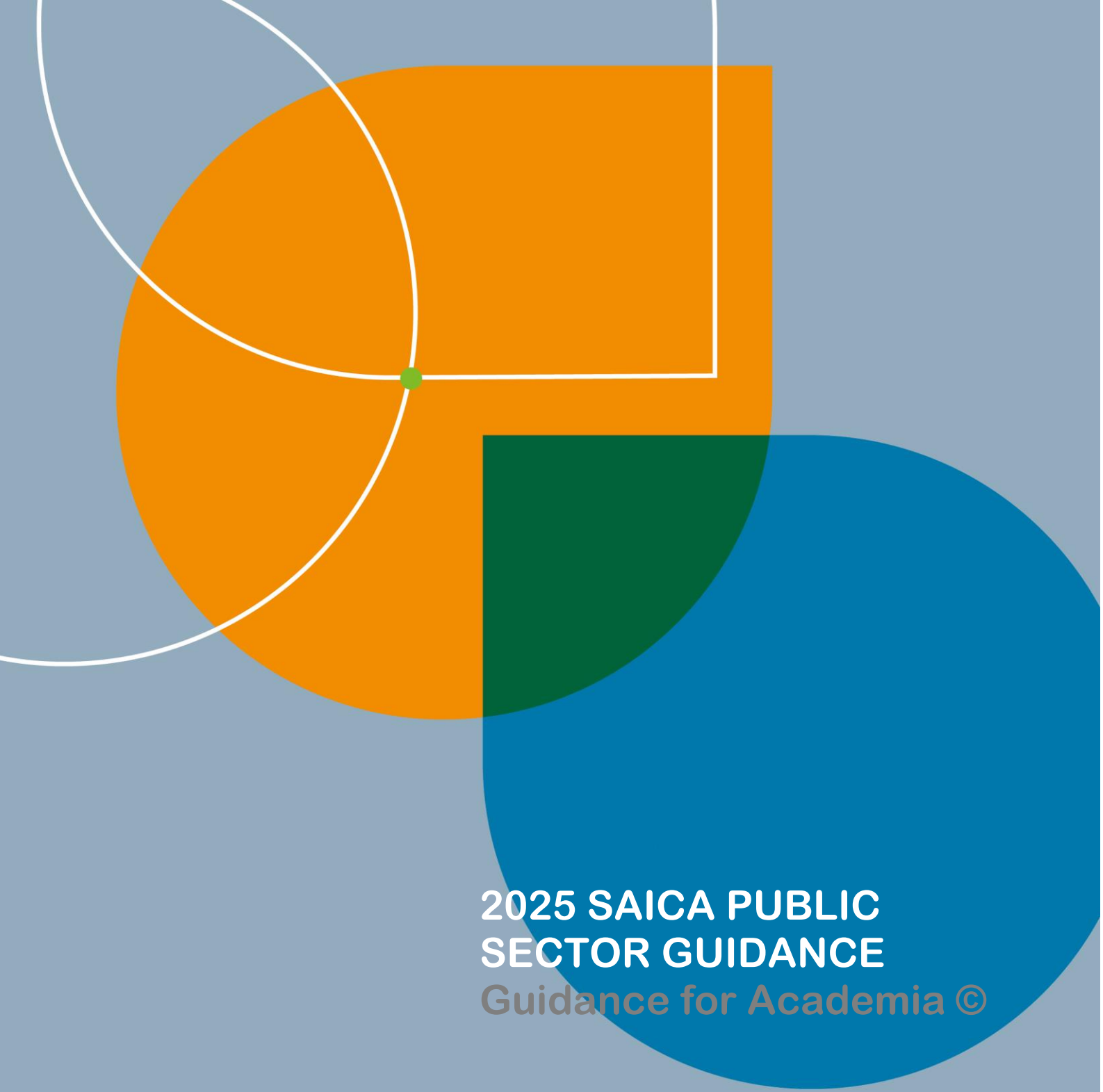




2025 SAICA PUBLIC SECTOR GUIDANCE

Guidance for Academia ©



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INTRODUCTION AND PURPOSE

This guidance document was developed to assist academia in integrating public sector knowledge into the current curriculum (which is mainly focused on private sector). The need arises because (1) the public sector is a large component of the SA economy and everyone needs to know certain basic information about the public sector and (2) due to students undertaking their training contract in public sector. This also aligns with the SAICA strategic objective regarding professionalisation of the public sector.

The importance of this Public Sector guidance document include:

- a) Contribution to achievement of the SAICA strategic objective regarding professionalisation of the public sector.
- b) The requirement for members and associates to act in public interest.
- c) Guidance to students who decide to complete their training contract in public sector.
- d) Implementation of the public sector career mobility report which was released in 2024 (<https://www.saica.org.za/initiatives/public-sector/career-mobility>).
- e) Alignment to the CA of the Future competency framework which include competencies relating to the public sector (and provides clarification on “how far to go” when it comes to public sector knowledge in the academic programme).

The purpose of the document is:

- a) In light of the syllabus overload, to provide guidance to academics and examiners on public sector inclusion, and
- b) To set expectations in terms of the extent to which it should be included.

The document was developed by members from academia. The following underlying principles were considered:

- a) The extent to which the public sector is included in the competency framework.
- b) The “doing words” used in the competency framework.
- c) The required proficiency levels per the competency framework.

Aligned to the competency framework, the following four main sections were identified to form the basic structure of the document:

- a) Public sector environment, planning and regulations
Provide an overview of the PS environment and relevant laws and regulations
- b) Reporting on value creation
Overview of the main principle differences (not per line item) of IFRS vs GRAP
- c) Assurance and related services
Overview of the main principle differences between private and public sector audit, including a focus on the risk areas within public sector
- d) Ethics
Due to the nature of the competency area, ethics was included as a separate section. This section contains some of the common ethical issues found in the public sector.



SECTION 1: PUBLIC SECTOR ENVIRONMENT, PLANNING AND REGULATIONS

1. Mapping to competency framework

AREA		SUB-CATEGORY		LEVEL	MINIMUM CONTENT
A	Strategy and governance to create sustainable value	A1	Governance model: • Explain the governance structures and practices of organisations other than profit companies in terms of King IV (and successors) and relevant laws (e.g. PFMA) and regulations • Analyse ways to align the governance structures and practices with the overall purpose of a profit company • Explain ways to align the governance structures and practices with the overall purpose of organisations other than profit companies	1	Relevant sections of: • Public Finance Management Act (PFMA) • Municipal Finance Management Act (MFMA) • Municipal Systems Act

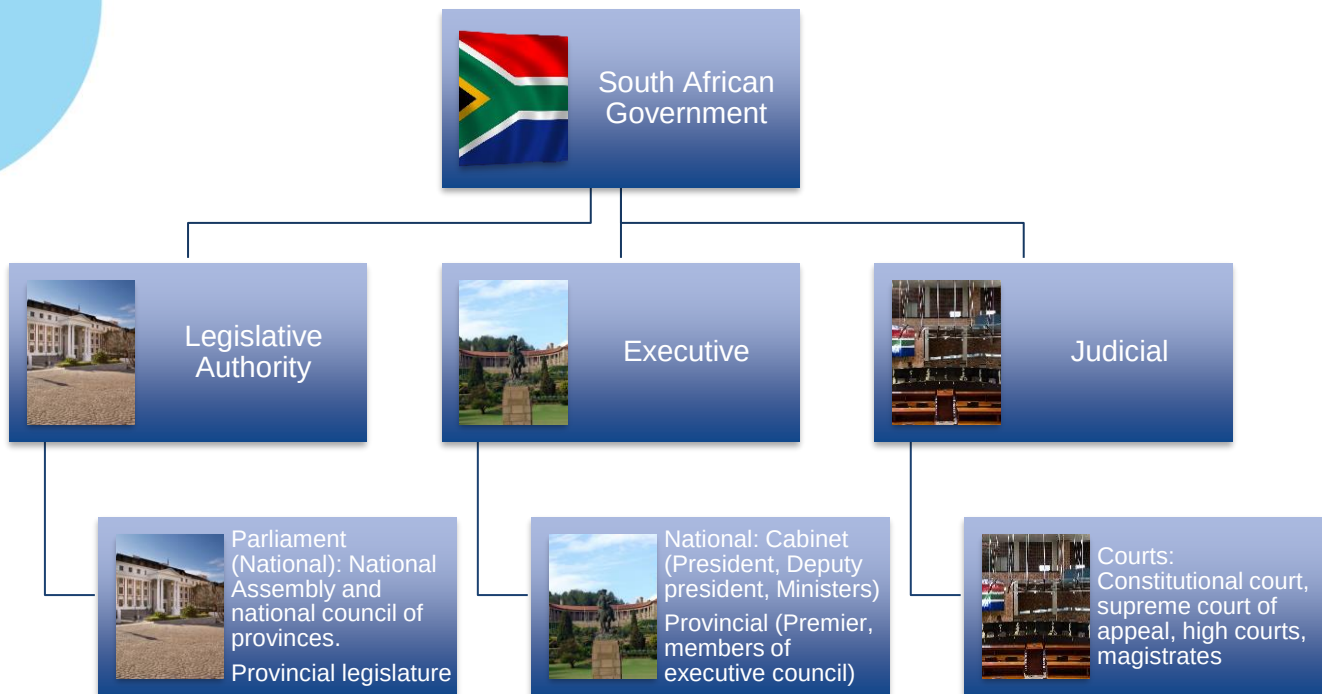
2. Public sector environment and strategic planning

Three arms of the state:

The Republic of South Africa's government comprises **national, provincial, and local spheres**. The Government of each sphere has a political and administrative arm. The political arm creates the laws and policies, while the administrative arm is the part of government that provides services and implements the laws and policies.

National Government:

The South African National Government has three Branches as follows:



According to the constitution of the republic, the branches have the following responsibilities:

- **Parliament** consists of the National Assembly and National Council of Provinces. The responsibility of parliament is to represent the people by choosing the president, providing a national forum for public consideration of issues, passing legislation, and scrutinising and overseeing the executive's actions.
- **The Executive** consists of the president and the national executive. The president and the other cabinet members exercise executive authority by implementing national legislation, developing and implementing national policy, coordinating state department and administration functions, and preparing and initiating legislation.
- **Judicial authority:** The Judicial authority of the Republic of South Africa is vested in the courts. The courts are independent and subject only to the Constitution and the law, which they must apply impartially, without fear, favour, or prejudice. No person or organ of the state may interfere with the functioning of the courts.

Provincial government:

The province has the executive council, which consists of the premier and members of the executive council, who are responsible for the provincial department. Provinces are responsible for social services like education, health and social development; economic functions like agriculture and roads; and provincial governance and administration, including the legislature, provincial treasury, local government and human settlements. South Africa has nine provincial governments.

Local government (Municipalities):

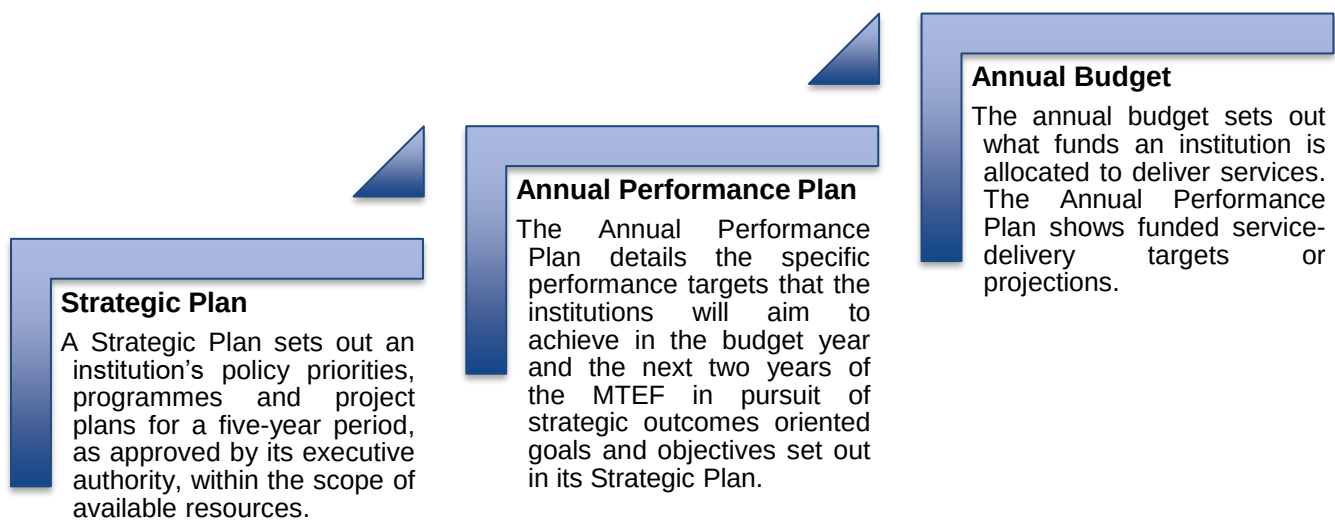
Local government is the sphere of government closest to the people and is responsible for delivering basic services and infrastructure to households. The local government is responsible for water and sanitation, electricity reticulation, refuse removal, stormwater management, municipal transport, and



roads. Local government is also responsible for community services (such as parks, sport and recreation, municipal roads and street lighting). South Africa has 257 metropolitan, district and local municipalities. This number comprises eight metropolitan, 44 districts and 205 local municipalities.

Government planning:

The National Treasury Issues the Framework for Strategic Plans and Annual Performance Plans, which outlines key concepts that should guide institutions when developing Strategic Plans and Annual Performance Plans and budgets. The framework applies to all national and provincial departments, constitutional institutions and public entities.



- **Strategic plan:** The process of developing the new Strategic Plan involves unpacking and analysing the National Development Plan (NDP), NDP 5-Year Implementation Plan, government priorities, the Medium-Term Strategic Framework (MTSF) and the State of the Nation Address (SoNA). The analysis leads to contextualising all priorities into education sector priorities.
- **Budget process:** Every department prepares a budget for its work. The budgets are put into one national budget by the National Treasury [Department of Finance] and must be approved by parliament. The provincial government gets most of its money from the National Treasury. Local government also gets grants and some loans through the Treasury.



Drafting

- National Treasury issues guideline
- Government departments and state-linked institutions submit their draft budgets based on the guidelines.

Legislative Process

- Budget package is tabled in the NA by the Minister of Finance. This is typically done in February each year
- Parliament typically passes the budget four months after the start of the financial year. The adjustments budget is introduced six months into the financial year

Implementation

- Once the budget has been passed, funds can be allocated to government departments and other entities, and implementation of government plans and projects can begin.

Auditing and Assessment

- The auditing stage involves the review of the final budget documents by independent audit institutions, such as the Auditor General of South Africa. Audit reports are published and reviewed by Parliament.

- **Public entities:** Departments responsible for public entities must exercise oversight of these institutions' planning, budgeting and reporting processes. Oversight departments need to work with the entities, with the assistance of the Presidency and National Treasury, to ensure that entities' plans and budgets feed into the departments' plans and budgets.

Revenue collection and allocation:

Government revenue is mainly generated through Taxes paid by people and businesses. Collection of this revenue is the responsibility of the South African Revenue Services (SARS), a state entity that falls under the national treasury.

Section 214 of the Constitution stipulates that all revenue raised nationally be divided equitably between the three spheres. In addition to their equitable share, provincial and local governments receive conditional or unconditional allocations from the national share.

In accordance with the Constitution, provincial and local government own revenues are not included in the calculation of the equitable shares. Local government can generate its income via property rates, service charges and fines.

Strategic planning and budget:

According to the Framework for Strategic Plans and Annual Performance Plans, close links between budgeting and planning are central to coordinating public finances and the coherence of government policies and programmes. The Medium-Term Budget Policy Statement and annual budget documents compiled by the National Treasury provide an overview of medium-term fiscal and budget plans, spending priorities and key service delivery considerations.



