

Benchmarking financial reporting in the public sector (2006)



Dieter Gloeck:

Chairperson of the SAIGA Reporting Awards Committee

Five years ago, the Southern African Institute of Government Auditors (SAIGA) introduced a series of important awards in the public sector to recognize the pursuit of excellence in annual reports published by all provincial and national departments.

The Awards are called the Annual Public Sector Reporting Awards (or SAIGA Reporting Awards). The SAIGA Reporting Awards project produces twelve awards:

- one for the best report of a national department
- one for the best provincial department (for each of the nine provinces)

- one for the most consistent highest score over the last five years
- a twelfth award is made for the department obtaining the overall highest score.

This year's winner, the Free State Department of Health becomes the first department ever to win this Award twice. Previous winners were - 2005: the national department of Sport & Recreation; 2004: the Free State Department of Health; 2003: the national Department of Housing; and 2002: the Department of Provincial & Local Government.

The full list of 2006 winners for the financial reporting year ended 31 March 2005 is:

Category(Province)	Winning Department (ranked from highest score downwards)	Score %	Average % for category
Overall winner	Health (Free State)	95.95	87.00
Western Cape	Local Government	95.53	88.08
National	South African Management Development Institute	93.30	86.00
Gauteng	Finance & Economic Affairs	92.88	81.08
Limpopo	Office of the Premier	92.46	79.32
KwaZulu-Natal	Health	91.62	82.24
Northern Cape	Safety & Liaison	91.34	84.62
Eastern Cape	Provincial Treasury	91.20	81.07
Mpumalanga	Finance	90.92	84.65
North West	Agriculture, Conservation, Environment & Tourism	88.41	79.81
Most consistent	Environmental Affairs & Tourism (national)	92.18	86.00

One has to praise the high scoring departments and point to the overall sustained improvement in adherence to reporting standards since the inception of the awards five years ago. This bodes well for increased transparency and public accountability.

Since the competition was intense, special mention should also be made of departments which achieved a high score, but were not category winners. SAIGA has therefore decided to publish a "Top 20" list.

Top 20

Position	Name of Department	Percentage	Position in last year's competition
1	Health (Free State)	95.95	12
2	Local Government (Western Cape)	95.53	2
3	SA Management Development Institute (national)	93.30	58
4	Safety & Security (national)	93.02	54
5	Communications (national)	93.02	-
6	Finance & Economic Affairs (Gauteng)	92.88	123
7	Office of the Premier (Limpopo)	92.46	9
8	Environmental Affairs & Tourism (national)	92.18	13
9	Education (national)	91.90	7
10	Provincial Administration (Western Cape)	91.76	3
11	Public service & Administration (national)	91.62	8
12	Health (KwaZulu-Natal)	91.62	21
13	Safety & Liaison (Northern Cape)	91.34	32
14	Provincial Treasury (Eastern Cape)	91.20	23
15	Agriculture (Western Cape)	91.06	51
16	Finance (Mpumalanga)	90.92	56
17	Justice & Constitutional Development (national)	90.64	20
18	Environmental Affairs & Development (Western Cape)	90.64	55
19	Statistics (national)	90.50	120
20	Agriculture (national)	90.36	18

- The overall average score recorded by all departments improved for the fifth year in succession to 86.00% (2005: 82.83%; 2004: 80.49%; 2003: 75%; 2002: 70%). This is in spite of the fact that a number of additional evaluation points were added, representing more comprehensive disclosure requirements set by National Treasury for the year under review.
- The score of 95.95% achieved by the winning department (Free State Department of Health) is the highest score that any department ever scored in the five years of the competition.
- A record total of 25 departments scored above 90%. In the first year of the Awards only 3 departments scored above 90% and in the second year only one department. In 2004 11 departments scored above 90% and in last year's competition there were 19 departments above 90%.
- The "Top 20" list shows that the competition was stiff - the lowest percentage in the Top 20 is above 90% (2005: 89%; 2004: 88%; 2003: 83%; 2002: 79%).
- The Top 20 table shows that some departments recorded admirable improvements, for example: the Gauteng Department of Finance & Economic Affairs from number 123 to number 6; the Department of Statistics from 120 to 19; SAMDI from 58 to 3 and Safety & Security (national) from 54 to position 4.

- Only 8 departments (2005: 9; 2004: 8; 2003: 14; 2002: 27) did not qualify as their audit reports contained a disclaimer. This is the second year in a row that no adverse audit opinions were given.
- Arguably the best indication of sustained overall improvement in the adherence to public sector reporting standards is the fact that 142 departments scored above 70%. In the first year of the Award (2002) only 47 departments exceeded this barrier (2003: 91; 2004: 122 ; and last year (2005) 134 departments scored above 70%).
- The prestige of achieving the most consistent high performance award over five years goes to the Department of Environmental Affairs & Tourism.

