



FOCUS ON THE PUBLIC SECTOR

THE PUBLIC SECTOR CURRENTLY GRAPPLES WITH ATTRACTING, TRAINING AND RETAINING EMPLOYEES WHO HAVE THE REQUISITE SKILLS AND EXPERIENCE. THIS WAS FURTHER HIGHLIGHTED IN THE 2019-20 PROVINCIAL AND NATIONAL AUDIT OUTCOMES WHICH INDICATED THAT THE RESOURCING OF 122 FINANCE UNITS (32%) WITHIN PROVINCIAL AND NATIONAL GOVERNMENT WAS EITHER CONCERNING OR REQUIRING INTERVENTION, DUE TO: STAFF VACANCIES AND INADEQUATE SKILLS

In this feature read about the following relevant topic concerning the public sector.

- Who wins? The lawyers or the accountants?
- Reporting responsibilities of public sector audit committees
- Auditor-General's enhanced powers a vote of confidence
- Material misstatements identified during the audit. What is the cost of compliance?
- A passion for public sector
- Orchestrating a shift
- SAICA responds to the professionalisation of the public service



Who wins? THE LAWYERS OR THE ACCOUNTANTS?

When it comes to the financial statements, the accountants always win ... But why do they win?¹

The purpose of the financial statements is to faithfully represent the economic phenomena underlying transactions and events. Faithfully representing the economics of transactions and events means that the principles in the Standards of GRAP that describe relationships and their elements – revenue, expenses, assets and liabilities – are used to prepare the financial statements. Sometimes, these principles are different from the legal form described in contracts or legislation. This overarching principle is outlined in the Conceptual Framework and as is called ‘substance over form’.

While it may seem illogical that legal and accounting principles should differ, consider the following examples:

- An arrangement is called an ‘operating lease’ in a contract, but the economic reality of the transaction is that the lessee is required to make payments to the lessor that equal the value of the asset over its economic life. From a legal perspective, the lessee is contractually obliged to make payments to use

an asset for an agreed period. From an economic perspective, the lessee acquires control of the benefits of an asset and must make payments to the lessor.

- An entity issues equity instruments to raise funding for its capital acquisition programme. The entity agrees to buy back the equity instruments from the holder should they exercise their discretion to sell. Although legally an ‘equity instrument’ has been issued, the economics of the transactions require the entity to buy back the instruments at any point in time. This means that the entity has a liability rather than equity.
- Legislation may indicate that one entity ‘controls’ another because of certain decisions that it can take regarding the other entity’s activities. As the financial statements are prepared only for those activities where an entity can direct, and benefit from, the financial and operating policies of another, control could differ from a legal and economic perspective. Similar differences could exist for other ‘relationships’ which could be described differently in law and Standards of GRAP. These include principal-agent arrangements, service concession arrangements (or public-private partnership arrangements) and related parties.

The examples above illustrate that although certain transactions or events may be given certain ‘labels’ in law, they are not always accounted for using these ‘labels’. The underlying definitions of specific transactions or relationships, the definitions of assets, liabilities, revenue and expenses, as well as the recognition, measurement and presentation principles in the Standards of GRAP, should always be applied in preparing the financial statements.

THE STANDARDS ARE LAW TOO ...

The Accounting Standards Board (ASB) is mandated by the Public Finance Management Act to set Standards of GRAP for a variety of entities in the public sector. The Minister of Finance also prescribes the application of the Standards to specific entities by issuing a *Government Gazette*.

This means that the Standards of GRAP are issued in terms of the law. As a result, they are ‘secondary legislation’. This means that the Standards of GRAP, along with any other pronouncements that the board issues, are legally required to be applied by entities in preparing their financial statements. It also means that the views expressed by the board on certain matters in the pronouncements have legal standing.

ARE LEGAL VIEWS ON ARRANGEMENTS HELPFUL?

Contracts and legislation give rise to specific rights

and obligations in arrangements. It is important to understand which rights and obligations exist in arrangements and their legal consequences. Legal experts have the necessary expertise to interpret the legal implications of arrangements. They do not necessarily possess the expertise to interpret the concepts and principles in the Standards and apply them to economic phenomena. Interpreting the Standards of GRAP and applying them to specific transactions and events requires knowledge of the entire suite of Standards, as well as the application of professional judgement.

Opinions from legal experts on the Standards of GRAP carry no more weight than opinions provided by accounting or other experts.

For more information on the Standards of GRAP, read the ASB’s *Conceptual Framework on General Purpose Financial Reporting* [here](#).

NOTE

¹ The article has been prepared by the secretariat of the Accounting Standards Board for information purposes only. It has not been reviewed, approved, or otherwise acted on by the board.



Expression of interest
to be an **EXPERT WITNESS**

The Arbitration Foundation of Southern Africa (AFSA) is a private dispute resolution authority which manages and administers the confidential resolution of a wide-range of local and international disputes by way of mediation, adjudication, arbitration and related processes.

AFSA has experienced multi-jurisdictional and multi-disciplinary growth, including significant growth in the need for accounting expertise. To meet the growing demand, AFSA wishes to establish a Panel of *inter alia* forensic accountants and accounting experts who would be available as arbitrators, mediators and expert witnesses.

Chartered Accountants with relevant experience and expertise are invited to apply to be represented on this Panel of Experts.