3. Public sector laws and regulations

	MFMA	PFMA
Full name	Municipal Finance Management Act, 53 of 2003 (MFMA)	Public Finance Management Act 1 of 1999 (PFMA)
Applicable to:	This legislation is applicable to municipalities (therefore local government)	This law is applicable to National Treasury, Provincial Treasury and Provincial and National departments
Overview of act	The legislation provides guidance to municipalities on the budgeting processes, the role of National Treasury, the responsibilities of the mayor as well as how the municipality should account for the revenue and expenditure and debt management.	The act sets out the responsibility of National Treasury and Provincial Treasury and provide guidance to the departments.
Who is responsible	The MFMA appoints the municipal manager as the accounting officer of the municipality. The accounting officer is typically a CEO in the private sector and therefore responsible for the finances and operations of the municipality.	Section 36 sets out that the head of the department should be the accounting officer of the department.
Budgeting	Section 80 to section 83	Section 26 to 43
Preparation of annual report	Section 121	Section 55
Preparation of AFS	Section 122	Section 55
Key management personnel disclosure	Section 124 & 125	Not applicable
Submission of AFS	Section 126 indicates that the municipality should submit their financial statements within two months after year end	Section 40(c) must submit those financial statements within two months after the end of the financial year to the AGSA and the relevant Treasury
Submission of annual report	Section 126 indicates that the municipality should submit their annual report within 6 months after year end.	Section 40(d) must submit within five months of the end of a financial year to the relevant treasury and
Duties of accounting officer/head of department	Section 60 and 61	Section 38 to 45
Internal audit	Section 165	Section 38(a)(ii); Section 51(a)(ii); Section 76(4)(e)
Audit committee	Section 166	Section 77
Remuneration of key management personnel	Section 167	Not applicable
Irregular expenditure	Various sections	Various sections



Fruitless and wasteful expenditure	Various sections	Various sections
Unauthorised expenditure	Various sections	Various sections
Debt management	Section 135 to 162	Section 71 to 75

National Parliament has its own act – **Financial Management of Parliament Act 10 of 2009 (FMPA)**. This is similar to the PFMA but with specific guidance on parliamentary staff and members of Parliament.

The **Municipal Systems Act No. 32 of 2000 (MSA)** sets out the guidelines for the proper function of the municipalities. Included in the Municipal System's Act the following is provided:

- The legal nature, rights and duties of the municipality as well as its function and powers.
- How the community is allowed to participate
- The formation of the integrated development plan
- How performance of the municipality is measured
- The provision of municipal services
- It also provides guidelines for local public administration and guidelines on human resource matters
- The MSA also provides the code of conduct for the councillors and the code of conduct for municipal staff members

The **Division of Revenue Act 5 of 2022 (DORA)** intends to provide for:

- The equitable division of revenue raised nationally among the national, provincial and local spheres of government; and
- The determination of each province's equitable share; allocations to provinces, local government and municipalities from national government's equitable share; and
- **The responsibilities of all three spheres pursuant to such division and allocations.**

4. Governance, risk management and internal control

Governance

Governance in the public sector refers to the structures, policies, and processes that promote transparency, accountability, and ethical conduct in managing public resources. Effective governance is crucial for building trust, fostering economic stability, and ensuring the responsible use of public funds. In South Africa, governance structures in the public sector are guided by legal frameworks such as the Constitution, the PFMA, and the MFMA. These frameworks establish mechanisms to hold public sector organisations accountable for their financial management, performance, and compliance with regulations.

The King IV Report on Corporate Governance includes a sector supplement for Municipalities and State-Owned Entities. Although the terminology for governance structures varies between the private and public sectors, the following outlines the comparable terms used in the public sector:

Terms used in King IV code	Relevant terms for:		
	MFMA	PFMA	SOEs / Public entities/ Municipal entities
Organisation	Municipality	- National department - Provincial department	- Business - Agency - Company - Corporation - Commission - Board
Governing body	Municipal council	Executive authority	Accounting authority Board
Management	- Municipal manager - Senior management	Senior management	- CEO - Executive directors
Members of the governing body	- Mayor - Councillors	- President - Premiers - Ministers - Members of Executive council (MECs)	Board of directors
Chair of the governing body	Speaker	- National Speaker - Provincial Speaker	Appointed chairperson
Chief executive officer	Municipal manager or Accounting officer	Head of Department or Accounting officer or Director General	CEO
External auditors and other assurance providers	- AGSA - Audit committee - Internal Audit	- AGSA - Audit committee - Internal Audit	- AGSA - Audit committee - Internal Audit
Shareholders	Not applicable	Not applicable	Executive Authority External shareholders <i>depending on ownership structure.</i>

To enhance governance and accountability, National and Provincial Treasuries have also advocated for the combined assurance model, similar to that used in the private sector, which integrates all assurance providers and their functions while coordinating risk management, control, and assurance activities. This governance framework consolidates the efforts of multiple assurance providers to manage risks, improve controls, ensure compliance, and enhance overall organisational performance. Thus, in 2022, the Auditor-General of South Africa (AGSA) mapped the public sector's governance and accountability ecosystem (refer to figure 1), outlining various stakeholders, each with distinct responsibilities to ensure proper oversight, financial control, and performance management in



government operations. The interconnected nature of this ecosystem requires collaboration between these stakeholders to foster public confidence in the use of public resources.

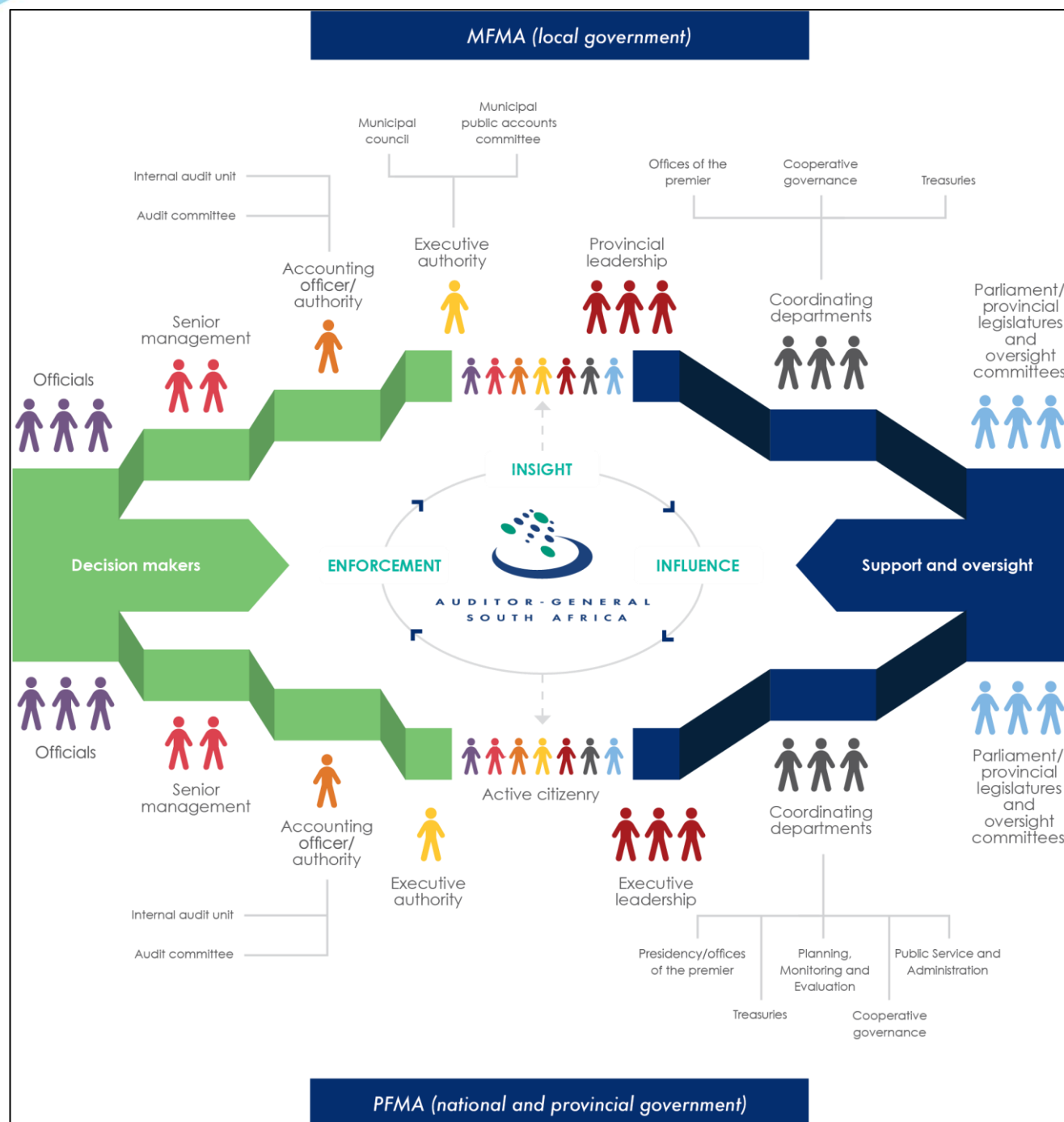
The key stakeholders and their roles/responsibilities are summarised¹ below:

Role-Player	Description	Key Roles and Responsibilities
Auditor-General of South Africa (AGSA)	Supreme audit institution responsible for auditing and reporting on government spending.	Audits government finances, provides insights to improve governance, and enforces compliance through audits to ensure accountability.
Officials & Senior Management	Responsible for financial and performance controls within public entities.	Ensure proper financial planning, infrastructure project management, record-keeping, and compliance with performance targets.
Accounting Officers/ Authorities	Heads of departments, municipal managers, and CEOs of public entities.	Create environments that improve performance management, ensure adherence to internal controls, manage risks, and implement consequences for non-compliance.
Internal Audit Units	Independent internal bodies established within organisations to provide assurance.	Provide independent assurance on internal controls, financial information, and risk management, helping accounting officers execute their duties.
Audit Committees	Independent bodies advising on financial and performance management.	Advise senior management, oversee governance and internal controls, and prevent material misstatements in financial statements.
Executive Authorities	Includes mayors, ministers, speakers, and members of executive councils.	Monitor governance, oversee municipal performance, hold accounting officers accountable for actions, and ensure recommendations from internal audits are implemented.
Municipal Councils (MFMA)	The executive and legislative authority responsible for municipal oversight.	Monitor financial and service delivery performance, investigate misconduct, and take action on poor performance.
Municipal Public Accounts Committees (MFMA)	Committees established to improve governance, transparency, and accountability in municipalities.	Ensure the credibility of financial and performance reports, and oversee compliance with legislation.
Coordinating Departments	Includes the offices of premiers, provincial treasuries, and cooperative governance departments.	Support municipalities and departments, enforce accountability, and implement intergovernmental systems to improve performance and manage delays in accountability processes.
Parliament/ Provincial Legislatures & Oversight Committees	Bodies responsible for the oversight of executive authorities and performance.	Monitor the performance of executive authorities and ensure they act in line with their mandates.
Active Citizenry	Citizens of South Africa participating in governance	Hold government accountable for public spending, advocate for responsible financial management,

¹ Auditor-General of South Africa. (2022). *Roles and responsibilities in the accountability ecosystem*. Retrieved September 13, 2024, from <https://pfma-2021-2022.agsareports.co.za/accountability-ecosystem/>

Role-Player	Description	Key Roles and Responsibilities
	through advocacy and feedback.	and demand transparency in the use of public funds.

Figure 1 Accountability Ecosystem (Source: AGSA, 2022)



Additional resources to consult:

King IV sector supplements: Part 6.2 Supplement for municipalities and Part 6.6 Supplements for state-owned entities



Risk management

Risk management in the public sector is essential for ensuring institutions fulfil their constitutional mandates to provide services and products for the public good. Public institutions face unique challenges, such as limited resources, bureaucratic processes, and infrastructure backlogs, which heighten their risk exposure. Effective risk management not only mitigates these risks but also enhances the institution's ability to achieve sustainable service delivery, informed decision-making, innovation, and the prevention of fraud and corruption. Consequently, it is a strategic imperative for public sector organisations to implement transparent and efficient risk management systems (National Treasury, 2010).

Legislation and regulations, make the following reference to risk management with the public sector environment.

Systems of financial and risk management:

- *PFMA Sections 38(1)(a)(i) & 51(1)(a)(i)* require accounting officers to ensure effective, efficient, and transparent systems of financial and risk management.
- Similarly, *MFMA Sections 62(1)(c)(i) & 95(c)(i)* impose this responsibility on municipal accounting officers.

Risk assessment and internal audit:

- *TR 27.2.1* requires entities to facilitate risk assessments and use the results to guide internal audit efforts.
- *TR 3.2.7 & TR 27.2.6* state that internal audit units must prepare a three-year risk-based audit plan.
- *MFMA Section 165 (2)(a) & (b)(iv)* similarly requires the internal audit unit of a municipality to prepare risk-based audit plans and advise the accounting officer.

Reporting on financial misconduct and risk management:

- *TR 4.3.4* mandates accounting authorities to report changes made to financial and risk systems after financial misconduct investigations.
- *MFMA Section 166 (2)(a)(ii)* requires the audit committee to advise on risk management.

Per National Treasury's (2010) Public Sector Risk Management Framework the following key processes similar to the private sector needs to unfold when it comes to risk management in an organisation:



Creating an enabling environment

The Accounting Officer is responsible for creating a supportive environment for risk management, where it is guided by a **policy and strategy** that focuses on fraud prevention and continuous improvement. **Adequate resources, tools, and funding are essential**, with costs managed by the Chief Risk Officer and risk owners providing for necessary controls within their budgets.

Risk identification

Involves a systematic process to **identify and document key risks** that may impact an institution's objectives. The goal is to understand what is at risk and create a comprehensive **inventory of risks, including new and emerging ones**. This process should be inclusive, using various sources, as audit reports, financial analyses, and performance trends. Risk identification should focus on **strategic, compliance, operational, and project-related risks**, ensuring that risks are **reviewed regularly** and **updated to reflect changes in the environment or institutional strategy**.

Risk response

Aims to quantify or qualify the level of risk associated with specific threats or events, helping institutions **prioritise risks based on likelihood and impact on objectives**. It involves **assessing inherent risk, determining residual risk after management actions**, and benchmarking against the institution's risk appetite to identify the need for further action. This should be regularly updated, especially in response to significant changes, and supplemented by various methods to strengthen management's understanding of risks. The goal is to focus resources on the most critical risks.

Monitoring

Involves regularly checking the effectiveness of the entire risk management system through ongoing activities or separate evaluations. The focus should be on ensuring that responsibilities are **being effectively executed, response strategies are mitigating risks or exploiting opportunities**, and there is a positive correlation between improvements in risk management and institutional performance. Monitoring ensures that risk management aligns with the institution's policy, strategy, and plan across all levels.

In addition, the framework provides the key roles and responsibilities of the various stakeholders as highlighted under the Governance section. With the specific addition of chief risk officers, risk management committees and risk champions within the organisation (National Treasury, 2010).

Overall, in the public sector, legislation, regulations, and frameworks emphasise the need for regular risk assessments. Management, together with various assurance providers, must adopt a proactive approach to mitigate risks that could ultimately affect service delivery. This ensures that potential threats are identified and managed effectively, safeguarding the organisation's ability to meet its objectives.

Resources to consult:

National Treasury – Public Sector and Local Government Risk Management Frameworks:

- <https://aq.treasury.gov.za/org/rms/rmf/Shared%20Documents/Downloads/00%20Condensed%20Public%20Sector%20Risk%20Management%20Framework.pdf>
- <https://aq.treasury.gov.za/org/rms/lgrmf/Shared%20Documents/Research%20and%20Technical%20Documents/Local%20Government%20Risk%20Management%20Framework.docx.pdf>

Internal control

Internal controls refer to the policies, procedures, and mechanisms that organisations implement to ensure the integrity of their financial and operational activities. These controls are designed to safeguard assets, prevent and detect fraud, ensure accuracy and reliability of financial reporting, and ensure compliance with laws and regulations. In the public sector, internal controls play a critical role in promoting accountability, enhancing operational efficiency, and maintaining public trust by ensuring that resources are used effectively and in line with the organisation's mandate and objectives.

