SPEECH ON BEHALF OF THE AUDITOR-GENERAL OF SOUTH-AFRICA: KPMG WESTERN CAPE PROVINCIAL GOVERNMENT ANTI CORRUPTION SUMMIT: 7 – 8 March 2006: HIS PEOPLE CENTRE, N1 CITY, GOODWOOD

Ethics and prevention of corruption in the public sector

Thank you for the opportunity to address this summit on the important topic of ethics and prevention of corruption in the public sector.

Introduction

Corruption and financial misconduct, amongst others, can be viewed as obstacles to economic and social development of the South African economy, which ultimately impact negatively on our society and threaten good governance. These challenges erode stability and trust, and damages the ethos of a democratic government. Its macro-economic and social costs are immense.

To augment the Auditor-General’s audit function the Auditor-General deemed it necessary to create an investigating unit to look into issues of financial misconduct. This function of the AUDITOR-GENERAL has been entrenched in the new Public Audit Act, 2004 (Act No. 25 of 2004).

In order to have a better understanding of what is meant with corruption and financial mismanagement I will just give a brief definition of each:
Corruption

The PREVENTION AND COMBATING OF CORRUPT ACTIVITIES ACT, 2004 (as alluded to by Mr Herman de Beer during his presentation yesterday) defines the term ‘corruption’ in the South African economic environment. According to section 3 of this act, the general offence of corruption is defined as:

Any person who-

- accepts or Auditor-Generalees or offers to accept any gratification from any person, or
- gives or Auditor-Generalees or offers to give to any other person any gratification,

in order to act in a manner-

- that amounts to the illegal, dishonest, unauthorised, incomplete, or biased;
or
- misuse, or selling of information or material acquired in the course of the exercise, carrying out or performance of any power, duties or functions arising out of a constitutional, statutory, contractual or any other legal obligation;

- that amounts to the abuse of a position of authority, a breach of trust, or the violation of a legal duty or a set of rules;
designed to achieve an unjustified result;

- that amounts to any other unauthorised or improper inducement to do or not to do anything, is guilty of the offence of corruption.

**Financial misconduct**

This is detailed in the PFMA and the MFMA as follows: specific non-compliance with such legislation is found to be wilful or negligent, it could result in dismissal or suspension, criminal proceedings with a fine or imprisonment not exceeding five years for accounting officers of national and provincial departments and municipalities, accounting authorities of public entities and municipal council and other officials in the different spheres of government.

**Expectation gap**

Currently there appears to be an expectation gap as to what the functions of audit and management are in terms of financial misconduct. The responsibilities of the AUDITOR-GENERAL and management are outlined as follows:

- **Management responsibility**

  The primary responsibility for the prevention of financial misconduct rests with both those charged with the governance and the management of an entity. Management needs to set
the proper tone, create and maintain a culture of honesty and high ethics and establish appropriate controls to prevent and detect financial misconduct within an entity.

One of the most effective ways for management to prevent financial misconduct is to institute a sound system of internal control, which could include, among other things:

- continuous risk management to identify and mitigate financial risks through the use of a fraud prevention and response plan, etc. The said plan should map out steps to be taken on when and how investigations should take place, link to disciplinary processes including reporting of cases to the law enforcement Agencies and follow-up mechanisms
- supplier verification
- service level agreements with suppliers
- stakeholder awareness of internal control measures to deter irregular activities
- possible blacklisting of suppliers found guilty of irregular activities
- code of conduct for employees
- integrated comprehensive recruitment including verification of information in CVs and qualification audits
- staff rotations
- adequate segregation of duties

- **AUDITOR-GENERAL** responsibility
The AUDITOR-GENERAL is primarily responsible to audit the financial statements, accounts and financial management of entities in the public sector as prescribed in the Public Audit Act, 2004.

- **Expectation** that external audit *should* prevent and detect financial misconduct

There appears to be a general expectation that external auditors *are* responsible for the prevention and detection of financial misconduct. When an external audit is performed, it is based on audit standards to provide reasonable assurance that the financial statements are a fair representation of the affairs and transactions of an entity for a specific period. This does not require the external auditor to provide ultimate assurance that the transactions are free from financial misconduct. However, certain additional procedures are performed when financial misconduct is identified during an audit to quantify the impact thereof on the fair presentation of the financial statements.

**AUDITOR-GENERAL findings on the 2005-06 financial year**

During this period the following was found on national departments that could relate to financial misconduct as contained in the PFMA:

- Irregular expenditure: R 103,8 million
- Unauthorised expenditure: R 138,8 million
- Fruitless and wasteful expenditure: R 24,1 million
This represents 0,116 per cent of the total expenditure of the national departments for the 2005-06 financial year.

During this period the following was found on national public entities that could relate to financial misconduct as contained in the PFMA:

- Irregular expenditure: R 86,5 million
- Unauthorised expenditure: R 4,4 million
- Fruitless and wasteful expenditure: R 60,8 million

This represents 0,135 per cent of the total expenditure of the national public entities for the 2005-06 financial year.

During investigations that were conducted, including performing company searches for officials at specific national departments and national public entities, the AUDITOR-GENERAL found that only a limited number of employees had declared their own or their families’ interest in businesses that transacted with their employers or other spheres of government.

The figures relating to the MFMA for the 2005-06 financial period will only be available after the finalisation of the audits that are currently underway.

**Ethics in the public sector**
Ethics in the public sector is governed by a code of conduct that has been developed by the Department of Public Service and Administration.

Code of conduct

- The code of conduct prescribes the manner in which employees must conduct themselves to achieve an acceptable level of ethics within the public sector.

- Declaration of interest: one of the ways in which the code of conduct instils acceptable ethics in the public sector is to require all employees to declare interests that they have in businesses transacting in the public sector.

- An enforced code of conduct should deal effectively with those suspected of transgressions. Effective action, as prescribed in the disciplinary policies and related legislation, needs to be complied with when dealing with transgressions. The mandatory reporting requirements as per the PFMA and the MFMA should also be complied with rigorously.

Conclusion

In an attempt to combat irregular activities in all spheres of government, it is imperative that an effective code of conduct be implemented and followed. It is the responsibility of each and every South African to contribute to an ethical society to prevent irregular activities from taking place.