Kindly complete the application form and submit together with your CV before 15 November 2021, for inclusion on the 2022 Panel.

Any further questions can be directed to Deline Beukes at deline@cajacjhb.com.

[CLICK HERE TO FILL IN THE APPLICATION FORM](#)



Reporting responsibilities OF PUBLIC SECTOR AUDIT COMMITTEES

As part of the value chain of advising accounting officers and accounting authorities, the Auditor-General of South Africa (AGSA) has evaluated the role that audit committees play in terms of improving the financial management of departments that they serve in



GEORGE HIGGINS

Members often find themselves as members of a public sector audit committee, be it in a municipality or a public entity or department. The Auditor-General of South Africa has found that financial statements and performance reports containing material misstatements are being reviewed by audit committees.

One of the major challenges that the audit committee plays is the role of oversight of the assurance processes including management, internal audit and external audit with different mandates, but all achieving the same objectives of responsibly managing and assuring the spending of public funds against a service mandate. One of the main differences within the public sector is that the audit committee is a statutory advisory committee rather than a sub-committee of the overall decision-making body of the board of directors. This result in the implementation of recommendations being left to the accounting officer and management of the organisation.

The AGSA, in the national and provincial audit outcomes report of 2020, specifies that material misstatements were not identified by, among others, the chief financial officer, internal audit and the audit committee, resulting in financial statements and performance reports being submitted for audit with material misstatements that had to be corrected through the audit process.

The following root causes of these errors were identified by the AGSA:

- Action plans of auditees to correct controls were either not implemented or effectively developed to address the weaknesses identified.
- Record keeping remains an issue with only 42% of auditees being assessed as having effective controls in this regard. This means that when a document is requested by the auditors, it is not easily accessible.
- Regarding constant controls on reporting financial and non-financial information at each quarter, 76% of auditees assessed do not do this regularly with the result that roughly half of the auditees submitted annual financial statements free from material misstatements.
- Information technology controls are generally assessed as weak. This not only exposes entities to reporting issues but, more concerning, to undetected misappropriation of funds.

Critically, we ask ourselves what the members of the audit committee can do to play a role in the value chain of financial and performance reporting. Audit committee members are not there on a daily basis, nor does the committee have sufficient time to physically agree whether a subsidiary ledger agrees to the financial statements. So, when it is found that misstatements occur in performance reports and financial reports, what role can the audit committee play?

Management has the primary responsibility to implement the controls for producing credible financial statements and performance reports. Internal audit provides the assurance to accounting officers and legislatures that the controls are designed and implemented effectively. A common practice is that internal audit reviews the financial statements for compliance with the respective standards and that supporting schedules agree to the annual financial statements. The external auditors expect that financial statements are prepared without material misstatements. However, as indicated by the AGSA, roughly 50% of entities are preparing annual financial statements that have material misstatements that are identified and corrected through the audit process.

Audit committees can play the following pivotal roles:

- Reviewing systems, policies and processes around financial reporting and quarterly reporting
- Requesting management to complete financial statements and performance reports for every quarterly meeting rather than receiving summarised information
- Proactively reviewing the combined assurance processes of organisations, including proactive risk management and assurance
- Approving internal audit plans with assurance on the internal controls over financial and performance reporting, and if need be extending to a review against the applicable standards

“

The AGSA, in the national and provincial audit outcomes report of 2020, specifies that material misstatements were not identified by, among others, the chief financial officer, internal audit and the audit committee, resulting in financial statements and performance reports being submitted for audit with material misstatements that had to be corrected through the audit process

”

- Critically evaluating management action plans to address external audit and internal audit findings, including assessing whether the action plans will practically address the issues raised
- Monitoring the action plan and obtaining explanations on reasons for not implementing
- Critically reviewing the annual financial statements and performance report against the knowledge of the entities, as well as expectations of the performance based on the observations during the year
- Proactively engaging with the AGSA and internal audit on critical reporting risks prior to the financial statements and performance reports being prepared, and
- Continuously reporting to the oversight bodies including the executive authority of the reporting process and likely risks emanating from the financial and performance reporting processes

In isolation the audit committee may not be effective, but with all the relevant role stakeholders playing their part, the reporting of financial and performance information can achieve the desired results with minimum costs so that government can deliver on its mandate to the public.

NOTE

¹ Auditor-General of South Africa, Consolidated General Report on National and Provincial Audit Outcomes for the 2019–2020 financial year, www.psacf.co.za. Also see the public sector audit committee forum's website for more guidance for public sector audit committees.

AUTHOR

George Higgins CA(SA), chairperson of the working group of the Public Sector Audit Committee Forum, owner of IDG Consulting (Pty) Ltd, and an Audit Committee member



Auditor-General's ENHANCED POWERS A VOTE OF CONFIDENCE



The enhanced powers of the AGSA are a vote of confidence in the auditing/accounting industry. This is a clarion call to all our peers to support both these amendments and other critical professional tools that will ensure wholesale clean administration to benefit the most vulnerable and deserving in our society, and one way for us to redeem the dented image of our once noble profession



JAN VAN SCHALKWYK

Two years ago, Parliament unanimously voted to enhance the Public Audit Act (PAA) – the legislation that governs the operations and auditing mandate of South Africa's national audit office. The amendments came into effect on 1 April 2019.

