

# **Review of the powers of the Auditor-General**

## **Standing Committee on the Auditor-General**

**25 August 2017**

# Reputation promise/mission

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country's democracy by **enabling oversight, accountability and governance** in the public sector through auditing, thereby **building public confidence.**

# Purpose

To submit and discuss a revised version of the Public Audit Amendment Bill, 2017 (the Bill) that -

- Addresses SCoAG's input of 9 June 2017
- Provides for the power to disallow items of expenditure and to issue surcharge certificates

To submit an estimate of the financial implications posed by the Bill



# SCoAG request – define undesirable audit outcomes

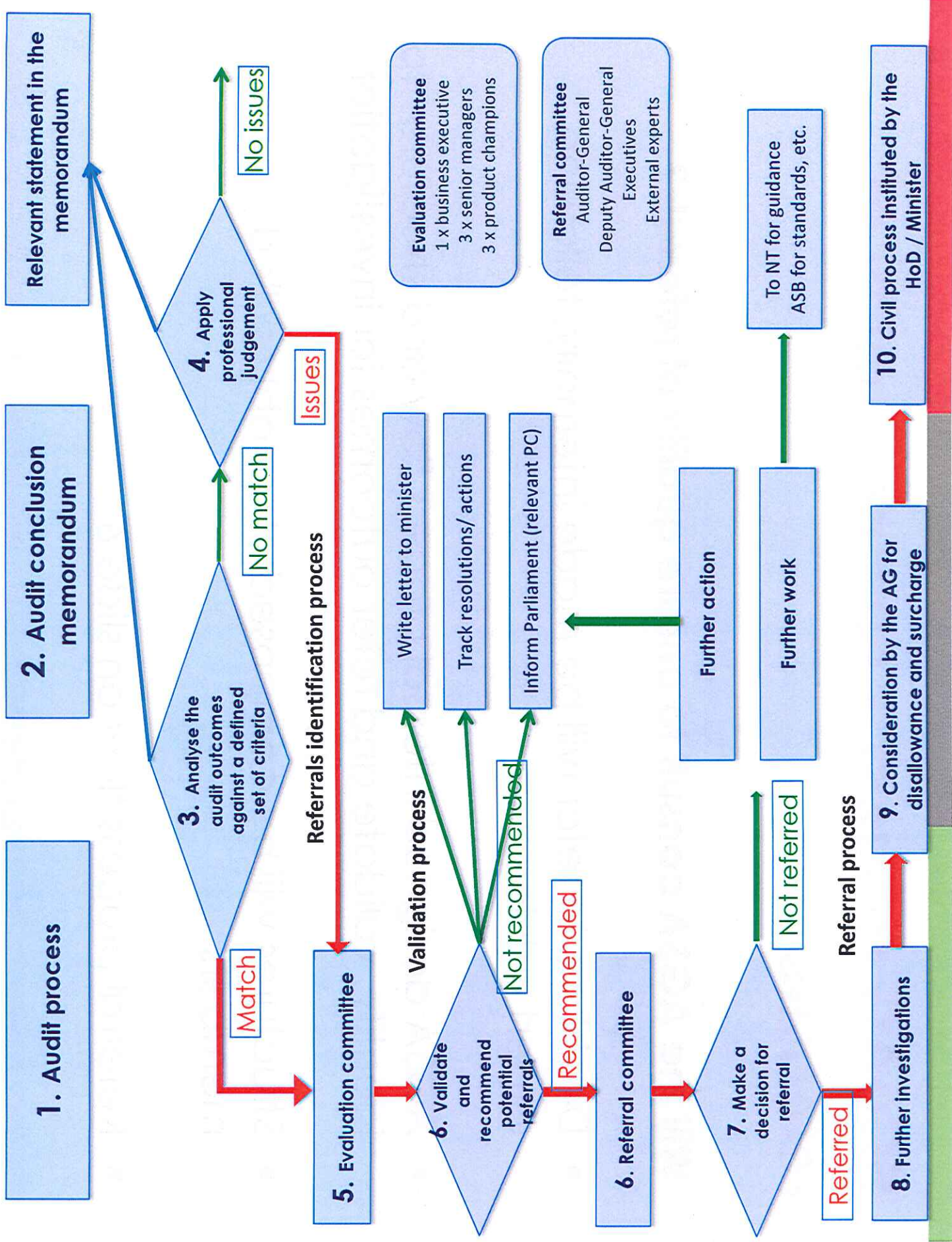
- Definition – means any act or omission arising from an audit performed under this Act that causes, or is likely to cause, a loss of public resources or that redirects such resources away from its intended purpose or beneficiary
- Standard set of criteria to be included in regulations
- Examples of criteria to be used when evaluating matters for possible referral

