



Editorial

The Auditor-General

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Mr Shauket Fakie, South Africa's outgoing Auditor-General, ended his seven year appointment in November 2006. In order to preserve and enhance the independence of the Auditor-General, the essence of the external audit function, the appointment is for a single term of seven years. An independent Auditor-General is widely considered as one of the defining characteristics of a democracy. For foreign investors, as well as for general business confidence within a country, the independence of the Auditor-General is of great value.

The Preamble to the Public Audit Act 2004, in defining the Auditor-General's duties, recalls that "... the Constitution establishes the Auditor-General as a State Institution Supporting Constitutional Democracy", and furthermore includes the following with respect to the independence of the Auditor-General: that the Act "recognises the independence of the Auditor-General subject only to the Constitution and the law, requires the Auditor-General to be impartial and to perform his or her powers and functions without fear, favour or prejudice and prohibits any person or organ of state from interfering with the functioning of the Auditor-General".

In the light of this statement it is useful to review expectations of the Office of the Auditor-General with what the outgoing Auditor-General has delivered. Media reports on the outgoing Auditor-General are in agreement that he performed his duties competently and preserved the independence of the Office.

Another clear indication of the Auditor-General's independence is the frequency of media reports highlighting government departments that have not received "clean" audit reports, together with his periodic reprimands of departments exhibiting weak financial management and that employ deficient administrative systems. It is not unusual for the media to carry the following sentiments in their reports: that the overall impression of the audit reports of government departments is one of financial disorder and wide-spread mismanagement of taxpayers' money. According to media reports only a small number of all audit reports issued by the Auditor-General are "clean".

These types of reports appear almost continuously in the media, but it must immediately be stated that the media reports do not always interpret the Auditor-General's reports correctly. What the media reports do show is that the Auditor-General is prepared to let the public know about the maladministration and short-comings of government institutions, further illustrating that, because of his independence, the Auditor-General does not shy away from confronting state institutions, and the government.

Given that the media reports present an indication of the independence of the Auditor-General, the justifiable next question is, what are we to understand from these media reports?

If we compare the public sector audit reports with those of the private sector, significant differences are apparent. In the private sector the situation is effectively the reverse: 99% of reports are "clean". In this regard it must be stated that the audit standards used are the same in both sectors. A logical first conclusion is that the public sector has exceptionally wide-ranging problems while the private sector is almost perfect.

What is the reason for this difference, or is the public sector really in a state of total financial chaos, as is so frequently portrayed in the media? If we examine the dominant terminology used in the media, it becomes apparent that the difference between private and public sector audit results hinges to a large extent on the word "clean". The media usually refer to a "clean" audit report if there are no qualifications or emphasis of matters in the audit report. An emphasis of matter does not influence the opinion of the auditor, but usually refers to an aspect that is not material, or that fails to conform with policies or laws.

If we look at the Auditor-General's audit reports it is obvious that the reason for the "not clean" reports is predominantly the result of emphasis of matters, while the opinion itself is unqualified. The reason for the high number of emphases of matters leading to "not clean" reports is that the public sector is subject to additional requirements that are not required in the private sector. To name but a few, the PFMA and the Treasury Regulations require specific reporting on fruitless and wasteful, irregular and unauthorized expenditures, regardless of their materiality; every public sector institution must have an audit committee, and an internal audit function; public sector institutions' achievements relative to measurable objectives are audited; two months after financial year end the annual financial statements must be presented for audit. All of these and many others are not required in the private sector.

However, that some departments' financials are in disarray and have received qualified reports from the Auditor-General over the past number of years is a matter of great concern.

Reviewing the last few years it is also apparent that the Auditor-General has made great advances in the professionalisation of the Office. The RGA (Registered Government Auditor) qualification has been recognised by the Auditor-General, and every effort was made to encourage members of staff with more than six years of public sector auditing experience, but without the required formal academic qualification, to register for the "Recognition of Prior Learning" programme and to write the RGA Qualifying Examination. In September this year 92 candidates sat the Recognition of Prior Learning RGA examination. The success rate in this examination, 83%, is an indication of the quality of training and the experience of these candidates.

Auditing SA wishes Mr Terence Nombembe good luck and strength in his new appointment as the incoming Auditor-General.

eral of South Africa. It is obvious that there are enormous challenges ahead, to ensure that the Auditor-General remains one of the pillars of our democracy. Particular challenges (some examined in greater detail elsewhere in this publication) include the protection and enhancement of the independence of the Auditor-General; to avoid becoming dependent of private sector

audit firms, to fulfil its constitutional mandate; to enhance the understanding of the unique aspects of public sector auditing, and to ensure that, where private sector audit firms are used, the requisite competence with regard to public sector auditing is present.

The Annual Public Sector Reporting Awards

a SAIGA initiative



The Annual Report of the Free State

Department of Health

has been judged the winner of this year's SAIGA Annual Public Sector Reporting Awards



See page 45 for the full report on this year's Annual Public Sector Reporting Awards

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