**MEDIA STATEMENT**

**AUDIT OUTCOME DISPUTES COULD DELAY FINANCIAL ACCOUNTABILITY AND PARLIAMENTARY OVERSIGHT**

The Chairperson of the Standing Committee on Public Accounts (Scopa), Mr Mkhuleko Hlengwa, has warned that the current court battle between the Auditor-General of South Africa (AG) and the Road Accident Fund (RAF) about a disputed audit outcome could open a floodgate of disputes and negotiated audit outcomes that have to potential to cause difficulties for both the AG and Parliament.

The dispute has also resulted in the Minister of Transport’s inability to table the RAF’s annual report for the financial year 2020/2021. Mr Hlengwa said the matter is very serious because in certain aspects it sets precedents that Scopa and Parliament may not find desirable for oversight and which may delay oversight.

“My worry is that our courts are overwhelmed and under-resourced. And the speed of the court process is never at the collective interest of justice, oversight and accountability, particularly in the space of public financial management. We are being overtaken by events; we have got an audit that is in dispute and another one is coming,” he said.

The Scopa Chairperson also warned that this matter may open floodgates for disputes and negotiated audit outcomes, which causes difficulty, not just for the AG, but also for Parliament. “We might have to consider whether it will not be in the interests of Parliament to join this matter as an amicus curia (friend of the court), because I am worried about the precedent that it sets into motion in so far as audit outcome management is concerned. There is a level of clarity that is required in so far as audit outcome management is concerned, particularly because here we are saddled with a disclaimed audit outcome, which is the worst of the worst.

“Without casting any aspersions, disputes and court processes must not become the default position of entities and departments to try and circumvent processing or accounting for an audit outcome,” Mr Hlengwa said.

In a presentation to Scopa today, the fund said the dispute relates to incorrect classification of RAF as an insurance scheme instead of a social benefit scheme. The fund told Scopa that the AG retained the view that the RAF performed insurance activities and that International Reporting Standards (IFRS) 4 was appropriate to be applied to the annual financial statements.

The fund further argued that the AG maintained this view despite the RAF’s clear demonstration that this was not the case and that the regulator of the RAF considers RAF as Social Benefit Fund.

“AGSA expressed the view that liabilities for claims against the RAF should be recognised at the date the accident occurred, even though management clearly demonstrated the fact that the RAF does not incur liability until a claim is registered with the Fund and found to be valid in accordance with all the requirements of the RAF Act.

“The Road Accident Fund is in fact a social benefit scheme and therefore does not have any insurance contracts. It is simply not an insurance company or involved in the insurance business. Furthermore, it does not fall within the definition of an insurance fund in terms of the Insurance Act 18 of 2017. The Prudential Authority, the RAF’s regulator maintains that the RAF is fundamentally a social benefit fund,” said Mr Collins Letsoalo, RAF chief executive officer.

Ms Madidimalo Singo from the AG maintained that her office followed due process in terms of ensuring that the RAF audit was fair and represented the affairs of the fund fairly. “As AGSA, our stand is that the Accounting Standards Board (ASB) is the regulating authority that determines the accounting standards which auditees and public entities should comply with. Our responsibility as AG is to audit in terms of the accounting standards that have been set.

“To the extent that there has been a change in accounting policy, new standards used to develop the accounting policy, the ASB has not yet adopted these particular standards and have given very specific guidance in terms of accounting standards that will be applicable to entities such as the RAF, and it is on that basis that we concluded our audit,” said Ms Singo.

The AG noted and acknowledged the RAF’s different view and that the matters in dispute will be ventilated through the court process. “As a constitutional entity we exist to enable accountability and oversight and it is important that this process be observed with the utmost care in terms of the audit opinion that we issue,” Ms Singo concluded.

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