While these added powers were granted to the head of the supreme audit institution, I believe they are also a much-needed vote of confidence in the country's auditing/accounting industry, which has in recent years taken a number of heavy, reputation-denting blows – many of them self-inflicted.

So, as we mark and reflect on the second anniversary of these enhanced powers, we call upon all our colleagues in the auditing/accounting industry, in both in the public and private sectors, to strengthen their interest and to participate in the process of ensuring that public funds are spent effectively and efficiently in the public interest.

HOW DO THESE NEW POWERS WORK?

The amendments introduced the concept of a material irregularity (MI) in the audit of the financial statements of any entity that is subject to an audit by the Auditor-General (AG).

This means that whenever the AG performs an audit, the staff working on the audit must satisfy themselves, through various tests of transactions, account balances and systems of control, that there has been no non-compliance with, or contravention of, any financial statute; that the entity is not exposed to situations of fraud that could result in a financial loss, the loss of a public asset, or substantial harm to a public institution or the general public; and that the entity is not being prevented from providing certain services due to the financial losses incurred.

Should the audit team identify an MI, the AG must report this matter to the accounting officer and ask them to explain the transaction and provide any documentation that may support the explanation. If a financial loss has been incurred, the accounting officer needs to indicate to the auditors what steps will be taken to recover the loss or, if the loss is ongoing, what steps will be taken to prevent the loss from continuing. If the auditors determine that there is a material irregularity that resulted in a financial loss, the accounting officer will be required to quantify the extent of the financial loss. The accounting officer is given up to 20 working days in the course of the audit to deal with these matters by responding in writing to the AG.

Once an MI has been identified or is suspected, the AG is empowered to:

- Refer any suspected material irregularity identified during an audit performed under the PAA to a relevant public body for investigation, and the relevant public body must keep the AG informed of the progress and the final outcome of the investigation
- Take any appropriate remedial action
- Issue a certificate of debt, as prescribed, where an accounting officer or accounting authority has failed to comply with remedial action

These amendments are not punitive but are intended to strengthen accountability mechanisms. When reporting MIs, we support accounting officers and authorities by bringing to their attention irregularities that could have a significant impact on finances, resources and service delivery, while also empowering them to take the appropriate steps in terms of legislation in a timely manner.

This will lessen the adverse effects of such irregularities on auditees, set the right tone for accountability, highlight the need for consequences and encourage a behavioural change at the highest levels. As we report the MIs in the audit reports, we also enable public accounts and portfolio committees to perform their oversight function – focusing on the most material matters affecting auditees.

In essence, we use our additional powers only when the accounting officer or authority is not dealing appropriately and swiftly with the MIs. We do not measure success by

the remedial action and certificates of debt we issue, but rather by whether accounting officers and authorities are taking the actions they are legally obligated to take.

The regulations have also been shaped specifically to support the process of fair, transparent and legally sound administrative justice, by providing the accounting officer or authority with an opportunity to take the actions required to deal with the material irregularities.

APPROACH FOR IDENTIFYING MATERIAL IRREGULARITIES

Over the past two years, the national audit office has incrementally and systematically implemented these amendments at selected auditees across the three tiers of government.

The office has also been phasing in the implementation of the MI definition. In 2018/19 the focus was on non-compliance with legislation scoped in for audit as part of the normal audit that resulted, or is likely to result, in a material financial loss. In 2019/20 we expanded this definition to include all irregularity elements (i.e. all non-compliance, fraud, theft and breaches of fiduciary duty). For the 2020/21 audits, we plan to implement the full definition.

We have also increased the number of auditees at which the MI process is implemented from 25 in 2018/19 to 146 in 2019/20. When selecting the auditees at which we implemented the MI process, we applied the 80:20 principle, focusing on auditees where we are likely to have the greatest impact without spreading our resources and processes too thin by implementing at all our auditees at once.

In our latest consolidated general report on national and provincial audits, we report that by 28 February 2021 we had notified the accounting officers and authorities for the selected national and provincial auditees of 75 material irregularities. All of these material irregularities related to non-compliance with legislation that resulted in a material financial loss. The estimated financial loss associated with these material irregularities is R6,9 billion.

Citizens of our country are increasingly demanding accountability from those charged with governance and oversight. Such societal calls for transparency and service also extend to those of us in the auditing/accounting industry. We must execute our given mandates in a way that will help to improve the lot of those who look up to us – the citizens – and use the professional tools at our disposal ethically and for their benefit.

As the national audit office, we are fully committed to implementing the enhanced powers given to our office without fear, favour or prejudice. The success of our amended powers will be evident when a culture of responsiveness, consequence management, good governance and accountability by accounting officers and authorities becomes the norm.

AUTHOR

Jan van Schalkwyk is the acting Deputy Auditor-General of South Africa



Material misstatements identified during the audit

WHAT IS THE COST OF COMPLIANCE?

If a provision of legislation is interpreted and applied correctly but the results have unintended consequences that obscure the overall intent of the legislative provision ... is the legislation achieving the desired result?



GARTH PRETORIUS

A topic that is regularly debated among professionals in both the public and private sector space is whether regulations, when interpreted and applied, yield the desired result, or whether in certain instances they impede the overall intent of the legislation. This brings us to today's topic: material misstatements identified during the audit – what is the cost of compliance?