One can ask if the time has not come that private sector companies were placed on an equal footing with regard to the disclosure of this kind of information.

Communicating meaningful and understandable information is all about being accountable. And the public sector has provided the private sector with a good example.

The Award highlights the fact that due to the performance information and other factual disclosures, the annual reports of government departments contain a wealth of information not only about the financial results, but more importantly, about the activities and the performance of the departments. In this regard government departments' reports generally provide more information than the annual financial statements of listed companies. The full effect of the *Public Finance Management Act's* (PFMA) objective regarding transparency and performance management is becoming visible. Compared to the standard format of private sector audit reports, the audit reports by the Auditor-General also provide a much more detailed account of the audit findings.

Referring to an increase in media reports about misuse of funds in government departments, the matter has to be put in a proper perspective and it has to be pointed out that the PFMA's trans-

parency requirements ensures that this information is publicly available. The departments do not necessarily incur more unwanted expenditure, but there is simply more information available about it. The PFMA requires that all unwanted expenditure (unauthorised, irregular and fruitless and wasteful expenditure), irrespectively of whether or not it is a material amount or not, has to be disclosed, citing figures and reasons for its occurrence. One can ask if the time has not come that private sector companies were placed on an equal footing with regard to the disclosure of this kind of information. Even after the implementation of International Financial Reporting Standards (IFRS) and after complying with the *Companies Act* and the King II Report on Corporate Governance, the information disclosed by private sector companies still does not measure up to the information in the annual reports of government departments.

Efforts need to be increased to make the general public more aware of the disparity between disclosure requirements in the public and private sectors. This will also put perceptions on public sector fraud, corruption and mismanagement in a better perspective. Communicating meaningful and understandable information is all about being accountable. And the public sector has provided the private sector with a good example.

It is further suggested that departmental reports should be more easily obtainable by members of the public. In this regard it would be constructive to publish the reports on the government website.

The SAIGA Reporting Awards are now firmly established and have become a highly visible instrument and benchmark to monitor public accountability and transparency in national and provincial departments.

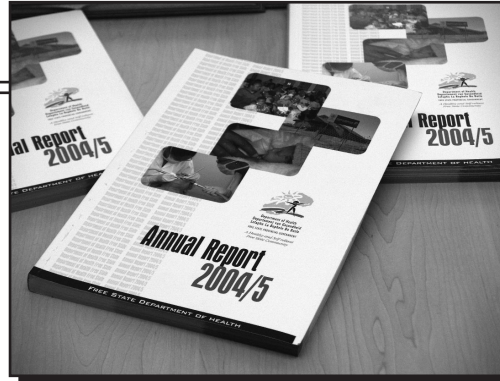
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The MEC for Health in the Free State, Mr Sakhiwo Belot proudly displays his department's winning certificate

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Address by Prof Dieter Gloeck, Executive President, Southern African Institute of Government Auditors (SAIGA)

At the event of handing over the framed certificates to the winners of this year's SAIGA Annual Public Sector Reporting Awards: the Department of Health (Free State)

13 September 2006: Bophelo House, Bloemfontein.

There is a wise saying that reminds us: "first things first". Today's event would not have been possible if some other process had not taken place much earlier. I find it therefore important to firstly establish why we are gathered here today before going into any other detail.

The SAIGA Annual Public Sector Reporting Awards would never have materialised if it was not for the quiet revolution that was started by the promulgation of the *Public Finance Management Act* (or more commonly referred to as the PFMA).

There is another saying that dynamite or explosive things come in small packages which is certainly applicable to the PFMA. Although it easily fits into my shirt pocket, this little book has achieved a commendable turn-around of the big ship called the public sector.

I have personally presented more than 150 workshops on the PFMA - an endeavour that has not only brought me to many interesting places in our country's nine provinces, but also made me realise the full extent of the change that is taking place.

The PFMA has indeed achieved a total transformation of South Africa's public sector from an administration centered approach to an approach based on the advanced concept of performance management. Added to this, we are witnessing previously unknown levels of transparency and accountability in the public sector.

This complete openness and transparency may sometimes be embarrassing for government departments, especially as the published information provides the media with a lot to write about. Taking into account the sensationalism that large parts of our society thrives upon, it is certainly understandable why a newspaper would rather publish facts about some misuse of funds in a government department than report on the achievements of the particular department. A journalist friend once told

me: "Unless achievements are sport or learning related, they do not sell newspapers". None withstanding this, departments disclose full details in their annual reports of all unwanted expenditure (unauthorised, irregular and fruitless and wasteful expenditure). They publish their measurable objectives and have to indicate where objectives have not been achieved.