The following summarises key requirements for financial management and internal control under the PFMA, MFMA, and associated Treasury Regulations (TR):

National Treasury's role in investigating systems:

- *PFMA Section 6(2)(e)* allows the National Treasury to investigate any system of financial management and internal control in a department or public entity.
- Similarly, *MFMA Section 5(1)(d)* allows the National Treasury to investigate financial management systems in municipalities and recommend improvements.

Systems of financial and risk management:

- *PFMA Sections 38(1)(a)(i) & 51(1)(a)(i)* require accounting officers to ensure that effective, efficient, and transparent systems of financial and risk management are in place.
- *MFMA Sections 62(1)(c)(i) & 95(c)(i)* impose similar obligations on municipal accounting officers for maintaining effective financial and risk management systems.

Asset control systems:

- *TR 10.1.1* requires accounting officers to ensure proper control systems for assets, including mechanisms to prevent theft and misuse, and to maintain optimum stock levels.
- *MFMA Sections 63(2)(c) & 96(2)(b)* mandate that municipalities maintain systems of internal control for assets and liabilities, including asset registers.

Disciplinary steps for financial misconduct:

- *PFMA Sections 38(1)(h)(i) & 51(e)(ii)* require accounting officers to take disciplinary action against officials who undermine financial management systems.
- *MFMA Sections 64(2)(f) & 97(i)* oblige municipalities to maintain internal control over debtors and revenue management.

Internal Control Over Payments:

- *TR 8.1.1* requires accounting officers to ensure internal controls are in place for payment approval and processing.



- *MFMA Sections 65(2)(c) & 99(2)(d)* impose a similar requirement for municipal systems of internal control for creditors and payments.

Transfers of Funds to External Entities:

- *PFMA Section 38(1)(f)* requires written assurances from entities receiving funds that they have effective financial control systems, or else impose conditions.
- *MFMA Section 67(1)(b)* requires municipalities to ensure external organisations receiving municipal funds implement transparent financial management systems to prevent fraud and mismanagement.

Responsibilities of Other Officials:

- *PFMA Sections 45(a) & 57(a)* require officials to ensure financial management systems are effectively implemented within their areas of responsibility.
- *MFMA Sections 78(1)(b) & 105(1)(a)* extend similar responsibilities to senior municipal managers and officials.

Audit Committee Oversight on Internal Controls:

- *TR 3.1.10(a)* mandates that audit committees comment on the effectiveness of internal controls in the institution's annual report.
- *MFMA Sections 165(2)(b)(ii) & 166(2)(a)(i)* require internal audit units and audit committees in municipalities to advise on internal financial controls and audits.

Regulations on Financial Management and Internal Control:

- *PFMA Section 76(4)(b)* allows the National Treasury to issue instructions on financial management and internal control.
- *MFMA Section 168(1)(b)* allows the Minister to make regulations for municipalities on financial management and internal controls.

In summary, legislation and regulations specify that the **Minister** is responsible for setting regulations. **National and provincial treasuries, along with other assurance providers**, must investigate the effectiveness of internal controls. The responsibility of implementing internal controls rests with the **accounting authority** within public sector organisations. They should ensure effective, efficient, and transparent internal controls, with specific emphasis on controls or systems over asset, liability, revenue, and expenditure management processes

Internal controls over various cycles

While there are differences between business processes and cycles in the public and private sectors, at their core they are similar. However, the main objective in the public sector is service delivery rather than profit. The public sector is heavily regulated, and internal controls are thus, in place to ensure compliance, accountability, and transparency as public resources are being used. These controls therefore help manage key risks within the organisation, ensuring that service delivery objectives are met effectively.

The following section will provide brief comments and factors applicable to the relevant cycle. In addition, key risks and mitigation actions or internal controls will be discussed. These risks and mitigation actions mainly come from the AGSA general reports, which are issued annually after their audits on PFMA (national/provincial departments and public entities) and MFMA (municipalities and municipal entities) organisations. These reports provide a summary of findings and highlighting key risks prevalent within the public sector.

Revenue cycle

In the public sector, organisations generate revenue primarily from taxes, annual appropriations, government grants, and service charges—all governed by legislative frameworks. A significant part of the overall revenue cycle is structured around the budget process, which undergoes extensive commentary, input, and approval by the executive authority and the public, beginning almost ten months prior to the start of the new financial year.

While departments typically have limited sources of their own revenue and depend on annual appropriations, accurate budgeting and cost management are crucial for them. In contrast, municipalities have the ability to generate income by providing municipal services such as water, electricity, and refuse collection. They can also raise revenue through property rates and tariffs, making billing and revenue collection important. Since the overall aim of any public sector organisation is not to make profits but to break even, remain sustainable to provide service delivery, and avoid using future funds to cover past expenses, effective internal controls revenue management is essential.

Below are common risks and controls that have been highlighted in the AGSA general reports as it related to revenue management:

Key risks	Key controls
Reliance on guarantees, bailouts and financial support from national or provincial government, which exposes government to financial risk and places additional pressure on the limited financial resources.	• Implementation of revenue enhancement strategies. • Strengthening financial planning/ budget processes to reduce dependence on government support. • Regularly monitor the implementation of the plans and strategies.
Financial distress due to not collecting enough revenue to fund operations.	• Implementation of revenue enhancement strategies. • Strengthen debt collection policies.
Receipts not recorded/deposited resulting in loss of cash due to theft from employees.	• Implementing a cashless services system at organisations to prevent theft. • Perform reconciliations between support document (ie. billed invoices, entrance records, receipts, etc.) and cash collected. • Implement segregation of duties and frequently perform cash book reviews and checks.
Grant funding and conditional grants having to be returned due to non-fulfilment of conditions.	• Regular monitoring and reporting of project progress to ensure grant conditions are met. • Assign specific officials to oversee compliance with grant conditions and project deliverables. • Implement project management tools to track key milestones and deliverables related to grant funding.
Revenue not billed or billed at the incorrect amount recorded.	• Implement Credit control and debt collection policies. • Ensure an automated and reliable information system is in place to manage billing and collection. • Conduct regular audits and reconciliations of billing records and customer databases.

Key risks	Key controls
Significant write-offs of uncollectible revenue due to ineffective debt management and insufficient revenue collection processes.	- Proactively contact customers to arrange payment plans for amounts in arrears. - Enforce credit policies that include the disconnection or limitation of services (e.g., water, electricity) for customers with unpaid balances. - Investigate large write-offs prior to approval.
Loss of revenue due to consumers receiving free basic services they are not entitled to.	Implement a proper and consistent application process to verify eligibility for free basic services.
Material audit findings due to lack of adequate documentation to support the revenue they disclosed in the financial statements.	- Implement document management system to ensure all supporting documents are properly stored and easily retrievable. - Perform regular reconciliations between financial records and supporting documentation.

Purchases cycle

Public sector expenditures are guided by strict procurement regulations to ensure value for money, compliance, transparency, and the avoidance of unauthorised, irregular, fruitless, and wasteful expenditure. Procurement in the public sector, commonly referred to as Supply Chain Management (SCM), is governed by the principles of fairness, equity, transparency, competitiveness, and cost-effectiveness, as outlined in the Constitution. Preferential procurement is a key aspect of this process, promoting the inclusion of historically disadvantaged individuals and businesses.

Thus, when goods and services are procured, suppliers are selected based on a combined scoring system. For expenditures under R50 million, an 80/20 split is used, with 80% based on price and 20% based on the organisation's preferential procurement targets score. For transactions above R50 million, the split changes to 90/10. However, these scoring criteria and procurement processes may be subject to change with the implementation of the new Public Procurement Act 28 of 2024.

Below shows the various procurement processes that should be followed based on the value of the goods or services being procured:

Procurement processes based on Rand value of goods/services being procured (incl. VAT)



Less than R2 000

Petty cash

Under R1m

Minimum of 3 formal
quotations to be
obtained (80/20)

Greater than R1m but
less than R50m

Tender: 80/20

Greater than R50m
Tender: 90/10

If the above processes are not followed, or if any non-compliance with expenditure management occurs, the incident must be investigated, reported in the annual report, and classified as one of the following:

Term	Definition	Examples
Fruitless and wasteful expenditure	Expenditure which was made in vain and would have been avoided had reasonable care been exercised.	• Paying penalties for late payments due to administrative delays. • Booking a non-refundable flight for an official who cancels their trip at the last minute. • Paying for equipment that was never delivered due to contract mismanagement.
Irregular expenditure	Expenditure incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, regulation or procurement procedures.	• Awarding a contract without following competitive bidding/ tender processes. • Awarding a contract without obtaining three quotations and not providing reasons for a deviation. • Purchasing goods from a supplier not registered on the official supplier database.
Unauthorised expenditure	The overspending or expenditure not in accordance with appropriated amounts in the approved budget; vote, programme	• Spending beyond the allocated budget for a specific programme. • Spending infrastructure grants on operational costs.

Below are common risks and controls that have been highlighted in the AGSA general reports as it related to purchases/expenditure management:

Key risks	Key controls
Awarding and paying inflated prices for goods and services due to poor	• Implement thorough demand and procurement planning processes.



Key risks	Key controls
demand and procurement planning results in unrealistic cost estimates, inadequate specifications and poor decisions about the type and scope of work.	• Ensure bid documentations inviting suppliers to submit tenders/ quotations clearly stipulates the scope of work.
Collusion between officials and suppliers resulting in material financial losses and irregularities with the procurement processes.	• Enforce strict segregation of duties and implement conflict of interest declarations for procurement officials. • Ensure officials specifically those within the SCM unit sign declaration of interest and code of conduct
Awarding a tender to the incorrect service provider due to the calculation of the incorrect scores or being unfairly disqualified during the functionality evaluation.	• Procurement compliance checklists must be implemented. • Conduct independent reviews of scoring and evaluations of awarded contracts.
Unable to verify that the procurement process was followed correctly or the winning bidder's documents due to poor record management.	• Implement a secure and centralised electronic document management system for procurement records.
Unfunded budgets and high unauthorised expenditure due to lack of proper financial planning and cost management.	• Conduct regular financial planning, budgeting, and in-year monitoring to ensure budget alignment and control.
Delayed payments to suppliers that extended beyond the 30 days limit due to lack of invoice tracking processes, resulting in fruitless and wasteful expenditure (ie. interest and penalties).	• Implement an (electronic or manual) invoice tracking system to ensure payments are made within the required timeframe. • Make payment arrangements or negotiate with suppliers that are charging interest and penalties on late payments.
Payment for goods or services not received.	• Ensure all invoices have supporting documents and approval confirming that the goods have been received or the services have been rendered prior to authorising payments
Payment for goods or services of poor quality or not in line with contract due to lack of contract management processes.	• Ensure bid documentations inviting suppliers to submit tenders/ quotations clearly stipulates the scope of work. • During the procurement processes ensure the past performance of suppliers is investigated. • Implement contract management processes that include regular performance monitoring and quality checks. • Ensure contract with suppliers stipulate all deliverables, timelines and recourse for non-adherence to the contract.

Inventory/ Asset management cycle

In the public sector, assets are primarily utilised for public service delivery (e.g., schools, hospitals, and infrastructure). Due to limited resources, assets are often used beyond their estimated useful life. Therefore, controls must be in place to ensure that assets are properly acquired, maintained, and



disposed of. The management of these assets is subject to stringent controls under various legislation, regulation and frameworks, ensuring that public resources are safeguarded, and accurate reporting is maintained.

Below are common risks and controls that have been highlighted in the AGSA general reports as it related to asset and inventory management:

Key risks	Key controls
Loss of revenue due to water and electricity losses as a result of ageing infrastructure and poor maintenance.	- Regular infrastructure inspections and maintenance plans. - Implement mechanisms that customers can use to report leakages.
Assets are written off or damaged due to lack of regular repairs and maintenance.	Conduct routine physical asset verification and audits.
Information technology systems for financial functions and reporting, not used to their full potential due to lack of skills and overreliance on software providers.	- Hire in-house staff to manage the IT systems. - Invest in training programmes to upskill staff in using financial systems.
Non-compliance with environmental legislation resulting in pollution of water resources.	- Ensure quality of water is tested throughout process. - Perform environmental compliance audits on a regular basis.
Harm to the public due to the mismanagement of landfill sites.	- Implement effective waste management systems and regular site inspections. - Enforce environmental safety and compliance protocols are in place.
Overpayment and delays in the construction of capital assets due to poor project and contract management.	- Strengthen project management processes with regular progress reviews. - Implement stricter contract management controls, including performance monitoring and cost control.
Assets are not valued in accordance with the applicable accounting standards.	- Implement regular asset valuations by qualified professionals in accordance with applicable accounting standards. - Conduct reconciliations between financial records and the asset register to confirm accurate valuations. - Ensure the finance team is trained on relevant accounting standards (e.g., GRAP, MCS) to ensure proper asset classification and valuation.

Payroll cycle

The public sector employs a substantial workforce to fulfil the government's mandate and ensure service delivery. As a result, employee compensation represents a significant portion of the budget, often accounting for nearly 60% of an organisation's total expenditure. While government departments

utilise their own transversal payroll systems, municipalities rely on separate payroll systems. Given the size and importance of this expenditure, it is crucial for organisations to implement effective controls to ensure that recruitment and payment processes are accurate, compliant, and well-managed.

Below are common risks and controls that have been highlighted in the AGSA general reports as it related to the payroll cycle:

Key risks	Key controls
Non-compliance with minimum competencies requirements for senior managers.	- Ensure recruitment processes include verification of required competencies. - Implement ongoing training programs for senior management to meet competency standards.
Dependency on consultants to perform basic financial management functions due to vacancies and lack of financial management skills.	- Develop a robust recruitment and retention strategy to fill key financial positions. - Ensure that qualified officials are appointed that have the necessary skills to perform financial management function. - Ensure staff attend training and remain up to date with the latest standards and legislation.
Non-compliance with public sector pay scales and contract terms	Implement regular reviews of payroll and contract terms to ensure alignment with public sector pay scales and guidelines.
Unauthorised payments to ghost employees or fraudulent payroll entries leading to financial losses for the organisation.	- Perform regular payroll reconciliations with HR records and conduct employee verifications. - Implement biometric or other secure identity verification processes for employee records.
Payroll tax returns not paid on time or incorrectly calculated resulting in South African Revenue Service interest and penalties	- Perform regular reviews of payroll tax calculations by qualified personnel. - Automate payroll tax calculations and implement a tracking system for tax filing deadlines.
Non-compliance with legislation due to awarding contracts to employees or officials of the organisation, or individuals employed by the state.	- Require all employees or officials to declare their interests/businesses. - Contractors to sign and disclose any potential conflicts before contracts are awarded. - Perform cross-check between supplier databases and state official payroll records to prevent prohibited awards.
Lack of consequence management when officials transgress.	Establish clear policies on disciplinary procedures and enforce consequence management for non-compliance.

Resources to consult

- To access the latest Auditor-General general reports:
 - <https://www.agsa.co.za/Reporting/PFMAREports.aspx>

- <https://www.agsa.co.za/Reporting/MFMAReports.aspx>

In the public sector, effective governance, risk management, and internal controls are essential for ensuring transparency, accountability, and the responsible use of limited public resources. Governance structures provide necessary oversight mechanisms, while risk management focuses on identifying, mitigating, and monitoring potential threats to service delivery and financial sustainability. Internal controls play a vital role in preventing and detecting these risks, ensuring compliance with laws and regulations, protecting assets, and promoting operational efficiency. Significant reference in legislations and regulations exist, to therefore enforces these practices. Together, these elements are crucial for maintaining public trust, safeguarding resources, and ultimately ensuring efficient and sustainable service delivery.