If we consider the responsibility placed upon management – accounting officers and the like – concerning the preparation of financial statements, the legislation requires that annual financial statements be 'prepared' to 'fairly represent' the financial affairs of the relevant institution. Looking specifically at sections 40 and 55 of the Public Finance Management Act, as well as section 122 of the Municipal Finance Management Act, it is clear that the preparation function has been designated to management. However, how 'prepare' is currently interpreted requires a level of discourse.

If we consider the word 'prepare', does management prepare financial statements for an audit? Or does it prepare financial statements for publishing to the end-user, the general public? The interpretation as it stands appears to align with the former, which admittedly is a part of an institution's preparation process, but is this interpretation correct given the position of the Auditor-General (AG) in the preparation process?

To reiterate, the question is whether the current interpretation of the relevant legislative provisions is correct and, if so, whether there is potentially a need for amendment.

At this stage, I need to stipulate that this article is in no way questioning the audit methodology employed by the AG. The question posed is mutually exclusive as it concerns whether the legislation is being correctly interpreted for the AG's purposes ... and if so, whether there may be a need for National Treasury to consider the relevance of the legislative provision given the unintended consequences that appear to be occurring in relation to material misstatements identified during the audit.

The situation at hand concerns a fear that has been instilled within every government institution within the country. In the public sector (and I write this statement with trepidation), the reputation of an institution hinges on an audit opinion rather than the quality of service delivery, and the inherent fear of non-compliance has now become a far greater concern than implementing the planned service delivery. It has now reached the point where, during the audit, government institutions routinely appoint consultants for financial reporting purposes. With an already constrained fiscus, government institutions opt to pay exorbitant consultancy fees to avoid the reputational risk associated with a poor audit outcome, specifically the non-compliance finding.

Consider the implication of this ... Institutions are now wary of the audit, which inadvertently detracts from the true essence of it. This, coupled with reactive solutions and the incorrect positioning of consultants, places government institutions in a precarious position. No matter the audit, there would be significant push-back and differences of opinion throughout the audit process, not because of technical aspects but rather to avoid a non-compliance finding – officials may put forward positions that are perhaps not entirely correct just to avoid non-compliance. I then ask: can fair presentation be negated due to fear of a non-compliance finding?

If we look at the number of prior period errors posted by institutions that have not received a material misstatement finding, one may very well ask – given the fear that is so clearly evident – whether where an institution in a current year is adjusting prior period errors to figures that were previously 'fairly represented', did management become aware of the need to adjust in the current year, or did they hold back in the prior year for fear of a non-compliance finding? In the event of the latter, is the current legislative interpretation aiding the intended fair representation?

Casting back to the legislation, would a non-compliance finding not be warranted where an institution is unable to adjust during an audit when a qualification in audit opinion is attained?

Before we analyse this question, let us consider our private sector counterparts who are allowed to adjust. Ultimately, they are not subject to the legislative parameters that are in place in the public sector. This fact is widely accepted

given the need to hold government to higher accountability standards.

If we look at the intent of the audit in conjunction with the average maturity of government institutions, the conclusion is that should government institutions be afforded this opportunity to adjust, it would place an undue burden on the office of the Auditor-General. The audit would become a mechanism to correct and prepare the financial statements.

So back to our question – it can be inferred that the current interpretation of the legislation implies that an institution cannot adjust. However, if it is clarified that the financial statements are 'prepared' for users and not for the audit, would the AG not have the right to issue a non-compliance in the case of a qualified audit opinion? Ultimately, at this stage, where non-compliance is evaluated in the preparation process is questionable.

TURNING TO THE MATTER OF RELEVANCE ...

First, even if the interpretation of the legislation is correct, with the unintended consequences being deemed not to obscure the legislative intention, should National Treasury not reconsider the relevance of the current legislation and its application? If we look at the funds expended on reactive solutions, with consultants continuously positioned at a point where sustainable reform is rendered futile, is legislation achieving its purpose? If we consider the intention of the non-compliance finding, is it not to drive credibility and reliability in reporting? Yet, if we cast back to the question raised in relation to the number of prior period errors posted in a current year – has fair presentation been achieved?

Second, can we consider such legislation to be relevant to a developmental state? Why has such legislation remained static? And can we consider it to remain aligned to the national imperative?

To provide a simple example, let us consider the professionalisation of the public service as mandated by the National Development Plan 2030. Currently, government's workforce is struggling. Apart from potentially not resulting in fair presentation, the fear of the non-compliance finding would inevitably impede officials' ability to learn. How then do we drive professionalisation when rather than engaging in dialogue with the AG on how to resolve matters, a fight is continuously fuelled, exacerbated by an increasingly burdened fiscus? Our current reality sees audit costs increasingly on the rise due to technical consultations and the use of consultants, while a sustainable solution is seldom achieved due to the reactive nature of their appointment. Is this the intention of the legislation and is this relevant?

To conclude, I wish to reiterate that the position advanced in this article is not to question the audit methodology and related practices employed by the Office of the Auditor-General. The intention is to create discourse around whether the legislation is correctly interpreted and, if so, whether we consider it relevant to a developmental state that is desperately seeking the professionalisation of the public service. So, I ask you, *what is the cost of compliance?*

AUTHOR

Garth Pretorius CA(SA), RA, Founder and Principal Owner of GPA Consulting



A passion for PUBLIC SERVICE



Many people choose to work in the public sector because they want to make the world better by helping people. The work they do is for the benefit of communities not just for commercial profit-making reasons. It is a passion that has guided Carol Coetzee's career for almost three decades

A qualified CA(SA), Carol Coetzee is a public servant dedicated to business development, including strategic and business planning in an industry she has grown to love.



