



Media Statement

Audit outcome indicates an urgency for accountability

Johannesburg, 1 April 2021 – The Auditor General (AG), Ms. Tsakani Maluleke, released the 2019-20 national and provincial audit outcomes on Wednesday, 31 March 2021. The overall audit outcome reflects an improvement despite the challenges experienced by the impact of the COVID-19 outbreak which resulted in the legislated audit completion date for PFMA being moved from 31 July 2020 to 30 September 2020, writes Natasha Soopal, SAICA Senior Executive for Public Sector.

The AG has commented that the improvement in the audit outcomes is not to be celebrated as these improvements are not progressive and sustainable. Furthermore, there continues to be widespread weaknesses in basic internal controls and little movement towards investing in preventative controls.

“The need for effective oversight and accountability is undeniably required urgently”, says Freeman Nomvalo, SAICA CEO. This is reflected in the AG’s report which showed that:

- **Irregular expenditure**

Irregular expenditure decreased to R53,34 billion from the R66,90 billion in 2018-19. The decrease in irregular expenditure is however not a true reflection of the actual irregular expenditure as this amount could be higher, as 31% of the auditees were qualified because the amount of irregular expenditure disclosed was incomplete.

SAICA further notes with concern that 95% of auditees did not deal with the previous year’s irregular expenditure which signals a lack of accountability and an environment where transgressions and poor performers are not dealt with speedily. The sheer magnitude of the problem suggests more than just the impact of the pandemic.

- **Unauthorised expenditure**

Unauthorised expenditure also increased from R1.65 billion to R18.12 billion of which R15.13 billion was because of the early payment of social grants in 2020 in response to the COVID-19 lockdown measures. If this amount is excluded, the unauthorised expenditure rose to approximately R2,99 billion, an increase of over 80% compared to the previous year. Of key concern is that over 60% of

departments had insufficient funds to settle all liabilities that existed at year-end if the unpaid expenses (totalling R22,78 billion) were also considered. This means that some departments have already used more than 10% of their 2020-21 operational budgets. Public entities adopted an accrual financial reporting framework, namely Standards of Generally Recognised Accounting Practice, however departments continue to report on the Modified Cash Standards. SAICA urges government to fast track the transition to accrual accounting to improve the quality and adequacy of financial information, strengthen the transparency of public accounts to enable better informed decision-making.

- **Fruitless and wasteful expenditure**

Government incurred R2.39 billion in fruitless and wasteful expenditure and R7.44 billion accumulative in the last three years. This money is possibly lost to the state and reduces the state's resources to achieve its planned service delivery.

- **Financial health**

The financial health of national and provincial government is of concern, as only 20% of government budget is managed by departments and entities that have good financial health. The financial health of most entities and departments therefore indicates that they are either under financial strain, cannot continue to operate as a going concern in foreseeable future or have prepared financial statements which are not reliable enough for financial analysis.

Based on the audit outcomes released by the AG, SAICA recommends the urgent intervention by government to:

- Urgently appoint an Accountant-General to anchor the support to state organs on matters of financial management;
- Improve the effectiveness of its oversight structures to ensure better accountability by state organs;
- Appoint appropriately skilled finance officials who can perform accounting and reporting activities, as well as implement and monitor strong internal controls. Enhanced skills need to also be matched by ethical and professional skills.
- Strengthen the public sector environment to enable professionals to thrive and operate without fear. This will ensure government is able to attract and retain professionals to support it with strengthening public finance management. The AG has also observed that stability in key positions have been a driver in improving poor audit outcomes and maintaining good audit outcomes; and
- Implement a strong performance management development and consequence management systems to help with enforcing accountability.

"You can't improve accountability and internal controls if public sector financial employees don't also have the competencies needed to perform these controls, and oversight structures are not effective," notes Nomvalo. "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 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.”

SAICA is committed to supporting government in improving public finance management, acting in the public interest, and contributing to the economic and social advancement of the country as enshrined in its Constitution.

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About SAICA

The South African Institute of Chartered Accountants (SAICA), South Africa’s pre-eminent accountancy body, is widely recognised as one of the world’s leading accounting institutes. The Institute provides a wide range of support services to more than 50 000 members and associates who are chartered accountants (CAs[SA]), as well as associate general accountants (AGAs[SA]) and accounting technicians (ATs[SA]), who hold positions as CEOs, MDs, board directors, business owners, chief financial officers, auditors and leaders in every sphere of commerce and industry, and who play a significant role in the nation’s highly dynamic business sector and economic development.

Chartered Accountants are highly valued for their versatile skill set and creative lateral thinking, that’s why all of the top 100 Global Brands employ Chartered Accountants.

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