

AG Project Bulletin 04

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This is another “note for the record”

It is based on a full reading of the AGSA Centenary Book

The book provides strong evidence of the world-class excellence of the Auditor-General South Africa (AGSA) in 2011, one hundred years after the founding of the office. And AGSA has improved even more since then.

The book shows the struggle of government auditors (over decades – and all over the world) to become truly independent of executive influence. It shows how this independence has been used not just to report correctly on public finances, but to try and improve the management of tax-payers’ money and eliminate theft, maladministration and corruption.

Independence and a wider, advisory, role were achieved through legislation (including the 1996 Constitution) and visionary leaders of AGSA. Leaders (dating back to 1977) worked to standardize and **professionalise** government auditing. Since 1994, AGSA influence was used to promote effective training programmes for young black accountants – helping to **transform** the sector. AGSA has also greatly improved its **communications** – combining recommendations with education and innovative explanatory graphics.

The irony is that this flowering of AGSA competence and deeper involvement in assisting auditees coincided exactly with a period in which politically protected criminals looted public enterprises in South Africa on a scale never before known. The AGSA book (which repays reading!) invites several questions:

- Why is it that South Africa has fallen into this hole despite its most excellent Auditors General, and with so many hours of Parliament’s time focused on the public scrutiny of accounts and performance of state departments and entities?
- Why did the checks and balances not work?
- What can be done to establish effective follow-up mechanisms on AG recommendations?

A note “for the record”: after reading the AGSA 100 year anniversary book

[This is not the concise summary I intended. But I am leaving it in this form as the points on transformation and communication particularly need to be updated to the present.]

2011 marked the centenary of the appointment of the first Auditor General for South Africa. This was in 1911, immediately after the formation of the Union of South Africa in 1910.

Auditors-General report on public finances – they judge whether taxes and revenues raised by governments, provinces and municipalities are properly spent, according to budgets and legislation.

Even racist regimes and dictatorships can use auditors-general – to verify that resources are diverted to supporters and the correct members of the elite!

In 2014, the Auditor General South Africa published a historical reflection on the work of auditors general to recognise the achievements of the office. Hidden in plain sight – on the AGSA website – the 110 page book has no acknowledged author and no ISBN.

Auditor General South Africa (2014) **100 Years Legacy and Legends 1911-2011**. pp.110
Available at: <https://www.agsa.co.za/AboutUs/CorporateInformation/TheLegacyBook.aspx>

The book is carefully written, up to the final chapter [which comprises a poorly edited, uncritical, self-satisfied contribution by Auditor-General Thembekile Makwetu].

The point of reference for AGSA’s history is the 1977 “Lima Declaration of Guidelines on Auditing Precepts”, which is described as the ‘Magna Carta’ of government auditing.¹ This was developed by the influential international association of auditors-general or “Supreme Audit Institutions” (INTOSAI – the International Organizations of Supreme Audit Institutions)² which South Africa joined during the Apartheid years.³ South Africa is, today, one of the few members of INTOSAI to have in place legal foundations that fully meet the demanding requirements of the Declaration.⁴ The Lima Declaration – which has since been expanded - set three benchmarks for an Auditor-General:

- **Legislative independence:** The AG’s autonomy should be protected in the Constitution which should clearly specify his mandate, relationship with Parliament and the procedures for his appointment or removal
- **Financial independence:** The executive government should not be the source of funding for the AG
- **Operational/administrative independence:** The AG should be able to access all records and documents regarding public finance management, recruiting the best professionals to fulfil its mandate. The office should also have the liberty to select the most appropriate audit methods.

¹ This was a characterization first voiced by Dr Franz Fiedler, taken from INTOSAI (1998) and INTOSAI (2004). The unusual benchmark status of the Lima Declaration was elaborated by Chikán, A. (2003) and the declaration was endorsed and expanded upon by the XIXth Congress of INTOSAI in Mexico in 2007.

² Website: International Congress of Supreme Audit Institutions - <https://www.intosai.org>

³ Personal communication with a former member of the secretariat of the African Organization of English Speaking Supreme Audit Institutions (AFROSAI-E), 21 February 2020. South Africa attended the IX INCOSAI International Congress of Supreme Audit Institutions in Lima, Peru in October 1977 and was present at the previous Congress in 1974.

⁴ See the analysis of Dr Franz Fiedler, Secretary General of INTOSAI and President of the Austrian Court of Audit in INTOSAI (2004:112). “Strictly speaking, only a few SAIs have legal foundations that fully meet the demanding requirements of the Declaration...”

South Africa's auditors general were not truly independent until 1994, when this principle was enshrined in the interim Constitution.⁵ They started off being civil servants in the Treasury (if always having to report to Parliament). Their budgets were set by the government and their staff were on the government pay scales. Operational independence was only fully secured with the promulgation of the Public Audit Act (No. 25 of 2004), which is the national legislation on the powers and functions of the AG referred to in Section 188 of the Constitution.