CAROL COETZEE

MAKING A DIFFERENCE THROUGH THE KZN FILM COMMISSION

In 2013, Carol joined the KwaZulu-Natal Film Commission (KZNFC) as the CEO and the first employee. This position provided her with an opportunity to shape the design of the new business and its operations.

In establishing the KZNFC, Carol took the principal approach that the entity would operate efficiently while still adhering to the government legislative framework, in that bureaucracy would be minimised and private sector approaches adopted wherever possible. She was able to apply her knowledge gained at the KZN Department of Economic Development, Tourism and Environmental Affairs (EDTEA) to develop the sector through small business development, empowerment initiatives, and skills development that she had learnt over time in her previous roles.

'Film is a fascinating industry to work in,' she says. 'Filmmaking involves a number of complex and discrete stages, including an initial story, idea, or commission that has to be funded, through to screenwriting, casting, shooting, sound recording and pre-production, editing, and screening the finished product to an audience. Many people do not realise how complex and captivating the business of making films is, nor how many people are involved at every stage.'

Among the many aspects of the industry that Carol loves, she says the ability to provide insights into socio-economic stories about our society is most compelling. 'Films provide insight into different cultural groups, gender issues, women's rights, xenophobia, disabilities and many other issues that affect our people. The film industry has an important role to play in the promotion of economic development, social cohesion, and nation-building.'

Under her leadership, KZNFC aims to make KZN a film production centre and has put in place systems and policies to support and attract national and international role-players in the film industry.

'We were keen to promote KwaZulu-Natal as a globally competitive, choice film destination, but we also realised that we need to have studios and skilled crew members to do that. We have invested heavily in skills development programmes for the local industry and to support local and international filmmakers who want to create opportunities to grow the KwaZulu-Natal film industry. Previously KZN saw one project taking place in a year, whereas we now oversee more than a dozen productions annually. Telenovelas such as Uzalo and Imbewu are among the most popular in the country and are filmed in Durban. These have had a significant impact on our local economy in terms of job creation, skills development and positive social contribution to the local community.'

Carol says KZNFC is also committed to audience development and funds film festivals as well as community screenings to create a consumer base while educating people on the sector and the opportunities it presents in the various peripheral industries which support the production.

“

I am living proof that the qualification opens doors to any industry you can think of,' she says. 'It equips you with professionalism, ethics, rational logical thinking, problem-solving skills, and a wealth of intelligent approaches to different challenges. It's also one of those careers in which you never stop learning

”

THE GENESIS OF HER PASSION FOR PUBLIC SERVICE

When Carol completed her BCom degree in 1992, her goal was to become an accounting teacher, but her older sister, already a practising CA(SA), said 'no way'. Instead, Carol joined the Office of the Auditor-General as an auditor and remained there until 1995. It was this first experience in the public sector that made her feel like she was making a positive contribution to society.

In 1996, Carol joined Ernst & Young (EY) and completed her traineeship at the firm. While there, she was seconded as an independent financial manager to the Umsekele Development Board for a year. There she was required to verify all activities and expenses logged by a consulting firm that had been appointed to project manage the local elections.

After that, she was seconded as project manager for the National School Nutrition Programme at the Department of Health. She initiated the coordination of government departments to enhance service delivery and developed simple financial manuals for school governing bodies and educators.

She returned to the Auditor-General in 1998 to complete her contractual obligations and then joined EY for a second time as a consultant.

In 2000, one of EY client's, the Provincial Treasury of KwaZulu-Natal, was seeking an accountant-general. 'The word was out there that the client was difficult and the role a complex one, but I was confident that the skills that I had acquired in becoming a CA(SA) would hold me in good stead. My colleagues were anxious about applying, but I went ahead and following a three-hour intensive interview, the position was offered to me first as a two-year secondment, which was then converted to full-time employment,' she says.

'I happened to join at a particularly interesting time when the PFMA was being introduced and a shift in public sector financial management. The public sector was changing, with decentralisation of functions, thereby empowering heads of departments while being held accountable. A key project was the development of extensive training programmes for all levels of management and political leaders and the development of accounting practices and policies. This project also included the introduction of supply chain management, appointment of CFOs, providing technical advice and support to all provincial departments. It was an exciting time in the country's history, and it felt great to be part of the changes that were happening.'

Six years down the line, just as Carol began to think that her job was becoming mundane, she was provided an exceptional opportunity to head the EDTEA. 'I was happy to take on the challenge,' she says. 'We had a R2-billion budget, which included the establishment of Dube Trade Port, the development of King Shaka International Airport, and the preparations for the 2010 World Cup. It was a massive portfolio that required a lot of engagement with the private sector. I chaired the economic cluster, and I was excited to be part of new ways of looking at poverty alleviation. One of the key programmes we developed was Operation Sukume Sakhe (Stand up and Build), which aims to provide a holistic government service to households instead of individuals having to move from one department to another for assistance. We spent a lot of time going into poor communities and understanding what the real needs were on the ground and finding practical sustainable solutions such as One-Home-One-Garden.'

While she thoroughly enjoyed the role, the job was all-consuming. Carol's personal circumstances at the time led her to take a decision that her children needed her support and attention and therefore she decided after five years in the role to move to a position where she could do just that.