# SCoAG request – ensure quality of referrals

## Will the AGSA consult to ensure quality of referrals?

- Decisions to refer will be made internally, following expert advice
- AGSA designed internal process flow and structures to identify, validate and refer outcomes for investigation
- Structures will be composed of suitably skilled members
- Referral process flow on slide 6





# SCoAG request – include disallowance and surcharge

**Research and provide for powers to disallow items and issue surcharge certificates**

- Provision included in the Bill – see section 5(1C) – (1F)
- SAI Ghana selected as most suitable benchmark
- AG Ghana YouTube video/transcription



# SCoAG request – include disallowance and surcharge

- **Disallowance** means to reject an item of expenditure that is contrary to the law as contemplated in section 5(1D)
- **Surcharge** means a sum charged by the Auditor-General as contemplated in section 5(1C) or (1D)
- **Nominated account** means a public account nominated by the Auditor-General as contemplated in section 5(1F)(b), and can include, but is not limited to, the National Revenue Fund, a provincial revenue fund, or an account owned by an auditee



# **SCoAG request – include power to surcharge**

The Auditor-General may surcharge for –

- Failure to collect money due to the state
- Improper payment of public money or money not duly vouched
- Deficiency or loss of money or property of the state

WITHOUT satisfactory explanation for the failure to collect, improper payment, payment not vouched or deficiency or loss

**Refer section 5(1C) in the Bill**

## **SCoAG request – include the power to disallow and surcharge**

- The AG may disallow any item of expenditure contrary to the law and surcharge the amount of such expenditure upon the person responsible for such expenditure
- Refer section 5(1D)

## **SCoAG request – include the power to disallow and surcharge**

- Section **5(1E)** provides that the amount of any surcharge in sections **5(1C)** and **5(1D)** becomes a debt to the state



## **SCoAG request – include the power to disallow and surcharge**

- Section **5(1F)(a)**: The AG shall issue a certificate for each amount disallowed and surcharged and notify the head of the accounting authority or executive authority thereof, as well as the reason for such disallowance and surcharge
- Section **5(1F)(b)**: The sum specified must be paid within 60 days after receipt of the certificate

## **SCoAG request – include the power to disallow and surcharge**

- Surcharges can be taken on appeal to the High Court within 60 days of receipt of the certificate [section 5(1F)(c)]
- The Rules Board of Courts of Law will be required to issue rules for the appeal process [section 5(1F)(d)]
- If the person upon whom a certificate was issued is employed by the state, the sum may be defrayed from his/her remuneration, subject to written consent [section 5(1F)(e)]

# SCoAG input – discretion to opt out of low risk, mandatory audits

**“Below a threshold” is unclear and must be revised. Warned against significant loss if small audits are ignored**

“Falling below a threshold” was substituted by “meet criteria published by the Auditor-General”

Examples of criteria –

- Size of annual budget
- Historical audit outcomes
- If auditee is closely linked to service delivery
- Overall audit risk



## **SCoAG input – discretion to opt out of low risk, mandatory audits**

- Amendment to section 20 (report content) allows for cyclical audits of more than one financial year
- Amendment to section 20 will allow for limited assurance engagements as opposed to reasonable assurance
- AGSA will continuously revisit decision to opt out of these audits – it will always be announced in the Annual Audit Directive