5. Case study

The following case study is an indication of the Public Sector can be integrated and tested in test and examination, which integrates both Corporate Governance and Auditing and Management Accounting and Finance.

Scenario

Background Information.

Benoni Communications SOC (Ltd) ("BenCom") is a South African State-Owned telecommunications company which provides a wide variety of telecommunications products and services, such as:

- Telecommunication services.
- Internet and data solutions.
- IT and cloud solutions.
- Television and entertainment.
- Business solutions.

BenCom is a Schedule 2 State-Owned Company under the Public Finance Management Act (PFMA) in South Africa. The executive authority of BenCom is The Department of Communications and Digital Technologies (DCDT). DCDT also represents The South African Government as BenCom's only shareholder.

During the financial year 2024, BenCom reported significant revenue decline. This can be attributable to intense competition in the market, with competitors constantly innovating to meet customer demand. Unfortunately, BenCom has been unable to innovate their product and service offering as key technologists have joined BenCom's competitors due to, amongst other factors, better salary packages.

The financial year end of BenCom is 31 March 2024. In preparation of its financial statements at 31 March 2024, BenCom's Chief Financial Officer, Mr. Wayne Ross CA(SA), applied International Financial Reporting Standards (IFRS). BenCom submitted their 2014 annual financial statements for auditing purposes to their auditors, T&S auditors, on 30 April 2024. T&S auditors. Wayne Ross took it upon himself to appoint T&S auditors for the financial year end 31 March 2024.

The board and accounting authority of BenCom comprise of:

Director Surname	Name and	Designation	Qualifications
Mr. Bradely Kopek		Chief Executive Officer	BSC Civil Engineering



Director Surname	Name and	Designation	Qualifications
Mr. Wayne Ross		Chief Financial Officer	Chartered Accountant (SA)
Mr. Nichols Wilson		Chief Operating Officer	Matric
Mrs. Ashley Jones		Chief Technology Officer	BCom Human Resources
Mr. Jaden Alphonso		Independent Non-Executive	BSC Chemical Engineering
Mr. Tshepo Moloi		Independent Non-Executive	BA Education

Bradely Kopek and Nichols Wilson are members of BenCom's audit committee. Mrs. Bridget Smith is the company secretary of BenCom. Despite being BenCom's company secretary, Bridget resides in New Zealand and travels to South Africa when she has to attend important meetings. BenCom has allowed Bridget to work from New Zealand and travel to South Africa where necessary.

Required

With reference to the **Background Information**, describe any concerns you have regarding compliance with the following:

- The Companies Act 71 of 2008.
- King IV.
- The Public Finance Management Act (PFMA).

With reference to the **Background Information**, describe the overall risks at a financial statement level that T&S may encounter?

Scenario continued...

Strategy of BenCom

BenCom's strategy is to position itself as a market leader in telecommunications by providing affordable and reliable telecommunication products and services. However, Intense competition from other telecom companies puts pressure on pricing and market share. Additionally, rapid changes in technology require continuous investment to keep up. Regulatory challenges can lead to increased compliance costs, making it harder to operate efficiently. Cybersecurity threats pose significant risks to data security and network integrity.

Economic downturns and currency fluctuations can negatively affect consumer spending, leading to reduced revenue. High customer turnover is another concern, as it can disrupt stability and growth. Furthermore, market saturation limits opportunities for expansion, while supply chain issues can hinder the availability of necessary technology.

Finally, financial risks stemming from high debt levels and interest rate changes may restrict BenCom's ability to invest in new projects. Effectively managing these strategic risks is essential for BenCom to thrive in the evolving telecommunications landscape.

Required

With reference to BenCom, describe the strategic risks that impact BenCom's strategy?

Scenario continued...

Bid 2024/73



Lightning Fast Connection (Pty) Ltd (LFC) submitted a bid to BenCom to provide maintenance to all BenCom's IT infrastructure in terms of bid 2024/73. Wayne Ross, who has a 30% shareholding, was present at all meetings evaluating and adjudicating all bids. In the end, Wayne Ross ensured that LFC scored higher points than the other bidders despite other bidders faring better in terms of price and quality of maintenance work to be provided.

While auditing this particular contract, a trainee stumbled across the following email between Wayne Ross and The Chief Executive Officer of LFC, Kenny Barness

To: Kenny Barness
From: Wayne Ross
Date: 21 January 2024
RE: Pricing of maintenance contract

Hi Kenny,

I hope you are well.

I can confirm that BenCom has sufficient money to pay triple the market price for our services. I too will ensure that BenCom will award the contract to LFC. I have a lot of power as the Chief Financial Officer of BenCom to ensure that this happens.

I'm hoping for a big dividend payout for this award.

*Kind Regards,
Wayne.*

Bid 2024/73 was brought for discussion at a board meeting, for which Wayne Ross was present. Certain board members raised concerns about paying triple the market price for maintenance services. However, Wayne Ross was able to convince the board as to why triple the market price was necessary to be paid. Wayne Ross also mentioned that each director will receive a kick back from LFC when they were awarded the bid. Subsequently, the bid of LFC was accepted by all directors present through a directors resolution.

Required

With reference to **2024/73**, describe any concerns you have regarding compliance with the following:

- The Companies Act 71 of 2008.
- King IV.
- The Public Finance Management Act (PFMA).
- The SAICA Code of Professional Conduct.



SECTION 2: REPORTING ON VALUE CREATION

1. Mapping to competency framework

AREA		SUB-CATEGORY		LEVEL	MINIMUM CONTENT
D	Reporting on value creation	D1	Performance measurement for external users of general purpose financial statements: Identify the reporting framework (other than IFRS), which could be relevant to the reporting entity and such entity's users	1	Generally Recognised Accounting Practice (GRAP) reporting framework

2. Overview of public sector reporting in South Africa

Legislative Framework for Reporting in the Public Sector

1. The Constitution of the Republic of South Africa, 1996

The Constitution, as the supreme law of the country, can be considered as the foundational legislative framework for reporting across the public sector. Chapter 10 of The Constitution provides the basic values and principles that must govern public administration. Included in the basic values and principles is the requirement for public administration to be accountable. Finance matters are dealt with in chapter 13 of The Constitution and in section 216 Treasury Control is established. The National Treasury is mandated to ensure transparency and expenditure control in all spheres of government by introducing:

- Generally recognised accounting practice (GRAP);
- Uniform expenditure classifications; and
- Uniform treasury norms and standards.

2. The Public Finance Management Act (Act 1 of 1999)

The Public Finance Management Act (PFMA) is the cornerstone legislative framework governing the promotion of transparency, accountability and sound financial management in the public sector. The PFMA deals with financial governance matters, accounting practices, standards for financial reporting, annual reporting, budgeting and financial control. The PFMA applies specifically to national and provincial government departments, public entities, constitutional institutions and the provincial legislatures. The PFMA stipulates the following reporting requirements that must be submitted to the relevant treasury and executive authority:

- annual financial statements;
- annual report on the activities undertaken during the financial year;
- budgets for the next financial year;
- in the case of public entities, a corporate plan covering the affairs of the entity for the following three financial years; and
- in the case of departments, trading entities and constitutional institutions, monthly reports detailing actual and anticipated revenue and expenditure.



Chapter 11 of the PFMA provides for the establishment of the Accounting Standards Board (ASB) which is empowered to set standards of generally recognised accounting practice (GRAP) for the annual financial statements prepared in the public sector.

3. Local Government: Municipal Finance Management Act (Act 56 of 2003)

The Municipal Finance Management (MFMA) is also a key legislative framework governing financial management in the public sector, specifically focusing on the local sphere of government and applies to municipalities and municipal entities. The MFMA addresses similar issues as the PFMA and also requires municipalities and municipal entities to prepare and submit annual financial statements, annual reports, annual budgets, monthly budget statements, mid-year budgets and performance assessments.

Selected Forms of Reporting in the Public Sector

1. Annual Financial Statements

The PFMA and MFMA requires the preparation of annual financial statements in accordance with an applicable reporting framework as prescribed by the ASB. The financial statements must fairly present the state of affairs, financial results and financial position of the relevant reporting entity. There are currently three financial reporting frameworks applicable to the public sector in South Africa:

- Modified Cash Standards (MCS);
- Standards of Generally Recognised Accounting Practices (GRAP); and
- International Financial Reporting Standards (IFRS).

2. Annual Reports

Annual reports are an integral part of reporting in the public sector. The annual report includes achievements, general information, performance information, governance, human resources information and financial information for each reporting period. In essence, the annual report consists of financial and non-financial information that promotes accountability and transparency. Apart from requiring the financial statements and annual reports to fairly present the financial and business affairs of an entity, the PFMA and MFMA also requires that the reporting entity includes particulars of any material losses through criminal conduct, and any unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure.

A key component of the annual report is the presentation of performance information – this is known as the annual performance report. Actual performance and achievements must be presented against the predetermined objectives as set out in the strategic and annual performance plans. It is important to note that the Auditor General, is mandated to not only audit the financial statements but also audit and report on the usefulness and reliability of the reported performance against predetermined objectives that have been included in the annual performance report.

3. In-Year Monitoring and Reporting

Once the financial year begins, the accounting officer must submit regular monthly monitoring reports to the Minister or MEC and the relevant treasury. These reports will focus on performance against budget and against service delivery plans and predetermined objectives. In terms of the PFMA, accounting officers must submit to the relevant treasury and executive authority within 15 days of the end of each month, information on the actual revenue and expenditure for that month against budgeted revenue and expenditure for that month. The report must also include projections of anticipated expenditure and revenue for the remainder of the current financial year and any material variances and a summary of actions to ensure that the projected expenditure and revenue remain within the budget.

On a quarterly basis, interim financial statements also need to be submitted to the Minister or MEC and the relevant treasury.

3. Accounting reporting frameworks in South Africa

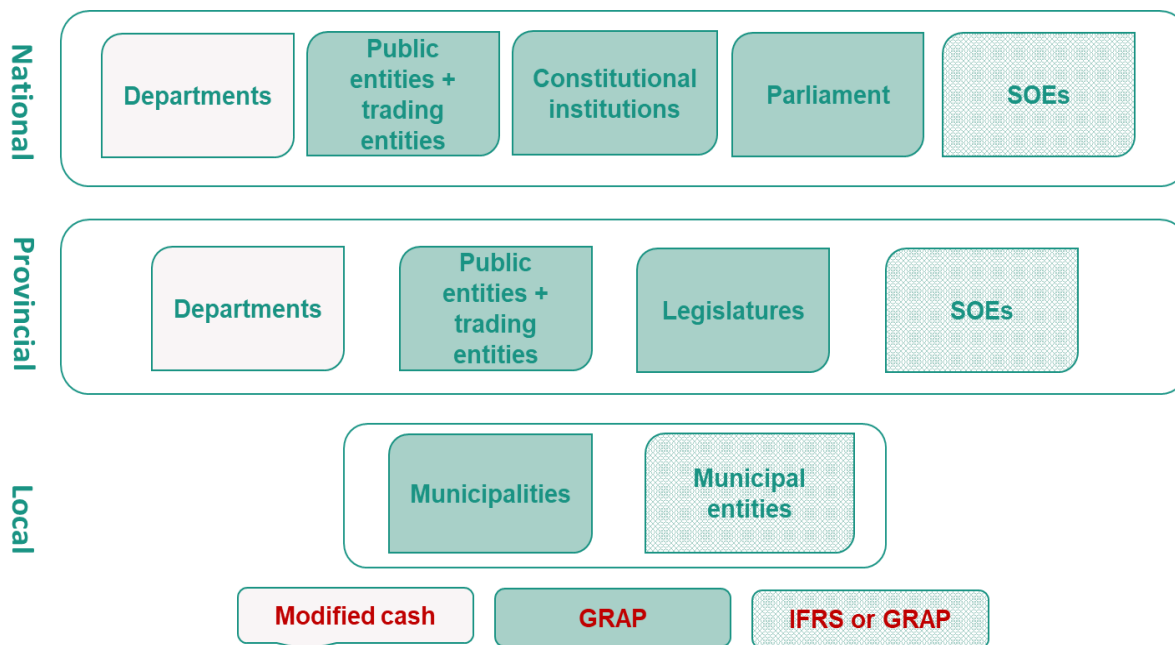
In the public sector, there are three recognised accounting frameworks, namely:

- Modified Cash Standards (MCS);
- Standards of Generally Recognised Accounting Practices (GRAP); and
- International Financial Reporting Standards (IFRS).

Chapter 11 of the Public Finance Management Act 1999 determines that the Accounting Standards Board's (ASB) function is to set standards of generally recognised accounting practices for departments, public entities, constitutional institutions, municipalities, parliament and provincial legislatures. The ASB has issued Directive 12, which stipulates which accounting framework public sector entities and departments should use. Directive 12 requires entities to apply IFRS as their reporting framework if they meet the following criteria:

- a) the entity is a financial institution;
- b) the entity has ordinary shares or potential ordinary shares that are publicly traded on capital markets; or
- c) its operations are such that they are:
 - (i) commercial in nature; and
 - (ii) only an insignificant portion of the entity's funding is acquired through government grants or other forms of financial assistance from government.

All other entities should apply GRAP as their reporting framework. The diagram below illustrates the reporting frameworks currently applied by the public sector in South Africa:



Source: The Accounting Standards Board, 2024



1. Overview of Modified Accounting Standards (MCS)

The MCS standards are developed by the Office of the Accountant-General (OAG) in the National Treasury. Under the MCS basis of accounting, only certain account balances and classes of transactions are recognised in the Statement of Financial Position and Statement of Financial Performance, while others are recorded for presentation in the notes. Certain transactions (like expenses) are primarily recognised when they arise from cash inflows or outflows. This differs from accrual accounting, which requires the recognition of the effects of transactions and other events when they occur rather than when cash or its equivalent is received or paid.

A complete set of financial statements under MCS include:

- appropriation statement;
- statement of financial performance;
- statement of financial position;
- statement of changes in net assets;
- cash flow statement;
- notes to the primary financial statements, comprising a summary of significant accounting policies and other explanatory notes; and
- notes on secondary financial information.

The MCS requires less judgement than IFRS and GRAP but may not accurately reflect the financial performance of government departments with significant payables, accruals, provisions and associated expenses. This may lead to potential gaps in understanding overall financial obligations. The biggest advantage of the MCS is its simplicity and its ability to enhance cash flow management, by recognising expenses when cash exchange hands. Due to the inherent simplicity of the MCS framework, annual financial statements can be prepared at a lower cost and in less time than more complex accrual based annual financial statements.

2. Overview of the Standards of Generally Recognised Accounting Practices (GRAP)

The Standards of GRAP are set by the ASB, whose role it is to provide core principles which inform relevant and credible financial reporting for the South African public sector to enable citizens to hold their government accountable for the way in which public funds have been spent. The ASB's standard-setting work continues to focus on providing guidance on all material transactions and events, to enhance financial reporting in all three spheres of government on a continuous basis to engender confidence in financial reporting and improve accountability and decision-making.

The standards of GRAP are set through an objective, transparent and consultative process. The ASB is governed by a board of mainly independent directors who determine the standards the GRAP. All projects and board meetings are open to the public and stakeholders are engaged throughout the standard setting process.

The ASB also considers international standards such as International Public Sector Accounting Standards (IPSAS) and IFRS in its standard setting process. These international standards are tailored for GRAP to suit the national needs of the South African government, decision-makers and citizens. The ASB also works with the International Public Sector Accounting Standards Board (IPSASB) to influence public sector accounting standard setting globally.