'I returned to EY as the Head of Business Development, but I found it challenging to achieve congruency between my role and my passion for poverty alleviation and changing people's lives. I remember a conversation with Dr Zweli Mkhize (my former direct supervisor), then Premier of KwaZulu-Natal, where he had told me I would be back in the public sector, and he was right.' After 18 months, in 2013, Carol joined the KZNFC as the CEO and the first employee.

She says she is happy that her sister encouraged her to become a CA(SA). 'I am living proof that the qualification opens doors to any industry you can think of,' she says. 'It equips you with professionalism, ethics, rational logical thinking, problem-solving skills, and a wealth of intelligent approaches to different challenges. It's also one of those careers in which you never stop learning.'

When she is not working, Carol likes to spend time in nature, walking on the beach, exercising and reading. With her daughters now being adults, she has the flexibility to explore and do whatever she likes in her free time. A music lover and a hippy at heart, top of her list post-lockdown is to go to Splashy Fen, South Africa's longest-running and oldest music festival.

AUTHOR

Monique Verduyn



ORCHESTRATING A SHIFT

in the public sector financial and performance reporting ecosystem

THROUGH TECHNOLOGY TRANSFORMATION

Many government organisations globally are being seen to become more visible in initiating steering committees and task groups to improve their technology and digital transformation agenda, with this trend increasing over the past year¹



SAFIYYA DAWOOD-ESAKJEE

Microsoft CEO Satya Nadella in April 2020 noted, 'We've seen two years' worth of digital transformation in two months',² and the World Economic Forum has declared the potential for Fourth Industrial Revolution (4IR) technologies as limitless. Technologies like artificial intelligence (AI) and the internet of things (IoT) serve to provide solutions to a host of socio-economic challenges and offer a new vision for creating more efficient governments.³

In South Africa, we have seen the Presidential Commission on the 4IR report gazetted late in 2020.⁴ Yet it appears that there are still extensive hurdles for most public sector organisations to successfully transform their technology in order to improve efficiency and accountability in delivering services and fulfilling the public sector mandate.

Inheriting complicated legacy challenges and operating in an environment of mistrust often makes accessing talent difficult and prevents leaders in the public sector to make quick transformative decisions.⁵ Policy is often used as the scapegoat for the unsuccessful implementation of strategies and plans. However, with the current economic, ethical, environmental, governance and social challenges facing public sector organisations in South Africa, we need to look beyond policy and legacy issues and identify the points of entry rather than the barriers to entry – not dismissing the fact that policy at the appropriate level of government is integral in the governance of any ecosystem.

By understanding and appreciating the complexities of a public sector ecosystem, the accounting professional in public service will be equipped to redesign strategies, innovate performance objectives, assess crisis leadership skills and identify missing core competencies within their organisations. Furthermore, the challenges in relation to society's trust in the public sector ecosystem are complex and the public is looking towards the accounting and auditing profession to find solutions to enhance overall credibility, performance and output.

In recent months, the South African public sector landscape has shifted significantly. The COVID-19 pandemic as well as historic and new societal challenges arising from the pandemic influence the way accounting professionals are required to respond to these complicated, complex and often chaotic situations. Responding to the challenges and leading the much-needed technology transformation may be derived from entering an existing ecosystem or orchestrating the emergence of a new ecosystem.

ECOSYSTEMS

The term 'ecosystem' has gained popularity as a buzzword in recent audit reform literature. It is ubiquitous in scholarly and applied discussions of strategy and was first introduced in a business context by James Moore in 1976.⁶ The term is borrowed from the field of natural sciences that defines it as 'a biological system composed of all the organisms found in a particular physical environment, interacting with it and each other'.

The term 'ecosystem' has evolved to encompass a multitude of definitions by various scholars and business practitioners. Simply put, it refers to the actors who interact with each other in order to benefit from each other's activities, where all the actors offer a unique product or service and seek to drive shared value.

The COVID-19 pandemic has exacerbated the need for the urgent transformation in the public sector for quicker adoption of the use of 4IR technologies that have the capability of fast-tracking service delivery, monitoring spend to prevent fraud and corruption, improving the credibility of public sector financial and performance reporting and consequently

improving the organisation's performance. Many academics, consultants and 4IR steering committees have written extensively on the 4IR and provided insight into the various associated technologies. By drawing inferences from these writings, I have explored how some of these technologies are relevant to public sector organisations along with how they could be leveraged to drive credibility of financial reporting and improve performance. I offer a view to orchestrating a shift in the public sector financial and reporting ecosystem.

The finance units of public sector organisations are frequently expected to provide real-time information to various layers of their respective departments, not to mention gathering copious amounts of hard copy historical evidence for internal and external auditors. The lack of integrated systems and internal controls results in reported information that is not accurate and complete, reliable or relevant. Staffing constraints and inadequate skills contribute to poorly prepared financial statements and annual reports. The COVID-19 pandemic was a typical instance where data was required in real-time in order to respond to what may be defined as a chaotic situation for many public sector organisations.