The one theme of the book is to outline the moves towards **independence**. The book traces (in the words of Kimi Makwethu) a “metamorphosis from a public sector ‘internal audit’ department into a fully independent supreme audit institution”. (The independence of the AG found legislative expression in Chapter 9 of the Constitution and in the Public Audit Act, 2004. Although the principle of independence was in constitutional force from 1996.)

The other themes are the **professionalisation** of the AG and the **transformation** from a service of only white men to an institution that reflects the gender and race diversity of the population.

The independence of the AG was achieved gradually over about 20 years. This period preceded the democratic transition. Independence of the AG was a factor in the unmasking of the “Information Scandal” in the 1970's, when the Apartheid government used a willing Gary Player to set up the *Citizen* newspaper as a secret publicity machine. Financial independence came after 1989, as a revised law allowed the AG to charge audit fees directly to departments. Before 1989 the audit was a “free” service for each department. Budget amounts previously appropriated to the audit office now went to the budget of the various departments and the AG invoiced them accordingly.

“**Professionalisation**” is used in sense that government auditors would have a professional auditing qualification – which was not previously a requirement, even for Auditors-General! The first auditor general to be a qualified Chartered Accountant was Shauket Fakie in 1999. Both of his successors have also been Chartered Accountants. The Southern African Institute of Government Auditors (SAIGA) was established in 1988 to represent auditing professionals who had qualified as Registered Government Auditors (RGA). The RGA is the highest professional designation within public sector auditing. It requires an honours degree in commerce, the completion of 18 months of articles in public sector auditing (for practical experience) and passing examinations. The AG also employs Chartered Accountants, with the CA(SA) qualification, and has had determined trainee auditor programmes in place since 1999. AG staff now have accreditations with a range of internationally-recognised bodies, such as ISACA, which provides training and qualifications for the Certified Information Systems Auditor (CISA). This covers the fields of information technology governance, cyber security, control and assurance.⁶

⁵ Constitution of the Republic of South Africa Act 200 of 1993 – interim Constitution, in effect from 27 April 1994. See Sections 191 to 194. S192 deals with the independence and impartiality of the Auditor-General... This principle was carried over into the 1996 Constitution, where the Auditor-General was established as a Chapter 9 institution “independent, and subject only to the Constitution and the law”.

⁶ Web site: <https://engage.isaca.org/southafricachapter/home>

Transformation: In 2000, white males made up over 50 per cent of the staff complement of the Auditor General, with only 21 per cent black males and 5 per cent black females. By 2012, 92 per cent of the staff complement of the Auditor General consisted of “designated employees”. In the last eight years, the equality profile has deepened, as black professionals have taken senior positions in the organisation and as more women have been employed. Transformation goals have also been pursued by favouring black-owned accounting firms in tenders for audit functions that are contracted out. In addition, the training programmes and bursaries offered by the AG have increased generally the number of black professionals in the accounting profession in South Africa.

The achievements of the AG in transformation are not adequately honoured by the summary of a book published in 2014. An update is needed on this issue, using the 2018/19 Annual Report.

Another positive theme can be added in the greatly improved **communication** skills of the AG, which is seen in reports over the last five years. One of the long term strategic goals of the AG is “Visibility for Impact”.⁷ Here the AG moves beyond formal reporting on the technical financial details to communicating with stakeholders – from auditees to oversight committees in Parliament – in a way that furthers understanding on achievements, challenges and how to address recommendations in practice. The AG intends to enable and influence “all players in the public sector to utilise public funds as intended for the benefit of the people of South Africa.”

MN Comment: Reading the book, one is so impressed by the achievements and accomplishments of the AG, particularly in the last two decades. The book also compares South Africa’s highly progressive guarantees of AG independence with the situation in non-democratic countries and with the ideals adopted at the international conferences of supreme audit institutions Lima and Mexico. South Africa is a world leader in supreme audit institutions, recognised currently as the chair of the INTOSAI capacity building committee.

Yet on one key point, South Africa lags far behind: the weak implementation of audit recommendations by auditees and the failure of the executive (and Parliament!) effectively to implement “consequence management”.

We spend huge efforts planning and budgeting.
We spend huge efforts reporting and monitoring.
But there is weak implementation and no effective feedback loop!

References:

Auditor General South Africa (2020) *AGSA Strategic Plan and Budget 2020-23*. RP55/2020

⁷ AGSA (2020) *Strategic Plan and Budget 2020-23*. RP55/2020. Pages 9, 11 and 19.