The diagram below illustrates the financial reporting and standard-setting process as utilised by the ASB:



Source: The Accounting Standards Board, 2024

The Standards of GRAP provide a common accrual-based accounting framework for the South African public sector, which promotes accountability and transparency regarding the manner in which public funds are spent. Because accrual accounting records transactions the day they happen, it can provide a more accurate measurement of the relationship between a public entity's revenue and its expenses. This information can help public entities to plan for revenue and expenditure. Nevertheless, as the standards of GRAP are accrual-based, they are also more complex to implement and comply with than the MCS. Therefore, it may take more time and skilled resources to prepare GRAP-compliant financial statements than the MCS.

The GRAP reporting framework is mandated by Directive 5, which is updated each year by the ASB. Directive 5 prescribes which standards of GRAP are effective and should be used by entities. It also contains guidance on which reporting frameworks may be used should GRAP not contain guidance for a transaction or event.

A complete set of financial statements under GRAP includes:



- Statement of financial position;
- Statement of financial performance;
- Statement of changes in net assets;
- Cash flow statement;
- Comparison of budget to actual amounts either as a separate additional statement or budget column in the financial statements; and
- Notes, including of significant accounting policies.

3. Overview of International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS) are comprehensive accounting standards that were developed to standardise the way in which private companies report their financial performance and position so that financial statements are understandable and comparable across international boundaries. IFRS are particularly relevant for companies with a high public interest score and companies whose securities (issued shares, bonds or preference shares) are publicly listed and traded on an exchange such as the JSE. Major public entities and public business enterprises should apply IFRS (as opposed to GRAP) as their financial accounting framework if they meet the criteria in Directive 12. The ability for these entities to apply IFRS helps these major public entities prepare annual financial statements which are more consistent with other international companies and businesses. This allows them to access capital and funding in these markets, instead of relying on government funding.

4. Conclusion

Financial statements are prepared and presented to meet the common information needs of a wide range of users. When selecting an appropriate reporting framework, the needs of the different users of financial statements must be given utmost consideration as they rely on the financial statements as their major source of financial information. In order to ensure consistency and comparability, all government public sector entities and departments must implement the relevant accounting frameworks as stipulated in Directives 5 and 12, as issued by the ASB.

4. Framework differences

1. Basis of Preparation

A key distinction between MCS, GRAP, and IFRS frameworks lies in the basis of preparation. While MCS employs a modified cash basis, both GRAP and IFRS utilise the accrual basis of accounting.

Modified Cash Basis (MCS)

- The MCS primarily recognises transactions when cash is received or paid, yet it incorporates some accrual elements. For instance, the MCS recognises certain balances in the Statement of Financial Position, even without the related cash flows.
- The MCS's simplicity enhances cash flow management, as expenses are recorded only upon cash exchange. This simplicity makes it less costly and easier to implement, especially for entities that focus on tracking available funds rather than accruals and provisions. MCS has a budgetary compliance focus.
- However, MCS may not accurately reflect financial performance where significant accruals or payables exist, potentially omitting key insights for entities with substantial financial obligations.

Accrual Basis (GRAP and IFRS)

- The accrual basis recognises the effects of transactions when they occur, not when cash is exchanged, offering a more complete view of an entity's long-term financial position and performance.
- Under accrual accounting, GRAP and IFRS standards provide comprehensive guidance on recognising assets, liabilities, income, and expenses, regardless of the timing of related cash flows. These standards have a service delivery and economic accountability focus.

2. Key differences between GRAP and IFRS

Though GRAP and IFRS both employ accrual accounting, GRAP introduces adaptations to cater specifically to the public sector addressing unique needs beyond those covered by IFRS. Key differences include:

IFRS	GRAP
Users and focus	
Shareholder and capital provider focus: • Capital allocation; and • Financial returns.	Service recipient and resource provider focus: • Efficiency and effectiveness of service delivery; • Availability of resources for future expenditure (including liquidity and solvency); • Compliance with budgets and regulations; • Changes in the burden on future-year taxpayers to pay for current services; and • Changes in ability of entity to deliver services (including capacity to changing circumstances).
Powers, programmes and longevity	
Limited powers – control of entity's assets.	Broad powers, including ability to establish and enforce laws (regulatory and sovereign powers). Long term programmes and ability to utilise long term taxes and contributions.
Asset and liability definitions	
Definitions only include the rights to future economic benefits.	Definitions include the rights to future economic benefits and service potential. Public sector assets may not generate direct cash flow but are critical for service delivery, such as government-owned clinics or infrastructure. GRAP accounts for such assets as essential resources, even if they lack direct income potential, as it focuses on the services that these assets can deliver to the public.
Measurement of items	
Typically measured at the transaction price or fair value. In most cases transaction price and fair value do not differ.	Measurement depends on the capacity in which the item is held or the nature of the transaction. <u>Financial capacity</u> Items are held for their financial capacity if they are intended to provide funding or a financial return. These items are usually measured at their transaction price or fair value. <u>Operational capacity</u>



	Items are held for their operational capacity if they are intended to provide services. These items are usually measured at their transaction price or replacement cost.
Exchange vs Non-exchange transactions	
Significantly all transactions are exchange transactions, where approximately equal value is exchanged between the parties to the transaction. Exchange transactions are usually measured at their transaction price (which in most cases also does not differ from fair value).	Both exchange and non-exchange transactions are common in the public sector. Non-exchange transactions exist where there is not a direct transfer of approximately the same value between the parties in the transaction, such as taxes and fines. Non-exchange transactions are usually measured at their current value (such as fair value or replacement cost), rather than their transaction price.

3. Treatment of Public Sector-Specific Issues

GRAP covers specific public sector transactions or items that do not exist in the public sector. These include:

- Transactions such as fines, taxes, licenses, social grants and social benefits.
- Items such as historical and cultural items (art, historic buildings, museums, etc.), national parks, other natural items of significance such as fauna and flora, mineral reserves, water fishing areas, forests and the electromagnetic spectrum.
- Budget reporting reconciliations.

4. Summary

GRAP's unique modifications are designed to address public sector needs, such as focusing on service potential, non-exchange transactions, and public accountability. These adaptations make GRAP a more suitable framework for ensuring that financial reporting aligns with the public sector's goals of transparency, accountability, and effective use of public resources.

5. Further Detail

For a more comprehensive comparison of GRAP and IFRS, refer to Appendix 1 for guidance developed by the National Treasury.



SECTION 3: ASSURANCE AND RELATED SERVICES

1. Mapping to competency framework

AREA		SUB-CATEGORY		LEVEL	MINIMUM CONTENT
F	Assurance and related services	F3	Audits of historical financial statements of public sector entities Describe how F2 (where appropriate) will apply for similar transactions and events	1	- IRBA Guide for registered auditors: Auditing in the public sector - IRBA Guide for registered auditors: Guidance on performing audits on behalf of the AGSA

2. Financial statements audit

2.1. Overall Differences

Scope of the audit

The AGSA audits the government which consists of three spheres: national government (national state departments and administrations), provincial government (provincial state departments and administrations) and local government (municipalities and municipal entities). The national and provincial governments are audited in accordance with the Public Finance Management Act (PFMA) and the local government is audited in accordance with the Municipal Finance Management Act (MFMA). The AGSA also needs to comply with the Public Audit Act (PAA) when conducting audits.

The scope of public sector audit is wider compared to those audits in the private sector as it includes audit of financial statements, audit of compliance with key legislation and audit of reported performance information.

The audit of financial statements in the private and public sector does not differ materially. The auditor will perform audit procedures to obtain reasonable assurance that the financial statements were prepared in all material aspects in terms of the applicable financial reporting framework as required by the ISA's. The reporting frameworks in the public sector include IFRS, GRAP and the Modified Cash Standard.

Presumed Risks of Fraud

In terms of ISA 240, there is a presumed risk of fraud on revenue recognition. However, in terms of ISSAI 1240 for many public sector entities, there is much focus on expenditures and areas such as procurement and payment of grants. Therefore, in addition to revenue recognition, where relevant, auditors in the public sector may consider such other areas when making the presumption of fraud.

Audit opinions

Moreover, the three-audit opinion prescribed in ISA 700 and 705 for unmodified and unmodified audit opinion on annual financial statements, the Auditor General also expresses the following outcomes:

- **Clean Audit Outcome:**
The financial statements are free from material misstatements (in other words, a financially unqualified audit opinion) and there are no material findings on reported performance objectives or non-compliance with key legislation.
- **Unqualified With Findings Audit Opinion:**
The financial statements contain no material misstatements. However, findings have been raised on either reported predetermined objectives or non-compliance with key legislation, or both these aspects.

Reflection questions:

- What are the types of fraud risks applicable to the public sector as compared to those of private sector?
- What are the factors that differ in formulating an audit opinion in the public sector from the private sector?

2.2. Capital assets

Definition of asset	Examples of the asset
Capital assets include all assets held by an auditee with a life cycle of greater than one year and that are expected to generate value over a longer period of time	• Buildings, machinery, infrastructure assets, motor vehicles, furniture, computer equipment, patents, licenses, heritage assets, and investment property.
Infrastructure assets are long-lived capital assets that normally are stationary in nature and can normally be preserved for a significantly greater number of years than most other capital assets.	• Road networks, sewer systems, water and power supply systems, communication networks, railways, harbours, dams, etc

- For auditors in the public sector, the audit of infrastructure assets is a high risk t due to the complexities in determining whether the value recorded is free from material misstatement.
- A management expert may be used to assist in gaining assurance over the value of the asset or other assertions, but the qualifications, skills experience and reasonableness of the work must first be properly assessed before reliance can be placed on the work of the expert.
- Since there is a presumption of fraud in procurement which is a significant risk, the infrastructure assets may also be assessed as a significant risk as the procurement (Refer to Section 7.1.1 for Procurement Section) of these assets usually requires a bidding process to be followed which may have been rigged.

**Reflection questions:**

- For the audit of infrastructure assets, what are some of the factors you think could influence the level of complexity in the valuation of infrastructure assets?

3. Other assurance services

The PAA mandates the public sector auditors to produce an audit report that reflects the opinion, conclusion, or findings on:

- financial statements of the auditee in accordance with the applicable financial reporting framework and legislation
- compliance with any applicable legislation relating to financial matters, financial management and other related matters; and (Audit of compliance with legislation)
- reported performance of the auditee against its predetermined objectives (Audit of reported performance information)

3.1. Audit of compliance with legislation**Procurement and Contract Management**

Section 20 of PAA requires that the Auditor General of South Africa (or entities that perform the audit on behalf of the AGSA) prepare an audit report that reflects a conclusion or findings on compliance with any applicable legislation relating to financial matters, financial management and other related matters.

Procurement and contract management is one of the scoped in compliance subject matters for AGSA audits, in terms of the annual directive issued by the AGSA. This subject matter deals with the principles that government entities are required to adhere to when purchasing goods and services and these procurement principles originate from the PFMA and its supporting regulations.

Compliance cannot be adjusted retrospectively. If transactions do not meet compliance requirements at the time of transacting, they will be considered to be non-compliant. This non-compliance status will result in expenditure being considered to be irregular expenditure.

Procurement Requirements applicable to all departments, constitutional institutions and public entities listed in Schedule 3A and 3C of the Public Finance Management Act.²

	Total Value including any taxes		
	R0 – R2 000	R2 001 – R1 000 000	Transactions above R1 000 000
Requirements by PFMA SCM Instruction Note NO. 02 OF 2021/22	Entities may procure goods and services by means of petty cash without inviting price quotations or following a bidding process.	At least three (3) written price quotations must be obtained from three (3) different suppliers	Must invite open competitive bids for all procurement above R 1 000 000
This instruction applies to all departments,		Suppliers must be registered on a Central	Competitive bids must be advertised in at

² Similar regulations are available for the MFMA. Municipalities will therefore follow the MFMA regulations and instruction notes in their procurement.

constitutional institutions and public entities listed in Schedule 3A and 3C and Provincial treasuries of the Public Finance Management Act.		Supplier Database (CSD)	least the Government Tender Bulletin; the eTender Publication Portal and other website; institutions website and in any other appropriate media
		Approvers must ensure that the prices received are market related and where they are not, negotiations have been entered into.	Entities must publish the awards (results) of bids.

General provisions

Procurement of goods and services may not be deliberately split into parts or items of a lesser transaction value in order to circumvent the prescribed procurement process. All entities must have written SCM Policies. Entities may deviate and be stricter than the regulations but may not be more lenient than the regulations.

Reflection questions:

- Should an entity have a SCM policy that is more stringent or more lenient than the procurement regulations? What are the benefits or disadvantages of an entity's policy being more stringent than the regulations?
- Can procurement regulations make public sector entities less competitive in the market than private sector entities?

3.2. Fruitless and wasteful expenditure as well as irregular expenditure

The PFMA defines two categories of expenses namely fruitless and wasteful expenditure and irregular expenditure. It is important to understand the difference between these two categories.

Definition of expense	Examples of the expense
Fruitless and wasteful expenditure refers to expenditure made in vain and avoided had reasonable care been exercised. Essentially, it is money that was spent without yielding any benefit or result.	- Paying for a conference that was cancelled but failing to get a refund. - Incurring penalty fees due to late payments that could have been avoided with timely action.
Irregular expenditure is expenditure that was incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including the PFMA, Treasury regulations, or any other relevant prescripts.	- Procurement processes that do not follow the stipulated competitive bidding procedures. - Payments made without the necessary authorisations or approvals.



One of the main tasks of public sector auditors is to identify and classify these expenses in order to ensure that there is accountability and to ultimately improve the financial controls of the entity.

The PFMA requires that the annual report of an entity should include the following:

- a) Any material losses through criminal conduct, and any unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, that occurred during the financial year;
- b) Any criminal or disciplinary steps taken as a result of such losses, unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure.
- c) Any material losses recovered or written off.

Reflection questions:

- a) Why is it important to distinguish between fruitless and wasteful expenditure and irregular expenditure accurately in the financial statements?

3.3. Audit of performance information

The functions of the Auditor-General are reflected in section 188 of the Constitution and further regulated in the Public Audit Act, 2004 (PAA). Section 188 of the Constitution, 1996 states that the Auditor-General must audit and report on the accounts, financial statements and financial management of all national and provincial state departments and administrations and all municipalities. The mandate for Performance Auditing in South Africa was established in the Exchequer and Audit Act 1975, two years prior to the establishment of the same practice in Canada. However, it was only during 1986 that the first performance audit was carried out in South Africa at the then Department of Education and Training. The mandate to carry out and report on performance audits was further strengthened by means of the Auditor-General Acts of 1989 and 1995.

What is performance auditing?

An independent auditing process to evaluate the measures instituted by management to ensure that allocated resources are procured economically and utilised efficiently and effectively and, if necessary, to report thereon.

Why conduct performance audits?

Performance auditing encourages learning and change within the public sector by providing new information and drawing attention to various challenges. It contributes to improvement and reform in public administration, providing the government with recommendations based on independent analysis. Thus, it adds value to the traditional functions of SAIs.

Performance auditing plays an important role in keeping the legislative well informed about governmental actions and the outcome of its own decisions. It increases public transparency and accountability, providing objective and reliable information on how public services are performed.

Reflection questions:

- a) Reflect on the significance of performance auditing in enhancing transparency and accountability within public sector organisations. How does performance auditing contribute to informed decision-making by legislative bodies?



4. Common ethical issues

4.1. Ethical requirements

The auditors in the public sector are required to conduct themselves in a manner that is consistent with both the IRBA code and SAICA Code of conduct. In addition to these, it is required to comply with the ISSAI 130 Code of Ethics. Though the code tackles the issue of confidentiality to deal with appropriate protection of information, in public sector there is a need to balance the protection with transparency and accountability, therefore the confidentiality principle becomes “Confidentiality & Transparency”.

The second aspect of ISSAI 130 Code of Ethics that differs from the SAICA Code of conduct relates to “Political Neutrality” principle. This fundamental principle deals with the fact that public sector auditors need to identify instances where their political view could impact their independence and impair the reputation of the firm. Independence in appearance is as important as independence in mind. Therefore, by participating in political activities and expressing views on political matters, it could easily be perceived as the inability of the auditor to express an opinion that is unbiased.