# SCoAG input – investigations

## Committee advised to determine the approach to investigations in a regulation

- A regulation is secondary legislation and therefore binding in law
- The input was addressed in the Bill: “Policy” was replaced by “regulation”

## **SCoAG input – performance audit**

- Committee supported the increased focus on performance audits
- AG sensitised the committee that such focus on performance audits will require special attention to the funding thereof



**Financial  
implications  
of the Public  
Audit  
Amendment  
Bill, 2017**



AUDITOR-GENERAL  
SOUTH AFRICA

# Financial implications

The implementation of the Bill will have financial implications for the state that will manifest in:

- Annual cost of investigations referred to other organs of state
- Cost of internal referral centre
- Unbillable hours spent on each audit to consider referral
- Cost of AGSA evaluation committee
- Cost of AGSA referral committee
- Cost of specialist and advisory services



# Cost of investigations

## Cost of investigations performed by other organs of state

Description	Estimated price per unit	Units	Cost
Top 5 referrals of prominent matters	2 000 000	5	10 000 000
10 less prominent referrals	1 000 000	10	10 000 000
<b>Sub-total</b>			<b>20 000 000*</b>

\* Figure and estimate are subject to further research



# Cost of internal referral centre

## Cost to build internal capacity to coordinate referrals

	Salary per employee	Head count	Cost
Senior manager	1 166 911	1	1 166 911
Manager	891 391	1	891 391
Audit supervisor	380 867	1	380 867
		<b>Sub-total</b>	<b>R 2 439 169*</b>

\* The estimates have been prepared based on pay ranges applicable to chartered accountants. Figures will vary according to skills and qualifications.

# Unbillable hours

## Unbillable hours on audits to consider referral

	Average charge out rate	Hours	Cost
Engagement manager (top 15* audits)	1 751	600	1 050 600
Engagement manager (935* audits)	1 751	1 870	3 274 370
		<b>Sub-total</b>	<b>4 324 970</b>

\* Average of 950 audits conducted per annum



# Cost of evaluation committee

Internal committee to validate possible referrals

	Average charge out rate	Hours	Cost
Audit business executive (1)	2 825	200	565 000
Senior manager (ARD 1)	1 751	200	350 000
Senior manager (Audit 1)	1 751	200	350 000
Senior manager (QC 1)	1 751	200	350 000
Product champions (3)	1 751	600	1 050 600
		<b>Sub-total</b>	<b>2 666 200</b>



# Cost of referral committee

## Committee to approve referrals

	Average charge out rate	Hours	Cost
AG, DAG, relevant executives	2 825	60	1 69 500
Independent experts (2)	2 876	15	43 140
		<b>Sub-total</b>	<b>212 640</b>

\* Based on rates published for work conducted by specialists on behalf of the AGSA

# Cost for specialist/advisory services

## Cost estimate for specialist and advisory services

	Rate per hour	Hours	Cost
Specialists and advisors in various fields	2 876*	1 500	4 314 000
		<b>Sub-total</b>	<b>4 314 000</b>

\* Based on rates published for work conducted by specialists on behalf of the AGSA



# Financial implications summary

## Annual cost estimate to implement the Bill

Cost item	Cost
Investigation by other organs of state	20 000 000
Internal evaluation centre	2 439 970
Unbillable hours	4 324 970
Evaluation committee	2 666 200
Referral committee	212 640
Specialist and advisory services	4 314 000
	<b>33 956 979*</b>

This cost estimate was prepared to assist SCoAG in the Committee's preparation of the explanatory memorandum required in terms of Rule 273. A detailed business case, supported by appropriate benchmarks, will be prepared annually for consideration.



# Funding implementation of the Bill

- Funding of the AGSA is regulated in section 36 of the PAA
- Appropriation by Parliament recognised source of income
- Annual appropriations recommended to fund referrals and revised focus on performance audits



## Committee discussion