TECHNOLOGY-LED STRATEGY FOR FINANCIAL AND PERFORMANCE REPORTING

A technology-led strategy (beyond the Medium-Term Strategic Framework, annual performance plans or the respective departmental objectives) is required to understand technology's role in supporting financial and performance reporting and re-imagining the role for technology that is focused on proper integration and credible reporting.⁷ Next-generation cloud-based architecture and renewing the core systems or actually implementing it (such as enterprise resource planning, ERP) will enable financial accounting data extraction to build machine learning algorithms for critical financial management decision-making – and thus aligning all decision-making processes with processes required for reporting. ('Machine learning is an application of artificial intelligence (AI) that provides systems the ability to automatically learn and improve from experience without being explicitly programmed'⁸.)

HUMAN-CENTRIC POLICY ON UPSKILLING AND RE-SKILLING FINANCE UNIT STAFF

Apart from the lack of capacity and inadequate financial and accounting knowledge of public sector organisations' finance teams, modern technology functions also require skilled analysts and technologists to deliver quality work proficiently.

This may be achieved by defining clear roles in the technology-led strategy and budgeting for the re-skilling and up-skilling of finance team employees through stackable, micro-credentialled courses that are aligned to the industry.⁹ Developing accredited courses in collaboration with educational institutions and accreditation bodies (for example SAICA, FASSET, higher education institutions, the private sector) will form part of a life-long commitment to learning and consequently improving the quality of the public sector organisations financial and performance reporting. One may identify a clear link here towards achieving government's goal of professionalising the public services.

National government is currently seen as the main orchestrator of the public sector ecosystem and as such all levels of government organisations depend on national government to design the architecture, structures,

governance, activities and roles of the actors within the ecosystem. Embedding social expectations and the public as actors of the ecosystem is core to the public sector ecosystem concept.

Collaboration across departments and initiatives driven by finance professionals within public sector organisations may just be the event required to orchestrate a shift in the ecosystem and to break away from the cycle of poor performance including fraud and corruption, unauthorised, irregular and fruitless and wasteful expenditure. Using supply chain management as an example, an invitation by accounting professionals to National Treasury to reinforce the central supplier database with blockchain technology may be proffered. A distributed ledger will ensure that a suitable match in the supply and demand of goods and services is achieved. This will be beneficial for small and medium-sized enterprises as they will only be providing goods/services aligned to their capacity, creating sustainable and equitable growth. Blockchain technology will eliminate the opportunity for fraud/corruption due to the nature of blockchain technology enabling independent, third-party and multiple verification/vetting processes.

The window for successful technology transformation is usually small and leveraging off the momentum of the 4IR can be used as a catalyst for technology transformation. An excerpt of the PC4IR report states, 'We recognise this moment as containing within it, the potential to use technology to address the most challenging development problems faced by South Africa and the rest of the continent.'¹⁰ The conclusion is that accounting professionals in the public sector must unite in fast-tracking the pace of change at the same pace that technology has been disrupting businesses in order to orchestrate a shift in the public sector ecosystem and drive shared value for the actors of this integral ecosystem.

NOTES

- 1 KPMG 2020, Digital is not the future it is today, <https://home.kpmg/xx/en/home/industries/government-public-sector/the-new-reality-for-government/digital-is-not-the-future-it-is-today.html>.
- 2 S Nadella 2020, 2 years of digital transformation in 2 months, <https://www.microsoft.com/en-us/microsoft-365/blog/2020/04/30/2-years-digital-transformation-2-months/>.
- 3 World Economic Forum 2019, Why the 4IR is a fast track to African prosperity, <https://www.weforum.org/agenda/2019/09/why-the-4ir-is-a-fast-track-to-african-prosperity/>.
- 4 Presidential Commission on the 4th Industrial Revolution (2020), *Summary Report and Recommendations of the Presidential Commission on the 4th Industrial Revolution*, Tshwane: Department of Communications and Digital Technologies.
- 5 McKinsey 2021, The next chapter: driving technology leadership in the public sector, <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-next-chapter-driving-technology-leadership-in-the-public-sector>.
- 6 R Adner 2017, Ecosystem as structure: an actionable construct for strategy, *Journal of Management*, 43(1), <https://journals.sagepub.com/doi/full/10.1177/0149206316678451>.
- 7 McKinsey 2021, op cit.
- 8 Expert team.ai 2020, <https://www.expert.ai/blog/machine-learning-definition/>.
- 9 Presidential Commission on the 4th Industrial Revolution 2020, op cit.
- 10 Presidential Commission on the 4th Industrial Revolution 2020, op cit.

AUTHOR

Safiyya Dawood-Esakjee CA(SA), Senior Manager, KPMG Department of Professional Practice Audit and Assurance



SAICA RESPONDS TO THE PROFESSIONALISATION OF THE PUBLIC SERVICE

SAICA strongly supports the professionalisation of the public service and believe that the Institute and its members are appropriately placed to support government on their journey to the professionalisation of the public sector with its designations, namely Chartered Accountant (SA), Associate General Accountant (SA) and Accounting Technician (SA), as well as the skills and experience of its members and associates



NATASHIA SOOPAL

In response to the 2019/20 national and provincial audit outcomes released by the Auditor-General, Tsakani Maluleke, on 31 March 2021, Mr Freeman Nomvalo, SAICA's CEO, stated: 'As a country we need stability at leadership level (directors-general and boards of state-owned entities), effective parliamentary oversight and appropriately skilled personnel. And finally, we need to ensure that professional conduct and ethics are upheld at the highest level by both government employees and consultants used to prepare annual financial statements for audit. That is why SAICA supports the initiative by the National School of Government to professionalise the public sector. Professionalisation will compel staff to be proficient in their disciplines as well as comply with Codes of Professional Conduct and Ethics as part of their membership commitment.'