4.2. Fruitless and wasteful expenditure

It's unethical to waste public funds that could have been used for beneficial purposes. As an auditor, you need to identify and report such expenditures to promote better financial management.

4.3. Irregular expenditure

Non-compliance undermines the integrity of financial management in the public sector. As an auditor, your role is to ensure that public funds are spent in accordance with legal and regulatory frameworks.

Reflection questions:

- a) Why do you think that it is important for an auditor to maintain political neutrality when conducting an audit in the public sector?

5. Case study 1: Audit report

5.1. Audit report example 1:



INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT ON ESKOM HOLDINGS SOC LTD AND ITS SUBSIDIARIES

Report on the audit of the consolidated and separate financial statements

Qualified opinion

We have audited the consolidated and separate financial statements of Eskom Holdings SOC Ltd and its subsidiaries (the group) set out on pages 38 to 146 which comprise the consolidated and separate statements of financial position as at 31 March 2022, the consolidated and separate income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 31 March 2022, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the Companies Act, 2008 (Act No. 71 of 2008).

Basis for qualified opinion

Irregular expenditure

The public entity did not fully and accurately record irregular expenditure in note 51.1 to the consolidated and separate financial statements, as required by section 55(2)(b)(i) of the PFMA. This was due to inadequate systems of internal control to timeously detect and record this expenditure in the consolidated and separate financial statements, as well as inadequate controls to ensure appropriate assessment of potential irregular expenditure arising from supply chain management processes, various investigations, and tracking of internal audit and forensic report findings. Certain items of possible irregular expenditure that were previously logged for assessment tests were removed without the tests being adequately conducted and concluded upon. Certain items were adjusted from the balance at the beginning of the year which were not substantiated by supporting evidence.

In addition, the primary source registers tracking case numbers contained missing numbers in the sequence for which no explanations could be obtained, and the value of irregular expenditure did not always agree to underlying supporting documentation.

As a result of the weaknesses identified and described above, we were unable to determine the full extent of the misstatement of irregular expenditure disclosed in terms of section 55(2)(b)(i) of the PFMA stated at R67 101 million (2021: R59 177 million) and R63 337 million (2021: R56 104 million) in note 51.1 to the consolidated and separate financial statements respectively, as it was impracticable to do so.

Procurement and contract management

We were unable to obtain sufficient appropriate audit evidence that, in all instances, quotations were awarded in accordance with the legislative requirements as due proper record keeping was not maintained. Similar limitations were also reported in the prior year.

In some instances, goods, works, or services were not procured through a procurement process which is fair, equitable, transparent, and competitive, as required by section 51(1)(a)(iii) of the PFMA. Limitations were also reported in the prior year.

In some instances, tenders and quotations were awarded to bidders based on preference points that were not awarded in accordance with the requirements of the Preferential Procurement Policy Framework Act (PPPFA) and Preferential Procurement Regulation. Similar non-compliance was also reported in the prior year.

In some instances, tenders and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of PPPFA and section 11 of the 2017 Preferential Procurement Regulation.

In some instances, tenders and quotations were awarded to bidders based on functionality criteria that were not stipulated in the original invitation for bidding and quotations, as required by the 2017 Preferential Procurement Regulation 5(1) and (3).

In some instances, tenders and quotations were awarded to bidders based on pre-qualification criteria that were not stipulated and/or differed from those stipulated in the original invitation for bidding and quotations, in contravention of the 2017 Preferential Procurement Regulation 4(1) and 4(2).

In some instances, tenders which failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable in accordance with the 2017 Preferential Procurement Regulation 5(6).

In some instances, tenders which achieved the minimum qualifying score for functionality criteria were not evaluated further in accordance with the 2017 Preferential Procurement Regulation 5(7).

Based on audit report example 1 above:

- Which sphere of government is this audit report applicable to?
- Which one of the three types of audits that the AGSA performs, would the auditor have identified the 'irregular expenditure' qualification paragraph? Please provide a reason for your answer.
- Which one of the three types of audits that the AGSA performs, would the auditor have identified the 'procurement and contract management' qualification paragraph? Please provide a reason for your answer.

5.2. Audit report example 2:

Report of the auditor-general to the Free State Provincial Legislature and the council of the Mangaung Metropolitan Municipality

Service charges

3. I was unable to obtain sufficient appropriate audit evidence for service charges as the municipality did not implement adequate systems to account for the billing of services. I was unable to confirm the service charges by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to service charges stated at R1 789 797 225 (2021-22: R1 611 315 981) in note 33 to the financial statements.
4. In addition, the municipality did not recognise revenue from service charges in accordance with GRAP 9, *Revenue from exchange transactions* as services were not billed on all consumer accounts. This resulted in service charges being understated by R69 463 905 and consumer receivables from exchange transactions being understated by the same amount. Additionally, there was an impact on the surplus for the year and accumulated surplus.

Basic service delivery

TR6.12 Percentage of surfaced municipal road lanes which has been resurfaced and resealed

33. An achievement of '2%' of municipal road lanes resurfaced and resealed was reported against a target of '25%' of municipal road lanes planned to be resurfaced and resealed. However, some supporting evidence was not provided for auditing; and, where it was, I identified material differences between the actual and reported achievements. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved. Furthermore, a measure of reprioritising of budget was reported to improve the performance against the target of 25% of municipal road lanes planned to be resurfaced and resealed. I could not determine if the measure was correct, as adequate supporting evidence was not provided for auditing. Consequently, I could not determine whether the reported measure was reliable.

Based on audit report example 2 above:

- a) Which sphere of government is this audit report applicable to?
- b) Which one of the three types of audits that the AGSA performs, would the auditor have identified the 'service charges' qualification paragraph? Please provide a reason for your answer.
- c) Which one of the three types of audits that the AGSA performs, would the auditor have identified the material differences as discussed under the heading 'service delivery'? Please provide a reason for your answer.

Suggested solution:

- National government
- Audit of compliance with legislation since the irregular expenditure was identified due to non-compliance with legislation (PFMA) and the Procurement Policy Framework Act (PPFA).



- Audit of compliance with legislation since the irregular expenditure was identified due to non-compliance with legislation (PFMA) and the Procurement Policy Framework Act (PPFA).
- 2.1 Local government
- 2.2 Audit of financial statements since the misstatement was identified using the applicable financial reporting framework (GRAP 9).
- 2.3 Audit of performance information since the planned performance was measured by the actual performance for public service delivery.

6. Case study 2: Expenditure

As an audit senior at the Auditor-General of South Africa (AGSA), you are currently assigned to audit the South African Television Corporation (SATC). During your review of the expenses for the financial year, you come across the following items that require classification as either fruitless and wasteful expenditure or irregular expenditure:

Expense A: Payment of R500 000 for advertising slots during a special sporting event that was cancelled. SATC failed to apply for a refund within the period stipulated in the contract, resulting in a total loss.

Expense B: Payment of R1.2 million for the purchase of new broadcasting equipment. The procurement process did not involve a competitive bidding procedure as mandated by the PFMA due to urgency claims, but without documented approval of the urgency.

Expense C: Penalties amounting to R200 000 were incurred due to late VAT payments resulting from administrative oversight within the finance department.

Expense D: A project overrun cost of R750 000 occurred on a program series due to repeated changes in the production schedule, which could have been avoided with better planning.

Expense E: Unauthorised expenditure of R800 000 on a consultant for advisory services, which was not budgeted and did not have the necessary approvals from the board.

Question:

For each of the expenses listed above, classify them as either fruitless and wasteful expenditure or irregular expenditure. Provide a reason for your classification, explaining the key factors that influenced your decision.

Solution

Expense A: Fruitless and Wasteful Expenditure

The payment for advertising slots during a cancelled event represents a total loss to the SATC. The organisation failed to secure a refund due to a missed deadline, indicating that the expenditure could have been avoided with reasonable care.

Expense B: Irregular Expenditure

The purchase of broadcasting equipment without following the mandated competitive bidding process constitutes a breach of procurement procedures as per the PFMA. The lack of documented approval for the urgency claim further classifies this as irregular expenditure.



Expense C: Fruitless and Wasteful Expenditure

The penalties for late VAT payments are unnecessary costs that could have been avoided with timely action. The oversight within the finance department led to avoidable financial loss, thus classifying it as fruitless and wasteful.

Expense D: Fruitless and Wasteful Expenditure

The project overrun costs resulting from repeated schedule changes reflect poor planning and management. These expenses were avoidable with better preparation, making them fruitless and wasteful.

Expense E: Irregular Expenditure

The expenditure on an unapproved consultant without budget provision and necessary board approvals does not comply with financial management regulations, classifying it as irregular expenditure.

7. Case study 3: Procurement

You are an audit senior on the audit of Railway Corporations (a state owned railway company). As part of your audit for the audit for FYXX, you came across the following procurement transactions. For each transaction, select the correct answer:

Scenario 1: Railway Corporation as part of their planned and unplanned maintenance on their locomotives, requires parts called field magnets. These parts cost on average R1500 each and get damaged due to use or through accidents, these are therefore not considered to be once-off purchases. How should Railway Corporation purchase these parts?

- A) As these parts are less than R 1500 each, petty cash may be used to purchase these as and when the maintenance team requires them.
- B) The entity should estimate the total value required for these parts for a period e.g. 1 year and based on this total value that is purchased for the year. The total value will determine if a tender should if quotations should be obtained or an open competitive bid should be followed.
- C) Three written quotations should be obtained as audit documentation is important for state owned entities.
- D) Any of the above would be acceptable.

Scenario 2: An expense of R 1 960 (excluding VAT) was randomly selected for audit. This expense was for a special tea that was purchased for visitors from India that required CHAI tea that was not available at Railway Corporation. There was no approval obtained to deviate from the procurement process. Was it correct for Railway Corporation to use petty cash to purchase the tea?

- A) It is incorrect to purchase the tea using petty cash as the price of the tea including VAT is above R2 000 and Railway Corporation should've requested 3 written quotations from suppliers on the central database and there was no approval obtained for the deviation.
- B) This is an emergency and it is reasonable for Railway Corporation to have used petty cash to purchase the CHAI tea.
- C) It is not acceptable for the entity to have used petty cash (because the cost inclusive of VAT is above R2 000). If the entity buys tea for everyday use, they should've thought of including tea for their visitors.
- D) None of the above.



Scenario 3: The above 2 transactions were expensed and all other accounting related procedures were completed correctly. The total value is below trivial threshold. What is the correct treatment for non-compliance element of the transactions?

- A) The accounting treatment is correct therefore the non-compliance elements can be ignored.
- B) The accounting treatment is correct therefore the non-compliance elements can be ignored as the transactions are below trivial threshold.
- C) The non-compliance elements are considered separately from the accounting treatment and if there is non-compliance, the entity may disclose the irregular expenditure if the value of each non-compliance is above materiality.
- D) The non-compliance elements are considered separately from the accounting treatment and if there is non-compliance it should be disclosed, regardless of value of the transaction.

Solution

Scenario 1 : B
Scenario 2: A
Scenario 3: D

8. Integrated case study

You are an assistant audit manager at Auditor-General South Africa (AGSA). You have been assigned to the audit of Bokone Local Municipality situated in Potchefstroom for the year ended 30 June 2024. The following matters came under your attention during the audit:

Ethical concerns:

One of the first-year audit trainees, James Monyane, is a member of a political party, Democratic Congress of South Africa (DCSA). The mayor and majority of the council members of Bokone Local Municipality are DCSA members. James is very vocal about his political stance and recently published the following statement on social media:

“DCSA is the best political party! It is for the people! Just look at Bokone Local Municipality, it ensures basic service delivery to the people! Viva DCSA!!!”

Other audit-related matters

Matter 1:

Note 16: Property, plant and equipment of the financial statements for the year ended 30 June 2024 contains the following line items:
Buildings, land, vehicles, roads, waste management trucks, sanitation networks and water networks.

Matter 2:

During September 2023 there was heavy rains which destroyed numerous roads in and around Potchefstroom. The estimated value to fix the roads was R1 095 000 since the roads and drainage systems needed to be fixed, to prevent water from accumulating on the road during heavy rainfalls. The

funds were made available and budgeted for. The municipality therefore obtained three quotations from three contractors to fix the roads.

Questions:

- Except for the fundamental principles of objectivity and professional behaviour. Which fundamental principle in terms of the ISSAI 130 Code of Ethics does James not comply with by the statement he made on social media and why do you think that it is important for any member of the audit team to comply with this specific fundamental principle?
- For each of the PPE items listed under matter 1, indicate whether the item is an infrastructure asset or a capital asset. Please provide a reason for your answer.
- With reference to matter 2, discuss whether you would classify the R1 095 000 spent on the roads as fruitless and wasteful, unauthorized or irregular expenditure and why.
- For both matters 1 and 2, please discuss as part of which of the three types of audits conducted by the AGSA, would you audit each of the respective matters.

Suggested solution:

- James did not comply with the fundamental principle of political neutrality. He is a member of the audit team which is auditing the municipality which is run by the political party he supports. His independence (in mind and appearance) might therefore be compromised.
- It is important to maintain political neutrality throughout the audit to ensure that the auditor remains independent in mind and appearance and ultimately objective. The professional judgement of the auditor should not be compromised because of the political stance of the auditor.

Infrastructure assets	Reason	Capital assets	Reason
roads, sanitation networks water networks	These assets are long-lived capital assets and stationary in nature (roads and water and sanitation networks cannot be moved) and can be preserved for a significantly greater number of years than most other capital assets	Buildings, land, vehicles and waste management trucks	These are assets that are held for longer than one year and are expected to generate value over time. Land and buildings can generate rental income/ can be sold. Waste management trucks and vehicles can be used for service delivery purposes.

- This would constitute irregular expenditure since the necessary legislation and regulations (MFMA and SCM instruction note) was not followed. The amount is above R1 000 000, and the municipality therefore needed to follow the competitive bidding process and not obtain three quotations.
- Matter 1 – Audit of financial statements as PPE is a line item in the financial statements and would be audited in accordance with the applicable financial reporting framework which is GRAP.
Matter 2 – Audit of compliance with legislation as this is a procurement process that took place, and the legislation and regulations (PFMA) needed to be complied with. The auditor would therefore audit the compliance thereof.



9. References

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TU 28 of 2020-Capital Assets Guide- Auditor General of South Africa:

<https://www.agsa.co.za/AuditInformation/PerformanceAuditing.aspx>

https://www.eskom.co.za/wp-content/uploads/2022/12/2022_annual_financial_statements.pdf

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SECTION 4: ETHICS

The public sector faces unique challenges pertaining to ethics. This section contains examples of some of the common ethical challenges.

1. Misuse of government assets

1.1. Scenario 1

Glenore is a mining company listed on the Johannesburg Stock Exchange. Glenore is a state owned and the major shareholder is the state-owned employees' pension fund Trust (GEPFT). The Trust had been set up to assist with the miners' community in providing funding with regards to education for all mine worker's children who were below the age of 21. The GEPFT has impacted hundreds of the mine worker's children, as children are now going to school instead of to work, thousands more protecting themselves from HIV and getting the childhood that is within their rights.

In line with the purpose of the trust every year Glenore would donate laptops and computers that had reached a 3-year useful life, to schools within the community or alternatively sell the computers and laptops to salvage any cash that could assist in the repurchasing of the assets. However, one of the directors, Mr Grant had ordered all the laptops and computers to be delivered to his residence, as well as approved a payment to Mrs Grant, which was highlighted to be a normal course of business donation and no directors disapproved. Mrs Grant was heavily involved in charity work and this would assist in donations she made to schools. Glenore did not manage to purchase laptops for its employees or invest in new and safe equipment despite several accidents that had injured some employees in the mine.

Required

Discuss whether the decision to pay out the donation of cash and equipment was ethical?

