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CONSULTATIVE BUSINESS MOVEMENT  
KONSULTATIEWE SAKEBEWEGING

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**FACSIMILE MESSAGE**

TO:	<u>THELUS ELOFF - MPNP</u> <u>MPNP TECHNICAL COMMITTEE</u> <u>ON CONSTIT. MATTERS</u>	DATE:	<u>13/10/93</u>
FAX NO.:	_____	PAGES:	<u>5</u>
		(INCL COVER)	

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PSE. PHONE (011) 614-8813

FROM:	<u>C. COLEMAN</u>
FAX NO:	<u>(011) 618-2079</u>

**MESSAGE**

Dear Thebus,

Please forward the attached comments from The Auditor General's office to the Technical Committee on Constitutional issues. It seems important that they give consideration to these views in developing their own.

Again, I do hope the Technical Committee has found the report to be a useful contribution to their complex and important task of constructing a constitution for South Africa.

Regards  
Colin

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11/12/97

Mr Clive Menell  
c/o Mr Colin Coleman  
Acting Executive Director  
Consultative Business Movement  
P.O. Box 2352  
JOHANNESBURG  
2000

Dear Mr. Menell

**REPORT ON "MULTI-TIER FISCAL RELATIONS : FINANCING REGIONS IN SOUTH AFRICA"**

1. Thank you for the copy of the above-mentioned report which was forwarded to Mr H.E. Kluever, Auditor-General, by Mr Colin Coleman, Acting Executive Director of Consultative Business Movement.
2. The general contents of the report have been noted and should undoubtedly make a constructive contribution to the constitutional process and its linkage to aspects of economic development.
3. However, the recommendations made in mainly paragraph 4.5.4 on pages 24 and 25 of the report in respect of the auditing function are a matter of grave concern for this Office. As already discussed with Mr Coleman on Friday, 8 October 1993, the concern stems mainly from the fact that besides an independent national audit office, a number of independent audit offices are also envisaged at the regional level of government.
4. These proposals will lead to the fragmentation and consequent duplication of the public sector auditing function and cannot be supported, mainly for the following reasons :
  - (a) The independence of the auditing function may well be compromised.

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- (b) Separate audit offices will not be in harmony with the constitutional principles set out in clauses III and XXVI of the seventh schedule to the draft constitution submitted to the Negotiating Council on 20 August 1993.
- (c) Auditing is a specialized professional activity which is carried out in an apolitical, independent and objective way by persons with the necessary attitude, technical knowledge and expertise. Such persons are not freely available and a pooling of especially these scarce human resources thus appears essential.
- (d) Besides the substantial portion of work (worth ± R35 million per annum) already contracted out to private audit firms by this Office, less than 1500 persons are at present involved in the public sector auditing function in the whole of South Africa (that is, including the TBVC states). In the circumstances it would thus appear unwise to ignore the law of diminishing marginal returns, especially as far as the cost and quality of audits is concerned.
- (e) While this Office has already set standards and largely succeeded in establishing methodologies and systems in line with best international practice, the desirably more uniform implementation, application and maintenance thereof in independent regional audit offices over which the national audit office would not have authority, would undoubtedly be problematical. In this regard it must be mentioned that although the Auditors-General of the TBVC states have on an on-going basis been kept informed of developments in this Office and on request also been assisted with the training of staff, their respective Audit Offices according to available information still lag far behind in respect of both the cost and quality of audits.
- (f) Notwithstanding the proposal that the national audit office should have the power to audit regional government expenditure if regional auditing is deemed insufficient, this would more than likely prove very difficult to apply in practice, especially as regards timely knowledge of shortcomings and reasonable access to pertinent information. In the case of a single audit office no such problems would exist.
- (g) Similarly, while the proposal that the national audit office should also audit the use of conditional grants is gladly supported, this task would also be much easier and more economical to carry out if there were to be only a single audit office in South Africa.

(h) This Office fully agrees with the statement in paragraph 1.5 (vi) on page 5 of the above-mentioned report that the proliferation of government agencies is a marked inefficiency within the present South African fiscal system. It would, therefore, not wish to see the creation of a number of independent audit offices impacting negatively on this problem, especially when viewed against the need to achieve greater economy, efficiency and effectiveness in carrying out the public sector auditing function in South Africa.

(i) As regards the statement concerning inadequate performance auditing in paragraph 1.5 (ix) on page 5 of the report, it must in the light of experiences world-wide be pointed out that performance auditing is no easy task and indeed requires higher level audit staff. It is certainly not a management advisory service. Furthermore, even the larger international audit firms in the country experience difficulties in performing this type of audit successfully. However, this Office has over the past few years and with the help of specialist consultants managed to establish a good performance auditing capability. This is evidenced by the results which have already been achieved and contained in reports of the Auditor-General which have also received special parliamentary attention and extensive media coverage. The resources needed to develop a performance auditing capability in each independent regional audit office would thus clearly be rather limited and make the successful and desirably more uniform implementation of this much-needed type of audit even more difficult.

5. An aspect not covered in the report is the entrenchment of the state audit function. This important matter will have to be appropriately dealt with in a transitional and final constitution.

6. Generally, this Office is proud in its own modest way of the considerable progress that it has over the past few years managed to make in improving the independence, professionalism, quality, objectiveness and cost-effectiveness of the public sector auditing function. The legislation which now governs this function in South Africa must indeed compare with the best in the world. To substantiate these views copies of the audit legislation as well as of other relevant documents and reports have already been made available to Mr Coleman for perusal.

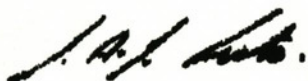
7. Finally, with a view to promoting this Office's contention that a single audit office would clearly be in the interests of the South African public, any further information that you may

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need in this regard, will gladly be furnished. Furthermore, this Office would also welcome any opportunity to discuss these matters with you or your team on an urgent basis.

I indeed look forward to hearing from you soon.

Yours sincerely



J.A.J. Loots  
ACTING AUDITOR-GENERAL