The public sector currently grapples with attracting, training and retaining employees who have the requisite skills and experience. This was further highlighted in the 2019/20 provincial and national audit outcomes which indicated that the resourcing of 122 finance units (32%) within provincial and national government was either concerning or requiring intervention, due to:

- Staff vacancies (93)
- Inadequate skills (13), and
- A combination of staff vacancies and inadequate skills (16)

In an effort to address the challenges experienced with skills in the public service, the draft 'A National Implementation Framework towards the Professionalisation of the Public Service' was issued by the National School of Government on 24 December 2020.

The framework alluded to the National Development Plan: Vision 2030: 'In order to enable sustainable and inclusive development, the NDP places emphasis on the key developmental interventions of creating jobs and livelihoods; expanding infrastructure; transforming urban and rural spaces; improving education and training; building a capable state; fighting corruption and enhancing accountability. A capable state is an essential precondition for South Africa's development. According to the NDP, "there needs to be a uniformity of effort and competence across the entire public service" or else there is a "real risk that South Africa's national plan could fail because the state is incapable of implementation."

The objectives of the framework are:

- Entrenching a dynamic system of professionalisation in the public service
- Strengthening and enabling the legal and policy instruments to professionalise categories of occupations in the public service
- Enhancing and building partnerships and relationships with professional bodies
- Ensuring meritocracy in the recruitment and career management of public servants, which are in line with the National Development Plan and the Medium-Term Strategic Framework
- Initiating consequence management for material irregularities through the transgression mechanisms available to professional bodies and the Public Audit Amendment Act 5 of 2018

The draft framework proposes the following value chain for professionalising the public sector:

- Pre-entry, recruitment and selection
- Induction and onboarding
- Planning and performance management
- Continuing, learning and professional development, and
- Career progression and career incidents

SAICA submitted comments to the draft framework on 26 February. In addition to commenting on the proposed value chain, SAICA also commented on the following:

AN ENABLING ENVIRONMENT FOR PROFESSIONALS

SAICA believes that the professionalisation of the public sector is broader than the qualification of individuals and includes an improvement in the entire public service ecosystem.

SAICA received many concerns from its members on the intimidation threat experienced in the public sector and undertook a survey with its members in 2019 to confirm the existence of these intimidation threats. The responses received from the survey confirmed the existence of intimidation threats to professionals in the public sector.

Perceived and actual intimidation threats in the public sector act as a deterrent to attracting professionals and provide reasons for those who are employed in the public sector to flee.

It is therefore important that consideration is given to strengthening the public service environment to enable professionals to thrive and operate without fear. Professionalisation of the public service based on a professional qualification only will not be sufficient. In order for the implementation of the framework to succeed, the environment needs to be ready to enable professionals to function and abide by the Code of Ethics. This will assist in retaining and attracting professionals to the public service.

IMPLEMENTATION AND MONITORING OF THE FRAMEWORK

SAICA further advised that the monitoring of the implementation of the framework is key to its success.

Both the Municipal Finance Management Act 56 of 2003

(MFMA) and the Public Finance Management Act 1 of 1999 (PFMA) require that the chief financial officer (CFO) be responsible for the effective financial management of the institution including the exercise of sound budgeting and budgetary control practices, the operation of internal controls, and the timely production of financial reports.

However, the Auditor-General has over the years identified key officials lacking appropriate competencies as one of the root causes for poor audit outcomes in both the PFMA and MFMA audits.

The Minister of Finance tried to address the lack of competency levels of officials responsible for financial and supply chain management at municipalities and municipal entities by issuing the Municipal Regulations on Minimum Competency Levels on 15 June 2007 which were later amended on 26 October 2018.

The Municipal Regulations on Minimum Competency Levels seek to professionalise the local government sector and to make it a career choice for talented officials, and to some extent mitigate some of the root causes of poor financial management and service delivery.

All financial and supply chain management officials who did not meet the minimum competency levels at the effective date of the regulations had until 2 August 2018 to meet the minimum competency levels. A financial and supply chain management official who was appointed on or after the commencement of the regulations had to attain the minimum competency level within 18 months from the date of appointment.

The vacancy rate for CFOs at municipalities was 15,2% and as only 36,2% of CFOs appointed at municipalities met the minimum competency level as at 30 August 2018, 63,8% of municipalities who had CFOs appointed at this date were not complying with section 83(1) of the MFMA in terms of the required competency.

This reflects a lack of monitoring in the implementation of the minimum competencies framework, as well as a lack of accountability. Monitoring and accountability will be key to the success of the Framework.

ETHICS

SAICA believes that the ethical conduct of public servants is a foundational component of professionalism. SAICA recommended that a separate Code of Ethics be developed to manage the ethical behaviour of public servants.

Although public servants generally work to improve the lives of the public, their behaviour in public service is based on subjective morals and belief systems as opposed to universal, ethical principles. The purpose of ethics is to bridge the gap between these varying moral systems, ensuring that public service represents all of the public.

Importantly, trust in public services is being eroded by public officials and public sector institution acting unethically, which emphasises the need for a Code of Ethics in the public service.

AUTHOR

Natasha Soopal, Senior Executive: Public Sector and Enabling Competencies at SAICA