Suggested solution

Discuss whether the decision to pay out the donation of cash and equipment was ethical?	5 marks
The director approved a donation of cash and laptops to his wife and did not consider the donations they made to schools as well as the purchase of safe equipment that was required.	1
Acting in an ethical manner is acting in a manner that is not only good for the self but acting in a manner that is good for others.	1
Although the above was approved by other directors, the directors should have considered the needs of Glenore first, to repurchase laptops, equipment for their operations, as well as their social donation to the community.	1
By the directors accepting Mr Grant's orders, the directors did not act in an ethical manner since they did not purchase the assets they needed for the mine. The families of the employees would have benefited from the donation had it been given directly to them	1
A good compromise would have been to use some of the resources to invest in safe equipment for the mine.	1
The directors could have acted in the best interest of Glenore and its other stakeholders by choosing to forego their bonuses that year and investing in safe equipment and assisting in their usual social responsibility thus promoting a good working environment.	1



1.2. Scenario 2

Juliana Kamanga CA (SA) is an executive director at Brucket a state owned entity company that is in the business of delivering furniture and manufacturing furniture. Juliana was in charge of the delivery fleet and had been entrusted by the directors. She has won various employee awards ranging from being a hard worker, loyalty and dedication, employees' choice and employee of the year for 3 years. Juliana was raised in a very religious family and is a favourite to her colleagues. She is liked by young, old and his superiors. Juliana was known for being a loyal and trustworthy employee as she rose up the ranks and had not been involved in any scandal.

When her family fell into debt, she looked for a way to make some additional income. An opportunity arose when her uncle was seeking for truck hires for their family business. She decided that she would use the Brucket trucks to do her deliveries after hours and she would do the deliveries herself. Eventually she managed to rope in the other Brucket truck drivers who needed the additional income. She justified her behaviour by reminding herself that she obtained her job partly because she was an accountant and that she had worked extremely hard to obtain her CA(SA) qualification and she was also helping those in need.

She believed she was entitled to make a 'higher personal return' on her investment of time and effort in her accountancy training and through successful qualification as a CA(SA). It was highlighted by the vehicle tracking reports that there was a certain truck that would not be parked after hours. An investigation was done, and it showed that Juliana was responsible however she would always make sure that the truck was parked upon completion of every delivery.

Required

Using the following ethical theories discuss whether Juliana should be fired from her job or not

- a) Fairness and rights approach
- b) Utilitarianism

Suggested solution

Fairness and Rights Approach	Marks
The Law Code of Hammurabi in Ancient Mesopotamia (c. 1750 BCE) held that all free men should be treated alike, just as all slaves should be treated alike.	1
Juliana used Brucket's trucks for her own personal gain and , if it was done by any other employee this would amount to fraud and that employee will be guilty and liable to Brucket	1
Using the fairness approach Bernard should be held accountable to the misuse of company assets and more so, the policies of Brucket that applies to fraud cases should also be applied on Bernard.	1
Rights Approach	
The rights approach emphasizes the belief that all humans have a right to dignity.	1
Juliana has a record of being a virtuous woman and many people at Brucket follow up to her commitment and hard work.	1
Juliana has no record of previous crime; to protect her dignity she should be given another chance and a warning for her actions.	1
ii. Utilitarianism	



The principle held is that any action should provide the best and the least harm to all parties especially considering Brucket.	1
Juliana defrauded the company this was bad for the company in the following ways • She was using the trucks for her personal benefit and • the trucks were further depreciating this only benefited Juliana as the use of the trucks was not in the normal course of business • Juliana was well respected, so by indulging in stealing this might set the tone for unethical practices to all other employees • The entity is state owned and may already receiving funding this this indirectly affecting tax payers as the trucks are maintained and serviced by that funding	3
The deliveries done by Juliana resulted in the following benefits • It created additional income for other truck drivers at Brucket who could use the additional income. • She managed to sustain her family as they were going through hardships	2

1.3. Scenario 3

Tunzi is a state-owned company in Johannesburg which is in the business of the fitting and supplying of solar panels. Tunzi has been experiencing brisk business courtesy of its young and dynamic team led by Project Director Mr. Sung, CA (SA). The Office of the Auditor General have been the auditors of Tunzi for the past 8 years with the Auditor general Mary Bulele leading the team. During the most recent audit of Tunzi for the year ending 31 December 2023. One of the trainee was appointed to the audit of Tunzi for the first time and she has submitted her working papers for review.

The trainee indicated that during the audit she was able to identify a misstatement within the financial statements where a related party transaction had not been disclosed and had been expensed as a normal trading expense. The expense relates to motor vehicle repairs and maintenance, as well as supply of solar panels and fittings being done for Mr. Sung. The auditors were able to identify 5 farm trucks that did not belong to Tunzi that had been repaired and billed to the company.

Upon enquiry with the accountant, she explained that the vehicles were Mr Sung's personal assets. She explained that they had treated the expense as a normal trading expense since the trucks were sometimes used to deliver solar panels in the rural areas. The accountant explained that this is how most of Mr Sung's personal expenses were treated in the past and no one had raised any queries. The trainee approached their in charge on the engagement with the issue and the in charge confirmed that there was a non-compliance with International Financial Reporting Standards (IFRS), and he would speak to the finance manager about it and ask him to correct the error. When the audited financial statements were completed the trainee noted that no changes had been made to rectify the error. When she asked about the error she was told not to worry about it because everything was fine.

Required

Discuss any issues with the ethical conduct on the audit engagement of Tunzi evident in the scenario.

Suggested solution

Discuss any issues with the ethical conduct on the audit engagement of Tunzi evident in the scenario	Marks
The Office of the Auditor general (OAG) was made aware of an error in the financial statements of Tunzi which should have been corrected or resulted in a disagreement with the client but they settled for not having the error corrected.	1
It appears that the OAG could be implicated in a misappropriation of Tunzi's company	1



funds and assets for Mr Sung's personal use.	
The OAG has either agreed to this or accepted a weak explanation, which questions his professionalism.	1
The OAG appears to have allowed their long relationship with Mr Sung on the Tunzi audit to override their duty in terms of fair reporting to the other stakeholder	1
The OAG has a duty to stakeholders who have a legal or other right to rely on the reliability and completeness of information in the financial statements. This particularly applies to SARS.	1
OAG could be charged with colluding in tax evasion by not disputing as the auditors the treatment of non-trading expenses as Tunzi's normal trading expenses.	1
The trainee's query was justified and the response for the trainee by OAG leaders would have given the impression that OAG had not taken the query seriously.	1
Not only has the OAG shown poor conduct of professional relationships, but it was also the leaders on the engagement setting a poor example for a trainee by ignoring the issue and not effecting the adjustments and highlighting the related part transactions.	1
Mr Sung is a chartered accountant and therefore the conduct of misusing the company assets for personal use is not professional.	1
Mr Sung is also the director of Tunzi and servicing of his vehicles as well as delivery of solar panels without paying for them is not in the best interest of Tunzi.	1

2. Procurement

2.1. Scenario 1

Municipality A is a local municipality situated in the Western Cape. Municipality A has received significant grants from National Treasury for capital infrastructure projects to be effected in the Western Cape. A significant portion of the grants relate to the construction of new buildings in the Lamberts Bay area. The Municipal Manager and CFO are both under pressure as the one of the buildings (Lamberts Bay Museum) must be completed by financial year end (30 June 2024). Municipality A is facing a dilemma regarding the procurement of building materials for a major infrastructure project. The company has been approached by two suppliers, Supplier A and Supplier B, both offering competitive bids for the materials.

Supplier A is a well-established company with a strong reputation for quality and reliability. However, Supplier A has been recently implicated in a bribery scandal involving government officials. While there is no concrete evidence linking Global Builders to the scandal, the company is concerned about the potential negative publicity and legal ramifications associated with doing business with Supplier A. Supplier B is a relatively new company with a promising track record. While their prices are slightly higher than Supplier A's, they have committed to using sustainable and ethically sourced materials. However, there are concerns about their ability to meet the project's tight deadlines and maintain the required quality standards.

Municipality A must decide whether to proceed with Supplier A, despite the bribery allegations, or choose Supplier B, which may involve additional costs and risks. The company is also considering alternative suppliers but is limited by the project's tight timeline. The project is crucial for the development of the region and has received significant government funding. It is expected to create thousands of jobs and boost the local economy. However, the project's success depends on the timely procurement of high-quality materials.

In addition to the ethical considerations, the CFO is aware that his is also required to consider the financial implications of its decision. Choosing Supplier A could result in significant cost savings, but it may also expose the company to reputational damage and legal risks. Choosing Supplier B could



increase costs and potentially delay the project, which could have negative consequences for the company's bottom line and its relationship with the government.

Furthermore, the Municipality A must consider its long-term reputation and sustainability goals. By choosing a supplier with a strong commitment to ethical sourcing and sustainability, Global Builders can demonstrate its own commitment to corporate social responsibility and improve its brand image. Given the complexity of this situation, Global Builders must carefully weigh the risks and benefits of each option and consider the long-term implications of its decision.

Required

- a) Discuss how Municipality A can use an ethical decision-making model to arrive at a decision on which supplier to choose.
- b) Briefly discuss which supplier Municipality A should choose based on the information in the question.

Suggested solution

- a) To address this ethical dilemma, Municipality can use the following seven-step ethical decision-making model:
 - **Identify the ethical issue:** The ethical issue in this case is whether Municipality should prioritize cost savings and reliability (Supplier A) or ethical sourcing and sustainability (Supplier B).
 - **Gather information:** The company should gather as much information as possible about the two suppliers, including their financial stability, track record, and commitment to ethical practices.
 - **Identify the stakeholders:** The stakeholders in this case include Municipality, Supplier A, Supplier B, the project's clients, employees, and the community.
 - **Consider ethical principles:** The Municipality should consider relevant ethical principles, such as honesty, integrity, fairness, and sustainability.
 - **Generate alternative solutions:** Possible solutions could include negotiating better terms with either supplier, exploring alternative sources of materials, or delaying the project to allow for more thorough due diligence.
 - **Evaluate the alternatives:** The Municipality should evaluate each alternative based on its ethical implications, potential risks, and benefits.
 - **Make a decision:** Based on the analysis of the alternatives, Municipality should make a decision that is consistent with its ethical values and best serves the interests of all stakeholders.
- b) Based on the ethical decision-making model and the information provided in the case study, Municipality should prioritize ethical sourcing and sustainability over short-term cost savings.

While Supplier A may offer a more competitive price, the risk of reputational damage and legal consequences associated with the bribery scandal outweighs any financial benefits.

Choosing Supplier B, despite the potential challenges, aligns with Municipality long-term goals of ethical procurement and sustainability. The Municipality can mitigate the risks associated with Supplier B by conducting thorough due diligence, establishing clear performance metrics, and closely monitoring their progress. By investing in a supplier with a strong ethical commitment, Municipality can not only ensure the sustainability of the project but also enhance its reputation as a responsible and ethical company.



Furthermore, Municipality should consider exploring alternative sourcing options, such as collaborating with local suppliers or developing long-term partnerships with ethical suppliers. This can help to reduce the company's reliance on a single supplier and mitigate the risks associated with supply chain disruptions. By making a decision that prioritizes ethics and sustainability, Municipality can demonstrate its commitment to corporate social responsibility and contribute to a more sustainable and equitable business environment.

2.2. Scenario 2

Municipality X, a small town in South Africa, has been facing increasing criticism over allegations of wasteful expenditure. Recent reports have highlighted several instances of questionable spending practices, including:

- **Luxurious Vehicles:** The municipality has purchased a fleet of high-end luxury vehicles for senior officials, despite the town's financial challenges.
- **Excessive Travel Expenses:** Officials have been accused of incurring exorbitant travel expenses, often for unnecessary or extravagant trips.
- **Unnecessary Consultants:** The municipality has hired numerous consultants, many of whom are overqualified or not relevant to the tasks at hand.
- **Ghost Employees:** There have been allegations of ghost employees on the municipality's payroll, with individuals receiving salaries without actually working for the municipality.

These allegations have raised serious concerns about the municipality's financial management and its commitment to serving the needs of its citizens. The wasteful expenditure has diverted resources away from essential services, such as education, healthcare, and infrastructure development. The municipality is under immense pressure to address these concerns and restore public trust. The situation has become a political hot potato, with opposition parties calling for an investigation into the allegations of corruption and mismanagement.

In addition to the ethical implications, the wasteful expenditure has also had a significant impact on the municipality's financial sustainability. The misuse of public funds has depleted the municipality's resources, making it difficult to provide essential services to its citizens. The municipality is now facing a financial crisis, with a growing budget deficit and a looming threat of insolvency. This has forced the municipality to make difficult decisions, such as cutting back on services and increasing taxes.

The situation has also damaged the municipality's reputation and eroded public trust. Many citizens have lost faith in their elected officials and are demanding accountability for the wasteful expenditure.

Given the serious nature of the allegations and the potential consequences for the municipality, it is imperative that the issue is addressed promptly and effectively. The municipality must take decisive action to restore public trust and ensure that its financial resources are used responsibly and efficiently.

Required

- a) Based on the ethical dilemma framework and the information provided in the case study, what steps should Municipality X take to address the issue of wasteful expenditure and restore public trust?
- b) How can the municipality ensure that its financial resources are used effectively and efficiently to serve the needs of its citizens?

Solution



Requirement a)

Municipality X should take immediate and decisive action to address the issue. Here are some key steps the municipality can implement:

1. **Conduct a Thorough Investigation:** A comprehensive investigation should be launched to examine each instance of alleged wasteful expenditure. This should involve an independent audit team with expertise in financial management and fraud detection. The investigation should identify the individuals responsible for the wasteful spending and assess the extent of the financial losses.
2. **Implement Strict Financial Controls:** The municipality should strengthen its financial management systems to prevent future instances of wasteful expenditure. This includes implementing robust internal controls, such as segregation of duties, regular audits, and clear guidelines for procurement and spending.
3. **Increase Transparency and Accountability:** The municipality should increase transparency in its financial dealings by publishing detailed financial reports, making public records accessible, and holding regular public meetings to discuss financial matters. This will help to build trust with the public and hold officials accountable for their actions.
4. **Take Disciplinary Action:** Individuals found guilty of wasteful expenditure should face appropriate disciplinary action, including dismissal and legal prosecution if necessary. This will send a clear message that such behaviour will not be tolerated.
5. **Prioritize Essential Services:** The municipality should prioritize the allocation of resources to essential services, such as education, healthcare, and infrastructure development. This will ensure that public funds are used for the benefit of the community.
6. **Engage with the Public:** The municipality should actively engage with the public to address their concerns and build trust. This could involve holding public forums, conducting surveys, and establishing channels for citizen feedback.
7. **Seek External Assistance:** If necessary, the municipality should seek assistance from external experts or organizations to help address the issue of wasteful expenditure. This could include financial advisors, anti-corruption experts, or consultants with experience in public sector management.

By taking these steps, Municipality X can demonstrate its commitment to good governance, restore public trust, and ensure that its resources are used effectively and efficiently to serve the needs of its citizens.

Requirement b)

Municipality X should also take the following measures to ensure that its financial resources are used effectively and efficiently:

1. **Performance-Based Budgeting:** Implement a performance-based budgeting system that links resource allocation to specific outcomes and performance indicators. This will help to ensure that funds are used to achieve measurable results.
2. **Regular Reviews and Evaluations:** Conduct regular reviews and evaluations of programs and projects to assess their effectiveness and identify areas for improvement. This will help to ensure that resources are not wasted on ineffective initiatives.
3. **Prioritize Needs:** Develop a clear understanding of the community's needs and priorities. This will help to ensure that resources are allocated to the most critical areas.
4. **Encourage Innovation and Efficiency:** Foster a culture of innovation and efficiency within the municipality. This could involve providing training and incentives for employees to develop new ideas and improve processes.
5. **Collaborate with Other Organizations:** Work with other organizations, such as NGOs and businesses, to identify opportunities for collaboration and resource sharing. This can help to maximize the impact of the municipality's resources.