Having been involved as academic and researcher in both private and public sectors over the last 25 years, I do not hesitate to state that the accountability arrangements in the public sector today are far ahead of those in the private sector, where legislation does not yet require companies to have audit committees, internal audit functions and where the publishing of information is still focusing heavily on figures which, given the technical complexities introduced by the latest accounting and reporting standards, are difficult to interpret by accounting experts, let alone the investing public or workers who have been given the opportunity to own shares in the companies they work for.

Such comparisons are not done with the intention of blemishing the private sector, but to allow us to fully appreciate the rate of public sector development and reform and to view the public sector achievements in the proper perspective.

It is specifically at the field of accountability and reporting in particular that SAIGA's Annual Public Sector Reporting Awards are directed.

Providing us with insight into the public sector (or "full sunshine" of government as the international community refers to) is definitely one of the great gifts that our new democracy has given South Africa's citizens.

Applying the PFMA requirements of transparency, relevancy, understandable accurate, timely and trustworthy financial and performance information, means actual empowerment of South Africa's citizens to participate in a free democracy.

In striving to deliver the above, the massive organisation called the state, needs leaders and examples.

This brings us to the main objective of the SAIGA Annual Public Sector Reporting Awards. Not only do the Awards aim to increase public awareness of the reforms that have taken place in the public sector, but the Awards also aim to reward excellence.

I do not hesitate to state that the accountability arrangements in the public sector today are far ahead of those in the private sector.

It is a fact that this year's winning score is the highest score ever achieved in the five year history of the Awards. A percentage of 95.95% (or 687 out of 716 points) is a great achievement, no matter from which perspective you look at it.

If we take into account that the requirements set by National Treasury in respect of reporting and annual financial statements have steadily increased from year to year (our total rating points increased from 410 to 716), the achievement gains even more in stature.

The Department of Health in the Free State can be justifiably proud of leading South Africa in the quest for better reporting, increased accountability and greater openness. In a global world where the notion of accountability has been re-rated to greater importance, our country, South Africa - supported by leaders such as the winning departments, not only plays in the first league, but can rate itself as being amongst the very best.

Dr Chapman your department has achieved multiple accomplishments:

- Your department has prepared and published the winning annual report in the category of all Free State departments.
- As already mentioned your Department has achieved the highest ever recorded score by any department over a five year period.
- Thereby the Department of Health (Free State) is also the overall winner of the 2006 Annual Public Sector Reporting Awards.
- But your achievement is not a once-off achievement. Not only have you won the Award twice now, but if the results of the last five years are consolidated, the Department of Health lies in position number thirteen on the list of most consistent departments in South Africa.
- Seen from a wider perspective, and even more encouraging is the fact that it is not only the Department of Health that is excelling, but the overall results are showing consistent and steady upward movement of the norms.

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This clearly indicates that all departments are actively improving and successfully facing the challenges that greater accountability requirements pose. This factor bodes well for the future of our country.

There is a time for everything. I find it most appropriate that the Chief Financial Officer of the Department of Health has taken use his address to explain the intricacies and efforts required to produce a high quality set of annual financial statements that meet the reporting standards. This is indeed a massive team effort. I am of the opinion that financial staff deserves more recognition in this regard. But be it as it may, the time for work has passed; the final product has been published and it is now time to boast and celebrate.

Before handing over the Award certificates, please allow me to extend a few words of thanks:

- To the SAIGA Secretariat for the support provided
- To the members of the Awards committee for their technical expertise
- To SAIGA's EXCO and Council for the support and allocation of scarce funds to the Awards project (to keep the absolute necessary independence, all offers of sponsorship are turned down) and SAIGA fully funds the project
- Further thanks to the Office of the Auditor-General in assisting us to obtain all annual reports
- To the Accountant-General and the Auditor-General for their support of the project
- To the organisers behind today's function.
- Lastly, but most importantly: to the MEC of the province and other dignitaries for your presence. By being here personally, you have underscored and emphasized the importance of public accountability and I am sure that your presence has also motivated the staff of the Department of Health to further lead by example and keep striving for excellence.

Because nothing less than excellence is good enough for our country.



The MEC for Health, Mr Belot (middle), holds the winning annual report. SAIGA's Executive President (left) and Chairperson of the Awards Panel, Prof Gloeck presents the certificate for the overall winner, the Institute's Secretary, Prof De Jager (right) presents the other certificate for the best report in the Free State province.

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