Auditor General South Africa (2014) *100 Years Legacy and Legends 1911-2011*. pp.110
Available at: <https://www.agsa.co.za/AboutUs/CorporateInformation/TheLegacyBook.aspx>. Foreword by Gavin Woods

Chikán, A. (2003) “An Interpretation of the Lima Declaration” in INTOSAI (2004:97-107)

Fiedler, F. (2003a) “The Independence of Supreme Audit Institutions” in INTOSAI (2004:108-123)

International Organization of Supreme Audit Institutions (INTOSAI) Website: -
<https://www.intosai.org> [INCOSAI is the four yearly Congress]

INTOSAI (1998) *The Lima Declaration of Guidelines on Auditing Precepts* as adopted in October 1977 at the IX INCOSAI in Lima (Peru), with Foreword by Dr Franz Fiedler, Secretary General of INTOSAI, Vienna, Autumn 1998. Available at: <http://www1.worldbank.org/publicsector/pe/befa05/LimaDeclaration.pdf> [Accessed 23-Feb-2020]

INTOSAI (2004) *INTOSAI: 50 Years (1953-2003) A Special Publication of the International Organization of Supreme Audit Institutions*. Vienna, Austria. Available at: https://upload.wikimedia.org/wikipedia/commons/0/03/INTOSAI_50_Years.pdf [Accessed 18-Feb-20]

Woods, Gavin. (2010) Public sector corruption: Behavioural origins and counter-behavioural responses. Inaugural lecture delivered on 26 October 2010. Prof G Woods, School of Public Leadership, Faculty of Economic and Management Science, Stellenbosch University

Earlier Project Bulletins:

- AG Project Bulletin 03. 10 February 2020 [Reflection on SCOPA’s efforts to have former Prasa board members declared delinquent]
- AG Project Bulletin 02. 12 November 2019/ [Draft discussion paper - Auditor General project: Improving governance in South Africa: What checks and balances are missing?]
- AG Project Bulletin 01. 31 October 2019/ [list of the relevant legislation related to the role of the Auditor General w r t reporting to Parliament; example of the information on AGSA reports on departments that is summarised by Parliament for the information of SCOPA]

Postscript:

The Auditor-General's 100-year history harks back to Dutch lessons from 1803!

In 2014, the Auditor General South Africa published a fascinating historical reflection on the work of auditors general to recognise the centenary of the appointment of the first Auditor General by the Union of South Africa in 2011.

The book is about auditing so jokes are not prominent. However, consider this:

South Africa's auditing legislation from Union in 1910 was, understandably, based on the British model. This introduced a period of stability following the constant changes in the system that resulted from repeated Dutch then British colonial occupations and the subsequent wars of the 19th and early 20th centuries. What had, however, become established and remained as the unshakeable foundation of the audit office throughout the ups and downs of those times was the system of values that became the heartbeat and lifeblood of the Auditor -General for the next century: **integrity, independence and impartiality** – principles that were intended to improve accountability.

These principles were, in fact, explicitly expressed in the first oath of office for auditors as part of the provincial instructions for the Colonial '**Rekenkamer**' **created under the Dutch dispensation at the time of Commissioner-General De Mist in 1803**. Members of this precursor of the Auditor-General's office had to swear 'that neither for pleasure or pain, neither from friendship, amity, favour or envy shall I lose from sight the Country's interest or the just accounting for public moneys and goods and that I shall accept no gifts, goods or presents, not even comestibles or things of the smallest value'.

The second Auditor-General, Mr J de V Roos, who was a popular lecturer and quite prolific writer, took great delight in pointing out the above historical tid-bit in a lecture he delivered to the members of the Accountants Students' Society in Johannesburg in 1926.

In outlining the beginnings of public auditing in South Africa, he also pointed out that the Dutch Rekenkamer was entirely free and independent of the Governor and Council in dealing with accounts. **This crucial principle of independence was subsequently lost**, but it became the Holy Grail of the audit office from the time that that Dr Joop H de Loor became AG in 1985, and it was pursued with dedication until, after considerable work done by Dr De Loor and Deputy Auditor-General, Bertie Loots, it was at last regained in 1993.

F G Barrie, who was AG from 1972 to 1977, was one of the forerunners of the pursuit of complete independence. In an article he wrote for the Journal for Public Administration in 1977, entitled 'Taak van die Ouditeur-Generaal' (Mandate of the Auditor-General), he emphasised in italics: *Any true democratic government system must make provision for an absolutely independent Auditor-General. Any attempt to undermine the independent operation of the Auditor-General amounts to the dismantling of the democratic system as we know it.*⁸

Rekenkamer is now translated as "Court of Audit". See the Netherlands Court of Audit web site: <https://english.rekenkamer.nl/latest/news/2019/10/01/netherlands-court-of-audit-invites-peers-to-review-its-quality-and-methods>

⁸ Translated