6. **Strengthen Internal Controls:** Continue to strengthen internal controls to prevent fraud, waste, and abuse of resources. This could involve implementing additional safeguards, such as regular audits and whistle-blower protection policies.
7. **Engage with the Public:** Seek input from the public on how resources should be allocated and prioritize their needs. This will help to ensure that the municipality is accountable to its citizens.

By implementing these measures, Municipality X can improve its financial management practices and ensure that its resources are used effectively and efficiently to serve the needs of its community.

2.3. Scenario 3

Municipality Y, a rural district in South Africa, is facing a critical shortage of medical equipment in its public healthcare facilities. The lack of essential medical devices is hindering the delivery of healthcare services to the local population, particularly in remote areas. The municipality has allocated a budget for the procurement of medical equipment but is struggling to select the most suitable suppliers and ensure that the procurement process is fair, transparent, and efficient.

The municipality faces an ethical dilemma in ensuring that the procurement process for medical equipment is free from corruption and nepotism. There is a risk that suppliers may attempt to influence the decision-making process through bribes or other unethical means. Additionally, the municipality must balance the need for cost-effective procurement with the requirement for high-quality equipment that meets the specific needs of the local population.

Required

Discuss what steps Municipality Z can take to ensure a fair and transparent procurement process for medical equipment.

Solution

To ensure a fair and transparent procurement process for medical equipment, Municipality Y should:

1. **Conduct a Competitive Bidding Process:** Implement a competitive bidding process that allows multiple suppliers to submit bids for the equipment. This will help to ensure that the municipality obtains the best value for its money.
2. **Establish a Procurement Committee:** Create a procurement committee composed of representatives from various departments within the municipality to oversee the procurement process. This will help to prevent corruption and ensure that the decision-making process is fair and transparent.
3. **Develop Ethical Guidelines:** Develop clear ethical guidelines for procurement officials, outlining the expected standards of conduct and prohibiting any form of bribery or corruption.
4. **Implement Transparency Measures:** Increase transparency in the procurement process by publishing all relevant information, such as bid documents, supplier selection criteria, and contract awards.
5. **Conduct Regular Audits:** Conduct regular audits to ensure compliance with procurement procedures and identify any potential irregularities.

By following these steps, Municipality Y can ensure that the procurement of medical equipment is conducted in a fair, transparent, and ethical manner, ultimately benefiting the health and well-being of its citizens.



3. Irregular expenditure

3.1. Scenario 1

Ms. Nene is an Asset Specialist with a formal degree in accountancy. She has been employed at one of the state-owned entities for over 15 years in a middle management position. Having been employed in a large organisation Ms. Nene has gained a lot of knowledge and experience over the years and is regarded as one of the best Asset Specialists in her organisation. She came in as a junior and has worked her way up in the organisation. Ms. Nene has decided to resign from her job at the state-owned entity and pursue a business venture. She has decided to open her own consulting company which specialises in Fixed Asset Management. This decision was inspired by her observations in the public sector, which indicate that government departments are struggling with the compilation and maintenance of the asset registers and often issue calls for tenders in this regard. Ms. Nene registered a company called Nene Consulting (Pty) Ltd, (hereafter referred to as Nene). The company started operating on the 1st February 2024 and from that date Ms. Nene was no longer in the employment of the state-owned entity.

Siyaya SOC Ltd (hereafter referred to as Siyaya) is a government owned bus company that supplies affordable public transportations to residents in the Ethekwini municipality. Siyaya prides itself in the upholding of the code of conduct as well as the relevant laws and regulations applicable to state-owned entities. Siyaya receives a monthly subsidy from government to assist with its operational costs, over and above the monthly subsidy, Siyaya received a “cash injection” from National Treasury at the beginning of the 2024 fiscal year as the entity was in financial distress. As a government public entity, Siyaya, is required to adhere to the Public Finance Management Act, 1999 (PFMA), as well as, the relevant Treasury Regulations (TR). According to TR 16A 6.3g “Consultants may only be appointed in institutions when the need actually exists for their services which are absent in the institution.”

Siyaya has a fully operational finance division, which comprises of qualified accountant. Forming part of the finance division at Siyaya is the asset department, which comprises of a qualified team of assets specialised. The asset department is responsible for the compilation and maintenance of the asset register of Siyaya.

Whilst browsing through the government tender portal, Ms. Nene came across an asset compilation and maintenance of asset register tender issued by Siyaya. Ms. Nene browsed through the requirements and after seeing that her company qualified to bid for the tender, she decided to submit a bid document. To her surprise Ms. Nene’s company was awarded the tender and in June 2024 commenced with the work.

Required:

Discuss the ethical/moral soundness of Siyaya SOC Ltd.’s actions, using the following questions:

1. Is it legal?
2. Does it meet company standards?
3. Is it fair to all stakeholders?
4. Can it be disclosed?

Suggested solution

The ethical issue in the scenario is whether the decision made by Siyaya to appoint Nene Consulting (Pty) Ltd, for the asset compilation and maintenance services, was ethically sound.	Marks
Is it legal?	1



As a state-owned entity/corporation, Siyaya is expected to adhere to the Public Finance Management Act 1999, as well as, the supporting Treasury Regulations.	1
Treasury Regulations (TR) 16A 6.3g states that “Consultants may only be appointed in institutions when the need actually exists for their services which are absent in the institution.	1
Siyaya has a fully operational finance division, which comprises of qualified accountants, as well as, an asset department, which comprises of a qualified team of assets specialised.	1
The asset department is responsible for the maintenance of the asset register.	1
It is evident from the scenario that Siyaya has the in house expertise to be able to compile their own asset register and maintain it.	1
Therefore, the decision made to outsource the services of asset compilation and maintenance of the asset register to Nene Consulting (Pty) Ltd, is non-adherence to TR 16A 6.3g, as there is no need for Nene Consulting (Pty) Ltd services due to the fact that Siyaya has the necessary expertise in house to perform the work.	1
Siyaya has failed to adhere/comply with TR 16A 6.3g which gives rise to an irregular expenditure.	1
Does it meet company standards?	1
It is stated that “Siyaya prides itself in the upholding of the code of conduct, as well as, the relevant laws and regulations applicable to state-owned entities.”	1
By failing to adhere/comply with TR 16A 6.3g, Siyaya has failed to uphold the code of conduct as well as, adhere/comply with the relevant treasury regulations.	1
Is it fair to all stakeholders?	1
The stakeholders to be affected by this decision are:	
Government	1
The other government as a stakeholder will be negatively impacted by this decision as:	1
Siyaya receives a government subsidy for its operational costs.	1
Part of its operational costs would include the payment of salaries and wages. With the appointment of Nene Consulting (Pty) Ltd, Siyaya is incurring an additional expense for the services to be provided by the consulting company, which they are already paying for as they pay salaries to the qualified accountants in the asset departments. Government could be redirecting these funds to providing services for citizens.	1
We are also told that they received a “cash injection” from National treasury at the beginning of the 2024 fiscal year, as the entity was in financial distress.	1
It is likely that Siyaya is using part of the “cash injection” to pay for the services provided by Nene Consulting (Pty) Ltd. Government could be using these funds to provide services for citizens, instead of the money going towards the payment of services that are not required.	1
Employees	1
The employees in the finance division will be negatively impacted by this decision as:	1
They may be demotivated to work in the future, as Siyaya has set the precedent that the organisation is capable of outsourcing their duties, thus the employees will not see the need to work.	1



Furthermore, seeing the company is outsourcing their duties to consultants they may see this as an opportunity to further other personal aspirations (such as business interests), as they will not be busy at work, thus having the capacity to do so.	1
Taxpayers	1
As a state-owned entity the cash injection received by Siyaya from National Treasury, is provided for by the South African Revenue Services (SARS). Thus indirectly the taxpayer is funding the unnecessary expenditure of the consultants.	1
This may result in disgruntled taxpayers who feel that the state is providing cash injections to state-owned entities who do not deserve it.	1
Can it be disclosed?	1
Siyaya's decision to appoint Nene is against TR 16A 6.3g and gives rise to an irregular expenditure, therefore Siyaya cannot publicly disclose their decision.	1
Therefore based on the four questions it is clear that the decision made by Siyaya is not ethical/moral sound.	1

3.2. Scenario 2

Squeaky Clean (Pty) Ltd (hereafter referred to as Squeaky), is an industry leader in providing environmentally safe, reliable and superior cleaning & hygiene services. The company is located in the Eastern Cape Province. Squeaky values honesty, integrity, training and education to ensure that they remain a contributing member to their community and industry. Squeaky is 100% black owned with all the owners being male. In June 2024 Squeaky was eager to bid for a cleaning tender that was being issued by the Department of Health in Eastern Cape. Squeaky met all the requirements of the tender except for one requirement which stipulated that the bidder had to be 50% female owned. In an attempt to meet this requirement the directors all agreed to manipulate the BEEE certificate to reflect the desired requirement and submitted the tender document. During the document verification process conducted by the Department of Health, it was discovered that Squeaky had submitted a fraudulent BEEE certificate, however, based on the fact that Squeaky was the most qualified company and to avoid re-advertising, the Department of Health decided to disregard this information and award the tender to Squeaky who then commenced with providing the cleaning services to the department.

Required:

By applying the three concepts of the ethics triangle, discuss the ethical soundness of the Department of Health's actions.

Suggested solution:

The three central ethics concept is the framework that will be used to ascertain whether the decision made by the Department of Health is ethically sound or not.

Ethics triangle	Marks
The ethical triangle consists of the self, the good and the other.	1
Self	
Department of Health benefitted from awarding the cleaning tender to Squeaky, as it is stated that Squeaky was the "most qualified company", which means they are capable of providing the necessary services required.	1
However, Department of Health is required to adhere to the Public Finance Management Act (PFMA), as well as, the Treasury Regulations.	1
The Department of Health has failed to adhere to the above, as they awarded the tender to Squeaky after discovering that Squeaky had submitted a fraudulent BEEE certificate.	1

The impact of this non-adherence will result in The Department of Health incurring irregular expenditure.	1
Furthermore, the Department of Health has willingly entered into a business transaction with Squeaky after discovering that Squeaky committed a fraudulent act. This act may result in the public doubting the integrity of the Department of Health as well as having a negative impact on the Department of Health's reputation.	
Others	
Other bidders.	1
By awarding the tender to Squeaky, even though the company produced a fraudulent BEEE certificate, this action would have negatively impacted and disadvantaged the other bidders, who met the BEEE requirements but were not awarded the tender.	1
Squeaky Clean (Pty) Ltd.	1
Squeaky was awarded the cleaning tender, which was financially good for the company. However, should it be publicly known that Squeaky submitted a fraudulent BEEE certificate, this would have a negative impact on Squeaky's reputation, as well as, resulting in a lawsuit, as faking a document is regarded as an illegal act.	1
In the event whereby Squeaky does business with other government departments, this may prompt an investigation into how Squeaky got those tenders, which could result in Squeaky losing current clients, as well as, potential clients.	1
Should Squeaky go under investigation and be found guilty, this could result in the company losing clients, which would negatively impact the employees at Squeaky, as the company may need to retrench some of its workforce.	1
Employees of the Department of Health.	1
This action made by the Department of Health may have a negative impact on the reputation of the employees at the department, with the public assuming that all the employees of the department condone unethical behavior.	1
Should it be established that indeed the action taken by the Department of Health constitutes an irregular expenditure, then the individuals who are responsible for the decision may be held liable for any monies paid to Squeaky.	1
Good	
The Department of Health is expected to adhere to Treasury Regulation TR16A9.1 (e) which states that; "an institution must reject a proposal for the award of a contract if the recommended bidder has committed a corrupt or fraudulent act in competing for the particular contract."	1
The action taken by the Department of Health does not comply with TR16A9.1(e), as the department knowingly awarded the tender to Squeaky, after finding out that Squeaky had submitted a fraudulent BEEE certificate and did not meet the BEEE requirements.	1
Conclusion	
The decision made by the Department of Health is only good for the "self" and not the "others" and goes against the stipulated regulations. Therefore the decision is unethical/ not morally sound.	1

3.3. Scenario 3

Department of Entertainment (thereafter referred to as DoE) is one of the government departments in South Africa. The mission of the Department of Entertainment is to transform the delivery of entertainment and recreation by ensuring equitable access, development and excellence at all levels of participation and to harness the socio-economic contributions that can create a better life for all South Africans.



As part of the annual Heritage Day celebration, DoE decided to commemorate the day with a musical celebration festival. The festival included established musician, as well as, upcoming musicians showcasing their talents. As part of the celebration DoE decided to provide catering for the festival attendees which include traditional cuisines from different cultural groups. The event was scheduled to take place in at the Constitutional Hill. The Constitutional Hill is located in Braamfontein, Johannesburg in the Gauteng province. The Constitution Hill is a living museum that tells the story of South Africa's journey to democracy. The site is a former prison and military fort that bears testament to South Africa's turbulent past and, today.

As part of organising the musical festival, DoE decided that it would issue a tender call for catering services, as well as, the stage and sound system hire. On the 19th of August 2024, DoE issued a bid advertisement for the catering services, as well as, the stage and sound system hire via the Government Tender Bulletin. The closing date for the tender was stipulated to be the 26th August 2024. Thus giving the potential bidders one (1) week to submit their tender documents. When the procurement department raised an issue on the tender being open for only one (1) week thus not meeting the periods as prescribed in the Treasury Regulations. The reason for opening the bid for only one (1) week was substantiated by the Operations Manager, responded that the team had to finalise all the logistics for the musical festival as soon as possible.

Required:

- Using the principle of “universalisability” and the principle of “reversibility”, discuss whether the action of deviating from the prescribed minimum number of days to advertise a tender/bid, can be considered as moral in terms of the “Deontological theory” of ethics.
- Apply the “Utilitarian theory” of Ethics and judge the actions taken by the Operations Manager to deviate from the Treasury Regulations.

Suggested solution

Required a)

Principle of Universalisability demands that we should be willing to make principle of our proposed action into a universal law to be followed by other people.	1
The action in question is the issue of the tender being open for only one (1) week thus deviating from the periods as prescribed in the Treasury Regulations.	1
The question to ask will be whether the Operations Manager would be willing to make this act a universal law that everyone must follow. This would mean that the Operations Manager must be willing to work in an environment whereby other colleagues (including his subordinates) are allowed to deviate from prescribed regulations in the execution of their duties.	1
The Operations Manager would not be willing to make this act a universal law as it would have negative implications for the DoE such as DoE incurring irregular expenditure.	1
Principle of Reversibility demands that we should all be willing to live in a world where everyone else behaves in accordance with the law, if we are not willing to do this, the proposed action is definitely wrong.	1
The Operations Manager at DoE must be willing to live in a world where other individuals are allowed to disregard the laws and regulations when it suits them and their situation.	1
Due to the fact that no one will be willing to be in a world where individuals fail to adhere to laws and regulations, on the basis that it does not suit their situation (i.e. it is a matter of urgency), the action is therefore not moral.	1

Required b)



The utilitarian ethical theory focuses on the greatest amount of happiness for the greater number of people.	1
The option that promises to produce most happiness and least pain for the greatest number of people should be regarded as the most morally worthy course of action.	1
Deviating from the prescribed treasury regulations, with the excuse that “all logistics have to be finalise as soon as possible” only leads to happiness of the few, in this case these are the DoE individuals responsible for organising the event, as well as, the few bidders who will see the bid in time to complete the document and submit it given the limited time period that it was advertised for.	1 1
By reducing the advert period this deprives an opportunity for other bidders to compete the bid documents and submit them.	1
An action that will lead to the greatest happiness of the majority would have been to advertise the tender for the prescribed minimum period as stipulated in the Treasury Regulations.	1